

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

(Mark One)

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

or

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

For the fiscal year ended December 31, 2011.

or

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

For the transition period from to

or

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

Date of event requiring this shell company report

Commission file number: 000-51469

**Baidu, Inc.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Baidu Campus

No. 10 Shangdi 10th Street

Haidian District, Beijing 100085

The People's Republic of China

(Address of principal executive offices)

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Baidu Campus

No. 10 Shangdi 10th Street,

Haidian District, Beijing 100085

The People's Republic of China

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

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

Title of Each Class

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

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

Name of Each Exchange on Which Registered

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report.

27,111,117 Class A ordinary shares and 7,803,000 Class B ordinary shares, par value US\$0.00005 per share, as of December 31, 2011.

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

International Financial Reporting Standards as issued by the International Accounting Standards Board

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

Item 17

Item 18

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

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

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

## Table of Contents

### TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING INFORMATION</u>	1
<u>PART I</u>	3
Item 1. <a href="#">Identity of Directors, Senior Management and Advisers</a>	3
Item 2. <a href="#">Offer Statistics and Expected Timetable</a>	3
Item 3. <a href="#">Key Information</a>	3
Item 4. <a href="#">Information on the Company</a>	36
Item 4A. <a href="#">Unresolved Staff Comments</a>	66
Item 5. <a href="#">Operating and Financial Review and Prospects</a>	66
Item 6. <a href="#">Directors, Senior Management and Employees</a>	90
Item 7. <a href="#">Major Shareholders and Related Party Transactions</a>	99
Item 8. <a href="#">Financial Information</a>	100
Item 9. <a href="#">The Offer and Listing</a>	101
Item 10. <a href="#">Additional Information</a>	103
Item 11. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	111
Item 12. <a href="#">Description of Securities Other than Equity Securities</a>	112
<u>PART II</u>	114
Item 13. <a href="#">Defaults, Dividend Arrearages and Delinquencies</a>	114
Item 14. <a href="#">Material Modifications to the Rights of Security Holders and Use of Proceeds</a>	114
Item 15. <a href="#">Controls and Procedures</a>	114
Item 16A. <a href="#">Audit Committee Financial Expert</a>	115
Item 16B. <a href="#">Code of Ethics</a>	115
Item 16C. <a href="#">Principal Accountant Fees and Services</a>	115
Item 16D. <a href="#">Exemptions from the Listing Standards for Audit Committees</a>	116
Item 16E. <a href="#">Purchases of Equity Securities by the Issuer and Affiliated Purchasers</a>	116
Item 16F. <a href="#">Change in Registrant's Certifying Accountant</a>	116
Item 16G. <a href="#">Corporate Governance</a>	116
Item 16H. <a href="#">Mine Safety Disclosure</a>	116
<u>PART III</u>	117
Item 17. <a href="#">Financial Statements</a>	117
Item 18. <a href="#">Financial Statements</a>	117
Item 19. <a href="#">Exhibits</a>	117
<u>SIGNATURES</u>	124

## INTRODUCTION

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

- “we,” “us,” “our company,” “our,” and “Baidu” refer to Baidu, Inc., its subsidiaries, and, in the context of describing our operations and consolidated financial information, our consolidated affiliated entities in China, including, among others, Beijing Baidu Netcom Science Technology Co., Ltd., Beijing Perusal Technology Co., Ltd., Beijing BaiduPay Science and Technology Co., Ltd. and Baidu HR Consulting (Shanghai) Co., Ltd.;
- “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 a combined measure of the “page views” and the “reach” of a website averaged over a specified period of time, according to Alexa.com. “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;
- “China” or “PRC” refers to the People’s Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau;
- “shares” or “ordinary shares” refers to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares;
- “ADSs” refers to our American depositary shares. On May 12, 2010, we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share. The ratio change has the same effect as a 10-for-1 ADS split;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- 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; and
- all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

## FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

- our growth strategies;
- our future business development, results of operations and financial condition;
- our ability to attract and retain users and customers;
- our ability to successfully expand into and generate profits from our new Internet businesses;
- our ability to retain key personnel and attract new talents;
- the outcome of ongoing or any future litigation, including those relating to copyright or other intellectual property rights;
- competition in the Internet search and other businesses in which we engage;

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## [Table of Contents](#)

- the expected growth of the Internet search market and the number of Internet users in China; and
- PRC governmental regulations and policies relating to the Internet and Internet search providers.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3.D. Key Information—Risk Factors.” Those risks are not exhaustive. We operate in a rapidly evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of income data for the three years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheets data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of income data for the years ended December 31, 2007 and 2008 and the selected consolidated balance sheets data as of December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

	For the Years Ended December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
(In thousands except per share and per ADS data)						
<b>Consolidated Statements of Income Data:</b>						
Revenues:						
Online marketing services	1,741,021	3,194,461	4,445,310	7,912,869	14,489,767	2,302,192
Other services	3,404	3,791	2,466	2,205	11,019	1,751
Total revenues	1,744,425	3,198,252	4,447,776	7,915,074	14,500,786	2,303,943
Operating costs and expenses:						
Cost of revenues	(645,406)	(1,155,457)	(1,616,236)	(2,149,288)	(3,896,883)	(619,153)
Selling, general and administrative	(411,163)	(659,804)	(803,988)	(1,088,980)	(1,692,810)	(268,961)
Research and development	(140,702)	(286,256)	(422,615)	(718,038)	(1,334,434)	(212,020)
Total operating costs and expenses	(1,197,271)	(2,101,517)	(2,842,839)	(3,956,306)	(6,924,127)	(1,100,134)
Operating profit	547,154	1,096,735	1,604,937	3,958,768	7,576,659	1,203,809
Interest income, net	49,009	47,677	32,661	67,121	335,650	53,329
Loss from equity method investments	—	—	(229)	(8,965)	(179,408)	(28,505)
Other income, net, including exchange gains or losses	20,053	19,767	45,752	44,239	76,278	12,120
Income before income taxes	616,216	1,164,179	1,683,121	4,061,163	7,809,179	1,240,753
Taxation	12,752	(116,071)	(198,017)	(535,995)	(1,188,861)	(188,891)
Net income	628,968	1,048,108	1,485,104	3,525,168	6,620,318	1,051,862
Less: Net loss attributable to noncontrolling interests	—	—	—	—	(18,319)	(2,911)
Net income attributable to Baidu, Inc.	628,968	1,048,108	1,485,104	3,525,168	6,638,637	1,054,773

## Table of Contents

	For the Years Ended December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
(In thousands except per share and per ADS data)						
Net income attributable to Baidu, Inc. per Class A ordinary share, per Class B ordinary share <sup>(1)</sup>						
Basic	18.57	30.63	42.96	101.28	190.27	30.23
Diluted	18.11	30.19	42.70	100.96	189.88	30.17
Net income attributable to Baidu, Inc. per ADS						
Basic	1.86	3.06	4.30	10.13	19.03	3.02
Diluted	1.81	3.02	4.27	10.10	18.99	3.02

(1) As holders of Class A and Class B ordinary shares have the same dividend right and the same participation right in our undistributed earnings, the basic and diluted net income per Class A ordinary share and Class B ordinary share are the same for all the periods presented during which there were two classes of ordinary shares. The weighted average number of ordinary shares represents the sum of the weighted average number of Class A and Class B ordinary shares. Please see "Earnings per Share" under Note 16 to our audited consolidated financial statements included in this annual report for additional information regarding the computation of the per share amounts and the weighted average numbers of Class A and Class B ordinary shares.

	As of December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
(In thousands)						
<b>Consolidated Balance Sheets Data:</b>						
Cash and cash equivalents	1,350,600	2,357,609	4,180,376	7,781,976	4,127,482	655,791
Restricted cash	—	4,562	19,513	38,278	483,387	76,803
Short-term investments	242,037	301,244	381,149	376,492	10,051,578	1,597,035
Total assets	2,655,908	3,937,991	6,156,975	11,048,439	23,340,541	3,708,439
Total liabilities	634,536	849,328	1,403,874	2,642,847	7,015,028	1,114,576
Total Baidu, Inc. shareholders' equity	2,021,372	3,088,663	4,753,101	8,405,592	15,291,716	2,429,608
Total equity	2,021,372	3,088,663	4,753,101	8,405,592	15,389,535	2,445,151

### Exchange Rate Information

Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by the Federal Reserve Board. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.2939 to US\$1.00, the noon buying rate in effect as of December 30, 2011. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On March 23, 2012, the noon buying rate was RMB6.3021 to US\$1.00.

## Table of Contents

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 <sup>(1)</sup>	Low	High
(RMB per U.S. Dollar)				
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
September	6.3780	6.3885	6.3975	6.3780
October	6.3547	6.3710	6.3825	6.3534
November	6.3765	6.3564	6.3839	6.3400
December	6.2939	6.3482	6.3733	6.2939
2012				
January	6.3080	6.3119	6.3330	6.2940
February	6.2935	6.2997	6.3120	6.2935
March (through March 23, 2012)	6.3021	6.3145	6.3315	6.2982

Source: Federal Reserve Statistical Release

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

### **B. Capitalization and Indebtedness**

Not applicable.

### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

### **D. Risk Factors**

#### **Risks Related to Our Business**

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

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

## [Table of Contents](#)

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

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

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

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

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

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

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

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



## [Table of Contents](#)

Tencent and 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 of use of products and services, the number of customers, distribution channels and the number of associated third-party websites. Some of our competitors have greater financial resources, 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, strategic partners and networks of third-party websites, investing more heavily in research and development and making acquisitions. If any of our competitors provides comparable or better Chinese language search experience, our user traffic could decline significantly. Any such decline in traffic could weaken our brand and result in loss of customers, which would have a material and adverse effect on our results of operations.

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

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

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

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

Our success depends on providing products and services to attract users and enable users to have a high-quality Internet experience. In order to attract and retain users and compete against our competitors, we must continue to invest significant resources in research and development to enhance our Internet search technology, improve our existing products and services and introduce additional high-quality products and services. If we are unable to anticipate user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose users. Our results of operations may also suffer if our innovations do not respond to the needs of our users, are not appropriately timed with market opportunities or are not effectively brought to market. As search technology continues to develop, 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 changes in technologies and user behavior, our future success may be adversely affected.***

Our future success will depend on our ability to respond to rapidly changing technologies, adapt our 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. In addition, changes in user behavior resulting from technological

## [Table of Contents](#)

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

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

Our ability to provide products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could interrupt our 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, wars, earthquakes, floods, fires, power loss, telecommunications failures, undetected errors or “bugs” in our software, computer viruses, interruptions in access to our websites through the use of “denial of service” or similar attacks, hacking or other attempts to harm our systems, and similar events. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. In July 2011, our services were inaccessible to many users for approximately half an hour due to network failure.

Our servers, which are hosted at third-party or our own Internet data centers, are vulnerable to break-ins, sabotage and vandalism. The occurrence of natural disaster or closure of an Internet data center by a third-party provider without adequate notice could result in lengthy service interruptions. In addition, our domain names are resolved into Internet protocol (IP) addresses by systems of third-party domain name registrars and registries. Any interruptions or failures of those service providers’ systems, which are beyond our control, could significantly disrupt our own services. In January 2010, the name server records of our main domain name, Baidu.com, which are recorded on the systems of a domain name registrar in the U.S., were modified by hackers who gained access to such records. As a result, our Internet search services were interrupted for approximately five hours.

If we experience frequent or persistent system failures on our websites, whether due to interruptions and failures of our own information technology and communications systems or those of third-party service providers we rely upon, our reputation and brand could be severely harmed. The steps we take to increase the reliability and redundancy of our systems are expensive, may reduce our operating margin and may not be successful in reducing the frequency or duration of service interruptions.

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

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

## [Table of Contents](#)

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

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

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

In China, uncertainties still exist with respect to the legal standards as well as the judicial interpretation of such standards for determining liabilities of Internet search providers for providing links to contents on third-party websites that infringe others' copyrights or hosting such contents. In December 2007, the High People's Court of Beijing upheld a lower court's ruling in our favor in a case originally filed against us in 2005 by seven music record companies alleging that our MP3 search services had infringed their copyrights. The court ruled that our service, which only provides links to online music hosted on third parties' websites, does not constitute infringement. In the same month, however, the High People's Court of Beijing upheld the decision by another lower court in favor of the record companies in a suit originally filed by 11 record companies against Yahoo! China in July 2006. In the Yahoo! China case, the court held that Yahoo! China was negligent in failing to remove all links to the infringing content after receiving notice from copyright holders, including those links that it "should have known" to have infringing content.

Although prior court rulings in China have only limited precedential value, the ruling of the High People's Court of Beijing in the Yahoo! China case seems to suggest that the courts in future cases may place the burden on Internet search providers to remove not only links that have been specifically mentioned in the notices of infringement from right holders, but also links they "should have known" to contain infringing content. This interpretation was also adopted in the guidance on Internet related copyright infringement litigation issued by the High People's Court of Beijing in May 2010. Such an interpretation of the applicable law could subject us and other Internet search providers to significant administrative burdens and litigation risks.

We conduct our business operations primarily in China. There might be claims that we are subject to U.S. copyright laws, including the legal standards for determining indirect liability for copyright infringement, although we believe such claims are without merits. In June 2009, a plaintiff filed a copyright infringement lawsuit against us in the U.S. District Court for the Southern District of New York. In December 2009, the court

## [Table of Contents](#)

granted our motion to dismiss the complaint on the grounds of insufficient service of process and lack of personal jurisdiction. The plaintiff did not appeal the trial court's ruling. Despite the above ruling in our favor, we cannot assure you that we will not be subject to copyright infringement lawsuits or other proceedings in the U.S. or elsewhere in the future.

Intellectual property litigation is expensive and time-consuming and could divert resources and management attention from the operations of our business. We are currently named as a defendant in a number of copyright infringement suits in connection with our Baidu Wenku services, MP3 and certain other search services. See "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings." If there is a successful claim of infringement, we may be required to discontinue the infringing activities, pay substantial fines and damages and/or enter into royalty or license agreements that may not be available on commercially acceptable terms, if at all. Our failure to obtain a license of the rights on a timely basis could harm our business. Any intellectual property litigation by third parties and/or negative publicity alleging our intellectual property infringement could have an adverse effect on our business, reputation, financial condition or results of operations. To address the risks relating to intellectual property infringement, we may have to substantially modify, limit or terminate some of our search services. Any such change could materially affect user experience and in turn have an adverse impact on our business.

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

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

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

We have been and in the future may again be subject to claims or negative publicity based on the results in our paid search listings. Claims have been filed against us after we allowed certain customers to register keywords containing trademarks, trade names or brand names owned by others and displayed links to such

customers' websites in our paid search listings. While we maintain a database of certain well-known trademarks and update continually our system algorithms and functions aiming at preventing customers from submitting a keyword containing the well-known trademarks that we know are owned by others, it is not possible for us to completely prevent our customers from bidding on keywords that contain trademarks, trade names or brand names owned by others. There has been negative publicity about fraudulent information in our paid search listings. Although we have been continually enhancing our technology, control and oversight to prevent fraudulent websites, web pages and information from our paid search listings, there is no guarantee that the measures we have taken are effective at all times. Claims and negative publicity based on the results in our paid search listings, regardless of their merit, may divert management attention, severely disrupt our operations, adversely affect our results of operations and harm our reputation.

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

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

In addition, many parties are actively developing and seeking protection for Internet-related technologies, including seeking patent protection. They may hold patents issued or pending that relate to certain aspects of our technologies, products, business methods or services. For example, we are aware that a patent has been issued in China relating to a method used by a database search system that determines the optimal bidding price for keywords based on an advertiser's desired place in a search listing. Based on our own analysis and the analysis conducted by a third-party intellectual property agency, we do not believe that our P4P platform infringes this patent because, among other things, our system ranks customers' links according to a comprehensive ranking index calculated based on both the quality factor of a sponsored link for a search query and the price bid on the keyword. However, the application and interpretation of Chinese patent laws and the procedures and standards for granting patents in China are still evolving and involve uncertainty. We cannot assure you that PRC courts or regulatory authorities would agree with the above analysis. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were sued for patent infringement claims with respect to our P4P platform and were found to infringe such patents and were not able to adopt non-infringing technologies, we may be severely limited in our ability to operate our P4P platform, which would have a material and adverse effect on our results of operations and prospects.

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

Our business may be adversely affected by third-party malicious or unintentional software applications that make changes to our users' computers and interfere with our products and services. These software applications may change our users' Internet experience by hijacking queries to our websites, altering or replacing our search results, or otherwise interfering with our ability to connect with our users. The interference often occurs without disclosure to or consent from users, resulting in a negative experience that users may associate with our websites. 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. In addition, our business may be adversely affected by the practices of third-party website owners, content providers and developers which interfere with our ability to crawl and index their web pages and contents including applications. The ability to provide a superior user experience is critical to our success. If we are unable to successfully combat malicious third-party software

## [Table of Contents](#)

applications that interfere with our products and services, our reputation may be harmed. If a significant number of website owners, content providers and developers prevent us from indexing and including their high-quality web pages and contents including applications in our search results, the quality of our search results may be impaired.

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

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

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

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

Our performance and future success depend on the talents and efforts of highly skilled individuals. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Competition in the Internet industry for qualified employees is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

As competition in the Internet industry intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we do not succeed in attracting additional highly skilled personnel or retaining or motivating our existing personnel, we may be unable to grow effectively.

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

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic investments and acquisitions of businesses and assets that complement our existing business. In the past three years, we acquired certain businesses and intangible assets, including software, trademarks, customer relationships, user list and other assets, in addition to several strategic investments, such as our investment in Qunar Cayman Islands Limited, or Qunar. We may make other strategic investments and acquisitions in the future if suitable opportunities arise. Investments and acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- costs and difficulties of integrating acquired businesses and managing a larger business; and
- diversion of resources and management attention.

Any failure to address these risks successfully may have a material and adverse effect on our financial condition and results of operations. Such investments and acquisitions may require a significant amount of

## [Table of Contents](#)

capital investment, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we use our equity securities to pay for investments and acquisitions, we may dilute the value of our ADSs and the underlying ordinary shares. If we borrow funds to finance investments and acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions may also generate significant amortization expenses related to intangible assets. In addition, we may also incur impairment charges to earnings for investments and acquired businesses and assets which are determined to be impaired, and recognize the proportional share of the net losses of the investees to the extent of the amount of the investments for the equity method investments.

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

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

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

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

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

We have experienced substantial growth in recent years. Our total revenues and net income attributable to Baidu, Inc. grew at a compound annual growth rate of 69.8% and 80.2%, respectively, from 2007 to 2011. Our growth was driven in part by the growth in China's Internet and online marketing industries, which may not be indicative of future growth or be sustainable. Our past growth rate may not be indicative of our future growth rate.

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

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

- general economic conditions in China and economic conditions specific to the Internet, Internet search and online marketing;
- our ability to continue to attract users to our websites;
- 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 government actions pertaining to activities on the Internet, including various forms of entertainment, online payment and activities otherwise affecting our online marketing customers, and those relating to the new products and services we may introduce from time to time;
- unforeseen events, such as negative publicity arising from reports by influential media outlets and other sources and labor disputes; and
- geopolitical events, natural disasters or epidemics.

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

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

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including the escalation of the European sovereign debt crisis since 2011. It is unclear whether the European sovereign debt crisis will be contained and what effects it may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world’s leading economies, including China. There have also been concerns over unrest in the Middle East and Africa, which have resulted in higher oil prices and significant market volatility, and over the possibility of a war involving Iran. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any prolonged slowdown in the global or



## [Table of Contents](#)

Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs. Our customers may reduce or delay spending with us, while we may have difficulty expanding our customer base fast enough, or at all, to offset the impact of decreased spending by our existing customers. In addition, to the extent we offer credit to any customer and such customer experiences financial difficulties due to the economic slowdown, we could have difficulty collecting payment from such customer.

***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 products and 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.

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

Online marketing is at 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 to a large extent on a nationwide distribution network of third-party distributors for our sales to, and collection of payment from, our P4P customers. If our distributors do not provide quality services to our P4P customers or otherwise breach their contracts with our P4P customers, we may lose customers and our results of operations may be materially and adversely affected. We do not have long-term agreements with any of our distributors and cannot assure you that we will continue to maintain favorable relationships with them. If we fail to retain our key distributors or attract additional distributors on terms that are commercially reasonable, our business and results of operations could be materially and adversely affected.

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

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

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

***Our Japan and other overseas operations may not be successful.***

We formally launched our Japanese search service in January 2008, after completing a 10-month Beta test for the service. We have limited experience operating in the Japanese market. Moreover, our Japan operations have incurred operating losses since the inception in December 2006, and it is uncertain when the business will become profitable, if at all. Additional future losses in our Japan operations could have an adverse effect on our overall results of operations.

The Japanese search market is highly competitive and currently is dominated primarily by Google, which has significantly greater financial resources, longer operating history and more experience in the Japanese search market than we do. Moreover, other local providers of competing search services may also have a substantial advantage over us in attracting users due to their more established brands in Japan, greater knowledge with respect to the tastes and preferences of Japanese users and their focus on the Japanese market. If we cannot compete successfully with these competitors in the Japanese language search market, our business in Japan could be adversely affected.

We have started to launch products and services in local languages to Internet users in several other countries. These overseas operations may be exposed to risks similar to those we face in Japan. In particular, we rely on local telecommunication operators and service providers to provide us with network services and data center hosting services, and our systems for these international products and services are not redundant across different regions and data centers. Any interruption to the Internet infrastructure or any data center may render our products and services in the region unavailable.

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

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

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

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

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

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

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

Our business depends on the performance and reliability of the Internet infrastructure in China. Almost all access to the Internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology (or its predecessor, the Ministry of Information Industry, before its formal establishment in 2008), or the MIIT. In addition, the national networks in China are connected to the Internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic user can connect to the Internet. It is unpredictable whether a more sophisticated Internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's Internet infrastructure. In addition, the Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

We rely heavily on China Telecommunications Corporation, or China Telecom, China United Network Communications Group Company Limited, or China Unicom, and China Mobile Communications Corporation, or China Mobile, to provide us with network services and data center hosting services. We have entered into contracts with various local branches or subsidiaries of China Telecom, China Unicom and China Mobile to obtain data communications capacity. We have limited access to alternative services in the event of disruptions, failures or other problems with the fixed telecommunications networks of these companies, or if these companies otherwise fail to provide such services. In 2009, due to connection failures at a China Telecom Internet data center that hosted our servers, we were unable to provide services for approximately eight 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 Unicom. If the prices that we pay for telecommunications and Internet services rise significantly, our gross margins could be adversely affected. In addition, if Internet access fees or other charges to Internet users increase, our user traffic may decrease, which in turn may harm our revenues.

***Failure of information security could damage our reputation and brand, and harm our business and results of operations.***

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

## [Table of Contents](#)

We have adopted strict information security policies and deployed advanced measures to implement the policies, including, among others, advanced encryption technologies. However, advances in technology, increased level of sophistication and diversity of our products and services, increased level of expertise of hackers, new discoveries in the field of cryptography or others could still result in a compromise or breach of the measures that we use. Because of our leading market position in the Internet industry in China, we believe we are a particularly attractive target for security breaches and hacking attacks. We have experienced in the past, and may experience in the future, such attacks. In August 2011, China's Supreme People's Court and Supreme People's Procuratorate issued judicial interpretations regarding hacking and other Internet crimes. However, its effect on curbing hacking and other illegal online activities still remains to be seen. Significant capital, managerial and human resources are required to enhance information security and to address any issues caused by security failures. If we are unable to protect our systems, hence the information stored in our systems, from unauthorized access, use, disclosure, disruption, modification or destruction, such problems or security breaches could cause loss or give rise to our liabilities to the owners of confidential information, such as our users, customers, distributors and Baidu Union members, and disrupt our operations. Any negative publicity on our website's safety or privacy protection mechanism and policy could also have a material and adverse effect on our public image and reputation.

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

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

Our management has concluded that our internal control over financial reporting is effective as of December 31, 2011. See "Item 15. Controls and Procedures." Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting is effective in all material aspects. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

***We have limited business insurance coverage.***

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

***We face risks related to health epidemics and other outbreaks.***

Our business could be adversely affected by the effects of avian influenza, severe acute respiratory syndrome (SARS), the influenza A (H1N1), or another epidemic or outbreak. For instance, health or other government regulations adopted in response to an epidemic or outbreak may require temporary closure of Internet cafes, 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.

## 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 or changes in interpretations thereof may materially and adversely affect our business.***

The PRC government restricts foreign investment in Internet, online advertising and employment agency businesses. We and our PRC subsidiaries are considered foreign persons or foreign-invested enterprises under PRC foreign investment related laws. As a result, we and our PRC subsidiaries are subject to PRC legal restrictions on foreign ownership of Internet, online advertising and employment agency businesses. Accordingly, we operate our websites and conduct online advertising and employment agency businesses in China through our consolidated affiliated entities. To comply with these PRC regulations, we operate our websites mainly through Beijing Baidu Netcom Science Technology Co., Ltd., or Baidu Netcom, and Beijing Perusal Technology Co., Ltd., or Beijing Perusal, operate an online payment platform through Beijing BaiduPay Science and Technology Co., Ltd., or BaiduPay, and provide online employment agency services through Baidu HR Consulting (Shanghai), Co., Ltd., or Baidu HR. All the nominee shareholders of our consolidated affiliated entities are either PRC citizens or PRC domestic enterprises, and these entities are therefore considered as PRC domestic enterprises under PRC law. The “nominee shareholders” refer to those shareholders who have pledged their equity interest in our consolidated affiliated entities to us and entered into exclusive equity purchase option agreements with us as part of the contractual arrangements. We have contractual arrangements with our consolidated affiliated entities and the nominee shareholders that allow us to substantially control these entities. These contractual arrangements demonstrate our ability and intention to continue to exercise the ability to absorb substantially all of the profits and the expected losses of the affiliated entities.

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

Although we believe we comply with current PRC 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. The PRC government has broad discretion in determining penalties for violations of laws and regulations. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. Any of these or similar occurrences could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

***If the PRC government were to classify P4P services as a form of online advertising or as part of Internet content services, we may have to conduct our P4P business through Baidu Netcom, which may increase our effective tax rate, and we might be subject to sanctions and required to pay delinquent taxes.***

PRC laws and regulations and administrative authorities currently do not classify P4P services as a form of online advertising or as part of Internet content services that require an ICP license, or ICP services. We conduct our P4P business through our subsidiaries in the PRC, none of which has the qualification to operate online

## [Table of Contents](#)

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

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

Since PRC law restricts foreign equity ownership in Internet, online advertising and employment agency companies in China, we operate our ICP, online advertising and employment agency businesses through our consolidated affiliated entities in China. We have no equity ownership interest in any of these entities and must rely on contractual arrangements to control and operate such businesses. These contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, these entities could fail to take actions required for our business or fail to maintain our websites despite their contractual obligations to do so. If they fail to perform their obligations under their respective 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 any of the individual nominee shareholders would always act in our best interests.

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

As a result of our corporate structure and the contractual arrangements between our subsidiaries and each of our consolidated affiliated entities in China, we are effectively subject to the 5% PRC business tax on both revenues generated by our consolidated affiliated entities’ operations in China and revenues derived from our subsidiaries’ contractual arrangements with these consolidated affiliated entities. Moreover, we would be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between our subsidiaries and these consolidated affiliated entities were not on an arm’s-length basis and therefore constituted a favorable transfer pricing. Under the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008, an enterprise must submit its annual tax return together with information on related-party transactions to the tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related-party transactions that are inconsistent with arm’s-length principles. For example, the PRC tax authorities could request that our consolidated affiliated entities adjust their taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by increasing our consolidated affiliated entities’ tax expenses without reducing our subsidiaries’ tax expenses, which could subject our consolidated affiliated entities to interest due on late payments and other penalties for under-payment of taxes.

***We may have exposure to greater than anticipated tax liabilities.***

We are subject to enterprise income tax, or EIT, business tax, value-added tax, or VAT, and other taxes in many provinces and cities in China and our tax structure is subject to review by various local tax authorities. The determination of our provision for income tax and other tax liabilities requires significant judgment. In the

## [Table of Contents](#)

ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

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

Robin Yanhong Li, our chairman, chief executive officer and co-founder, is also the principal nominee shareholder of Baidu Netcom, one of our consolidated affiliated entities. Baidu Netcom is the principal nominee shareholder of BaiduPay and Baidu HR, two other consolidated affiliated entities. We have a few other consolidated affiliated entities, including Beijing Perusal, the nominee shareholders of which are individuals designated by us.

Although the individual nominee shareholders are contractually obligated, or obligated as a result of their fiduciary duty to our company, to act in good faith and in our best interest, they may still have potential conflicts of interest with us. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or such conflicts will be resolved in our favor. In addition, these individuals may breach, cause our consolidated affiliated entities to breach or refuse to renew, the existing contractual arrangements with us. Currently, we do not have any arrangements to address potential conflicts of interest between these individuals and our company. We rely on Mr. Robin Yanhong Li who is also a director of our company to abide by the Cayman Islands law, which provide that directors owe a fiduciary duty to the company, and those who are also directors or officers of our PRC subsidiaries to abide by PRC law, which provide that directors and officers owe a fiduciary duty to the company. Such fiduciary duty requires directors to act in good faith and in the best interests of the company and not to use their positions for personal gains. There are, however, no specific provisions under the PRC or Cayman Islands law on how to address potential conflicts of interest. If we cannot resolve any conflict of interest or dispute between us and the individual nominee shareholders of our consolidated affiliated entities, we would have to rely on legal proceedings, which could disrupt our business, distract management and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

The individual nominee shareholders of our consolidated affiliated entities may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the relevant consolidated affiliated entities and the validity or enforceability of our contractual arrangements with the relevant entity and nominee shareholders. For example, in the event that any of the nominee shareholders of our consolidated affiliated entities divorces his or her spouse, the spouse may claim that the equity interest of the relevant consolidated affiliated entities held by such nominee shareholder is part of their community property and should be divided between any such nominee shareholder and spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the nominee shareholder's spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in our losing effective control over the relevant consolidated affiliated entity. Similarly, if any of the equity interests of our consolidated affiliated entities is inherited by a third party on whom the current contractual arrangements are not binding, we could lose our control over the relevant consolidated affiliated entity or have to maintain such control at unpredictable cost, which could cause significant disruption to our business operations and harm our financial condition and results of operations.

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

As of the date of this annual report, we have made long-term loans in an aggregate principal amount of RMB171.0 million (US\$27.2 million) to the individual nominee shareholders of our consolidated affiliated

## [Table of Contents](#)

entities. We extended these loans to enable the individual nominee shareholders to fund the initial capitalization of these entities and subsequent increases in its registered capital. As of the date of this annual report, all of the registered capital of our consolidated affiliated entities in China has been fully funded. We may in the future provide additional loans to the individual nominee shareholders of our consolidated affiliated entities in China in connection with any increase in their capitalization to the extent necessary and permissible under applicable law. Our ability to ultimately collect these loans will depend on the profitability of these consolidated affiliated entities and their operational needs, which are uncertain.

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

The nominee shareholders of Baidu Netcom, Beijing Perusal, BaiduPay and Baidu HR, each a consolidated affiliated entity of us, have pledged all of their equity interests in the relevant consolidated affiliated entities to Baidu Online, our wholly-owned subsidiary. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. We are in the process of registering the updated pledges relating to two recent changes in our consolidated affiliated entities' share capital: the pledge of 0.5% of the equity interests in Baidu Netcom held by an individual nominee shareholder who recently acquired such equity interests from the previous nominee shareholder pursuant to our direction; the pledge of the recently increased portion of the registered capital of Beijing Perusal. Prior to the completion of such registrations, we may not be able to successfully enforce the equity pledges against any third parties who have acquired property right interests in good faith in the equity interests in the relevant consolidated affiliated entities.

### **Risks Related to Doing Business in China**

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

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

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

While China's economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy, and may slow down in the future. Some of the government measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. Measures to control the pace of economic growth 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. Stimulus measures designed to boost the Chinese economy, on the other hand, may



contribute to higher inflation, which could adversely affect our results of operations and financial condition. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets.

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

We conduct our business primarily through our subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China 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.

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

- China enacted the Anti-Monopoly Law, which became effective on August 1, 2008. Because the Anti-Monopoly Law and the related regulations are still new, and there have been very few court rulings and judicial or administrative interpretations on certain key concepts used in the law, it is uncertain how the implementation and enforcement of the Anti-Monopoly Law and the related regulations would affect our business.
- The Tort Liability Law that became effective on July 1, 2010. In accordance with the Tort Liability Law, where an Internet service provider is informed or knows that an Internet user is infringing other persons' rights and interests through its Internet service but fails to take necessary actions, it will be jointly and severally liable with the Internet user as to the damages suffered by the right holders as a result of the infringing activity known to the Internet service provider. The interpretation of the applicability and enforceability of the Tort Liability Law on Internet search providers remain uncertain, thus we are not sure how it would affect our business.
- The PRC Ministry of Commerce issued the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises in August 2011 in implementation of an earlier circular of the PRC State Council. These security review rules specify that mergers and acquisitions by foreign investors involved in "an industry related to national security" are subject to strict review by the PRC Ministry of Commerce, and prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangement. No explicit provision or official interpretation indicate that our ICP, online advertising and other business fall into the scope of "industry related to national security" subject to the security review, or the security review would apply retrospectively to mergers and acquisitions already completed previously. As we have already obtained the "de facto control" over our consolidated affiliated entities prior to the effectiveness of the security review rules, we do not believe we are required to submit our existing contractual arrangements to the PRC Ministry of Commerce for security review. However, as the security review rules are relatively new and there is a lack of clear statutory interpretation or implementation, there is no guarantee that the PRC Ministry of Commerce will have the same view as we do.

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

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

The PRC government 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, under certain circumstances it may be difficult to determine what actions or omissions may be deemed to be violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the Internet industry include, but are not limited to, the following:

- We only have contractual control over our websites. We do not own the websites due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including online information services.
- There are uncertainties relating to the regulation of the Internet business in China, including evolving licensing practices. This means that permits, licenses or operations at some of our companies may be subject to challenge, or we may not be able to obtain or renew certain permits or licenses, including without limitation an Internet news license, which is issued by the State Council News Office, an Internet culture business permit with the permitted scope of business covering online game virtual currency issuance or trading, which is issued by the Ministry of Culture, an audio/video program transmission license, which is issued by the State Administration of Radio, Film and Television, an Internet publication business license, which is issued by the General Administration of Press and Publication, a surveying and mapping qualification certificate for Internet map services, which is issued by the State Bureau of Surveying and Mapping, a payment service permit, which is issued by the People's Bank of China, and a qualification certificate for internet drug information services, which is issued by provincial branch of the State Food and Drug Administration. Failure to obtain or renew these permits and licenses may significantly disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.
- New laws and regulations may be promulgated to regulate Internet activities, including online advertising and online payment. Other aspects of our online operations may be regulated in the future. If these new laws and regulations are promulgated, additional licenses may be required for our online operations. If our operations do not comply with these new regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

In July 2006, the MIIT issued the Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a value-added telecommunication business operating license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license.

Baidu Netcom, our PRC affiliated entity that holds the ICP license necessary to conduct our business in China, received a letter from the MIIT requiring self-assessment and responded timely to the letter. In order to comply with the notice described above, we have transferred certain domain names primarily used in our business to Baidu Netcom, Beijing Perusal and Baidu HR, respectively. In addition, we are in the process of transferring certain trademarks, including pending trademark applications made by Baidu Online, to Baidu Netcom, Beijing Perusal and Baidu HR, respectively.

## [Table of Contents](#)

The GAPP Notice published on September 28, 2009 prohibits foreign investors from participating in Internet game operating businesses through wholly-owned enterprises, equity joint ventures or cooperative joint ventures in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. We offer online games provided by our game operator partners on our website. If we are found to be in violation of any existing or future PRC laws or regulations, including the MIIT Notice and the GAPP Notice, the relevant regulatory authorities would have broad discretion in dealing with such violations.

As we enter into new businesses, we may encounter additional regulatory uncertainties. For example, it remains unclear whether the provision of online payment services by BaiduPay will require BaiduPay to apply for a value-added telecommunications business operating license for “online data processing and transaction processing businesses” as provided in the Catalog of Telecommunications Businesses promulgated by the MIIT.

According to the People’s Bank of China’s Measures Concerning Payment Services by Non-financial Institutions, which took effect from September 1, 2010, and its implementation rules, non-financial institutions that have been providing monetary transfer services as an intermediary between payees and payers, including online payment, issuance and acceptance of prepaid card or bank card, and other payment services as specified by the People’s Bank of China, are required to obtain a license from the People’s Bank of China prior to September 1, 2011, in order to continue providing monetary transfer services. We applied for the license to provide monetary transfer services and received the acceptance notice from the local branch of the People’s Bank of China, which effectively extends the September 30, 2011 deadline to the point in time that the People’s Bank of China makes a final decision whether to grant the license. We have not received such license as of the date of this annual report. We cannot assure you that we will be able to obtain such license. We will have to cease conducting our online payment business if we fail to obtain such license.

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

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

In August 2009, the PRC Ministry of Culture promulgated the Notice on Strengthening and Improving the Content Review of Online Music, which provides, among others, that only “Internet culture operating entities” approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. We hold an Internet culture business permit granted by the Ministry of Culture, which allows us to engage in “Internet culture activities” as defined in the relevant regulations promulgated by the Ministry of Culture. See “Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Internet Culture Activities.” However, we cannot assure you that the third-party music websites that our MP3 search services link to or our business are operated by Internet culture operating entities approved by the Ministry of Culture. If the enforcement of this notice leads to the closure of a large number of music websites in China, the experience of the users of our MP3 search services could be adversely affected, which could in turn negatively affect our traffic. According to an interpretation of this notice subsequently posted on the Ministry of Culture’s website, entities that provide direct links to online music products must ensure that music products disseminated by them in such manner have passed the content review by the Ministry of Culture. It remains unclear how certain aspects of this notice will be implemented. If we are deemed by the Ministry of Culture to have failed to fully comply with the requirements of this notice, we could be subject to administrative penalties, including an order to stop providing links to certain music products, fines, or confiscation of income derived from activities deemed in violation of the notice. Any of these occurrences could materially and adversely affect our business and results of operations.

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

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

Although we attempt to monitor the content in our search results and on our online communities such as Baidu Post Bar, we are not able to control or restrict the content of other Internet content providers linked to or accessible through our websites, or content generated or placed on our Baidu Post Bar message boards or our other online communities by our users. To the extent that PRC regulatory authorities find any content displayed on our websites objectionable, they may require us to limit or eliminate the dissemination of such information on our websites. If third-party websites linked to or accessible through our websites conduct unlawful activities such as online gambling on their websites, PRC regulatory authorities may require us to report such unlawful activities to relevant authorities and to remove the links to such websites, or they may suspend or shut down the operation of such websites. PRC regulatory authorities may also temporarily block access to certain websites for a period of time for reasons beyond our control. Any of these actions may reduce our user traffic and adversely affect our business. In addition, we may be subject to penalties for violations of those regulations arising from information displayed on or linked to our websites, including a suspension or shutdown of our online operations.

Moreover, our compliance with PRC regulations governing Internet access and distribution of news and other information over the Internet may subject us to negative publicity or even legal actions outside of China. In May 2011, eight New York residents filed a lawsuit against us before the U.S. District Court for the Southern District of New York accusing us of aiding Chinese censorship in violation of the U.S. Constitution. Although we believe the U.S. court does not have jurisdiction over us, we cannot assure you that the U.S. court would not conclude the case against us. Even if we win the case, our reputation may be adversely affected among users and investors outside of China.

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

The PRC government has tightened its regulation over Internet cafes in recent years. In particular, a large number of unlicensed Internet cafes have been closed. In addition, the PRC government has imposed higher

## [Table of Contents](#)

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. In June 2002, the Ministry of Culture, together with other government authorities, issued a joint notice, and in February 2004, the State Administration for Industry and Commerce issued another notice, suspending the issuance of new Internet cafe licenses. In May 2007, the State Administration for Industry and Commerce reiterated its position not to register any new Internet cafes in 2007. In 2008 and 2009, the Ministry of Culture, the State Administration for Industry and Commerce and other relevant government authorities, individually or jointly, issued several notices that provide various ways to strengthen the regulation of Internet cafes, including investigating and punishing Internet cafes that accept minors, cracking down on Internet cafes without sufficient and valid licenses, limiting the total number of Internet cafes and approving Internet cafes within the planning made by relevant authorities, screening unlawful and adverse games and websites, and improving the coordination of regulation over Internet cafes and online games. So long as Internet cafes are one of the primary venues for our users to access our websites, 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 websites.

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

According to the EIT Law, as further clarified by subsequent tax regulations implementing the EIT Law, foreign-invested enterprises and domestic enterprises are subject to EIT at a uniform rate of 25%. The EIT rate of enterprises established before March 16, 2007 that were eligible for preferential tax rates according to then effective tax laws and regulations will gradually transition to the uniform 25% EIT rate by January 1, 2013. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the EIT Law if they qualify as "High and New Technology Enterprises strongly supported by the state," subject to certain general factors described in the EIT Law and the related regulations.

In December 2008, our PRC subsidiaries Baidu Online and Baidu Times were designated by the Beijing Municipal Science and Technology Commission as "High and New Technology Enterprise" under the EIT Law. Baidu Online and Baidu Times received the High and New Technology Enterprise certificates jointly issued by the Beijing Municipal Science and Technology Commission, Beijing Finance Bureau, and Beijing State and Local Tax Bureaus, or the Beijing authorities, in February 2009 and had such certificates renewed in January 2012. Our PRC consolidated affiliated entity, Baidu Netcom, was designated by the Beijing Municipal Science and Technology Commission as "High and New Technology Enterprise" under the EIT Law in December 2010 and received the High and New Technology Enterprise certificates jointly issued by the Beijing authorities in May 2011. Therefore, Baidu Online, Baidu Times and Baidu Netcom are entitled to enjoy a preferential tax rate of 15% as long as they maintain their qualification as "High and New Technology Enterprise." If any or all of Baidu Online, Baidu Times and Baidu Netcom fail to maintain the "High and New Technology Enterprise" qualification, their applicable EIT rates will be up to 25%. In addition, Baidu China has applied for the status of "High and New Technology Enterprise" in 2011, which, if approved, may reduce its applicable tax rate to 15%. If Baidu China fails to obtain the "High and New Technology Enterprise" qualification, its applicable EIT rate will remain 24%.

Furthermore, in February 2011, Baidu Online was announced as a "Key Software Enterprise" jointly by the National Development and Reform Commission, MIIT, Ministry of Commerce and State Administration of Taxation, which entitled it to enjoy a preferential income tax rate of 10% for 2010. The status as a "Key Software Enterprise" is subject to an annual assessment by the relevant governmental authorities in China. There is no assurance that Baidu Online will continue to maintain the status in the future.

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

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

Under the EIT Law and related regulations, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors, and proceeds from any such foreign enterprise investor's disposition of assets (after deducting the net value of such assets) are subject to a 10% withholding tax unless such foreign enterprise investor's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 are exempted from any withholding tax. The British Virgin Islands, where Baidu Holdings Limited, the direct parent company of our PRC subsidiary Baidu Online, is incorporated, does not have such a tax treaty with China. Hong Kong has a tax arrangement with China that provides for a 5% withholding tax under certain conditions. For example, Baidu (Hong Kong) Limited, which directly owns our PRC subsidiaries Baidu China and Baidu Times, is incorporated in Hong Kong. However, if Baidu (Hong Kong) Limited is not considered to be the beneficial owner of dividends paid to it by Baidu China and Baidu Times under a tax notice promulgated on October 27, 2009, such dividends would be subject to withholding tax at a rate of 10%. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation—PRC Enterprise Income Tax." If our PRC subsidiaries declare and distribute profits earned after January 1, 2008 to us in the future, such payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company.

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

Under the EIT Law and related regulations, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a PRC resident enterprise and is subject to the EIT at the rate of 25% on its worldwide income. The related regulations define the term "de facto management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise." The State Administration of Taxation issued a SAT Circular 82 on April 22, 2009, which provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled overseas-incorporated enterprise is located in China. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation—PRC Enterprise Income Tax." Although SAT Circular 82 applies only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If we are deemed a PRC resident enterprise, we may be subject to the EIT at 25% on our global income, except that the dividends we receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividends are deemed as "dividends among qualified PRC resident enterprises." If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

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

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

## [Table of Contents](#)

our shares or ADSs by our non-PRC enterprise shareholders and ADS holders are subject to the EIT, your investment in our shares or ADSs could be materially and adversely affected.

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

### ***Our subsidiaries and consolidated affiliated entities in China are subject to restrictions on paying dividends and making other payments to us.***

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

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

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive most of our revenues in RMB. Under our current structure, our income at the Cayman Islands holding company level will primarily be derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

## [Table of Contents](#)

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

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and consolidated affiliated entities. We may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. Loans by us to any of our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment as approved by the PRC Ministry of Commerce or its local counterpart and the amount of registered capital of such foreign-invested company. We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. Meanwhile, we are not likely to finance the activities of our consolidated affiliated entities by means of capital contributions given the PRC legal restrictions on foreign ownership of Internet, online advertising and employment agency businesses.

In August 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular No. 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular No. 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign invested company. The use of such RMB capital may not be altered without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of SAFE Circular No. 142 could result in severe monetary or other penalties.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE Circular No. 142, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.

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

SAFE Circular No. 75 effective from November 2005 and a series of implementation rules and guidance issued by SAFE, including the most recent circular relating to operating procedures that came into effect as of July 1, 2011, require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, for the purposes of overseas equity financing activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in an SPV are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an SPV is required to update the previously filed registration with the local branch of



## [Table of Contents](#)

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

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

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

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

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, setting forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company. In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rule, which terminated and replaced the previous rules issued by SAFE in March 2007. Under the Stock Option Rule, PRC residents who are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. We and our PRC resident employees who have been granted stock options are subject to these regulations. We have designated our PRC subsidiary Baidu Online to handle the registration and other procedures required by the Stock Option Rule. If we or our PRC optionees fail to comply with these regulations in the future, we or our PRC optionees and their local employers may be subject to fines and legal sanctions.

***A regulation adopted in August 2006 and other recent regulations establish more complex procedures for acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.***

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

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

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions and foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Between July 21, 2005 and March 23, 2012, the RMB appreciated by approximately 23.9% against the U.S. dollar, although the pace of appreciation was uneven during the period. It is difficult to predict how the RMB exchange rates may change in the future.

## [Table of Contents](#)

Our revenues and costs are mostly denominated in RMB. At the Cayman Islands holding company level, we rely entirely on dividends and other fees paid to us by our subsidiaries and consolidated affiliated entities 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. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

### **Risks Related to Our ADSs**

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

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

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

In addition, the stock market in general, and the market prices for Internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009 and the second half of 2011. These broad market and industry fluctuations may adversely affect the market price of our ADSs. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

## [Table of Contents](#)

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

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

### ***You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.***

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

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

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depository will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act of 1933, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

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

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

We are incorporated in the Cayman Islands, and conduct most of our operations in China through our wholly-owned subsidiaries and consolidated affiliated entities in China. All of our officers and a majority of our directors reside outside of the United States and some or all of the assets of those persons are located outside of

## [Table of Contents](#)

the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

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

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2011 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 dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.***

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to 10 votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering. Our co-founder, chairman and chief executive officer, Robin Yanhong Li, who acquired our shares prior to our initial public offering, hold our Class B ordinary shares. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if at any time Robin Yanhong Li and his affiliates collectively own less than 5% of the total number of the issued and outstanding Class B ordinary shares, each issued and outstanding Class B ordinary share will be automatically and immediately converted into one Class A ordinary share, and we shall not issue any Class B ordinary shares thereafter.

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

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

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

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

***We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequence to U.S. Holders.***

Based on the market price of the ADSs and our ordinary shares, the composition of our income and assets and our operations, we believe that we were not a “passive foreign investment company,” or PFIC, for United States federal income tax purposes for our taxable year ended December 31, 2011. 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, 2012 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) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The future value of our assets is generally determined by reference to the market price of our ADSs and ordinary shares, which may fluctuate considerably. 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 “Item 10.E. Additional Information—Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

**Item 4. Information on the Company**

**A. History and Development of the Company.**

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

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

## [Table of Contents](#)

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

In July 2011, we acquired a majority stake in Qunar, an online travel search services provider, with total consideration of US\$300.3 million. We have since then consolidated the financial results of Qunar in our consolidated financial statements. We are the majority shareholder of Qunar, owning 62.01% equity interests on an as-converted basis in Qunar.

### **B. Business Overview**

We are the leading Chinese language Internet search provider. As a technology-based media company, we aim to provide the best way for people to find information. In addition to serving Internet search users, we provide an effective platform for businesses to reach potential customers. According to a market survey announced by iResearch Consulting Group, a third-party market research firm, our search engine Baidu.com accounted for 84.7% of the total Chinese language web search market in China in the first three quarters of 2011, as measured by the number of Chinese language web search requests handled. According to Alexa.com, our Baidu.com website was the largest website in China, as measured by user traffic during the three-month period ended December 31, 2011.

In January 2008, we formally launched our Japanese search services at Baidu.jp, run by our subsidiary in Japan, Baidu Japan Inc. Our Japanese search services enable users to find relevant information online, including web pages, images and multimedia files, through links provided on our websites. We have also started to launch products and services in local languages to Internet users in several other countries.

We conduct our operations primarily in China, while our revenues generated from international operations are insignificant. Revenues generated from our operations in China accounted for approximately 99.9%, 99.8% and 99.6% of our total revenues in 2009, 2010 and 2011, respectively.

We serve three types of online participants:

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

**Customers.** We design and deliver our online marketing services primarily on our Baidu.com website to our online marketing customers to whom we provide one or more forms of our online marketing services. In 2011, we had approximately 488,000 active online marketing customers. Our online marketing customers consist of SMEs throughout China, large domestic companies and Chinese divisions or subsidiaries of large, multinational companies. We have a diverse customer base in terms of industries and geographical locations. The industries in which our customers operate include medical, machinery, education, software and online games, tourism and ticketing, transportation, franchising, business services, electronic products, information technology services, financial services, construction and decoration, and household appliances. Customers in the top five industries contributed approximately 51% of our total online marketing revenues in 2011. 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.

**Baidu Union Members.** Baidu Union consists of a large number of third-party web content and software providers. Baidu Union members, including those mobile and non-mobile oriented, can display on their properties our customers' promotional links that match the content of such members' properties. Some Baidu

## [Table of Contents](#)

Union members, including those mobile and non-mobile oriented, also embed some of our products and services such as Baidu search box, Baidu Toolbar, Baidu Browser, Hao123, Baidu Palm and Baidu Mobile Browser into their properties. Our relationships with Baidu Union members allow them to provide high-quality and relevant search results to their users without the cost of building and maintaining advanced search capabilities in-house. Moreover, our Baidu Union members can monetize their traffic through revenue sharing arrangements with us, which are based on the number of click-throughs from their users on our customers' promotional links. The click-throughs can be either on our customers' promotional links reached through Baidu products and services embedded on the Baidu Union members' properties or directly on our customers' promotional links located on the Baidu Union Members' properties. We adopted the differential revenue sharing policy in 2011 that the Baidu Union members who bring higher quality traffic are awarded with higher revenue sharing ratio. We also closely monitor the effectiveness of our promotional campaigns to recruit additional Baidu Union members. The number of Baidu Union members that contributed revenues to us increased by approximately 7.6% in 2011.

### **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 products and services at Baidu.com to users free of charge generally. These products and services can be accessed through PCs, mobile and other non-mobile devices. We organize our products and services for users into eight categories, namely, search products, social-networking products, user-generated-content-based knowledge products, location-based products and services, music products, PC client software, mobile related products and services and other products and services. We also offer some products and services provided by our associated or cooperative websites.

### **Search Products**

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

In addition to providing access to over ten billion 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 features such as:

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



## [Table of Contents](#)

- **Advanced Search** — enables users to create more focused queries by employing techniques such as narrowing results to specified words or phrases, document formats, geographic regions, time frames or websites.
- **Snapshots** — provides snapshots of web pages taken when the pages were indexed, allowing users to view web pages that cannot be opened quickly or easily.
- **Weibo Contents** — enables users to search and view directly in our search results a few latest useful Weibo contents offered by third parties such as Tencent and SINA.
- **Other Baidu products** — displays search results from other Baidu products including Baidu News, Baidu Image Search, Baidu Video Search, Hao123, Baidu Post Bar, Baidu Space, Baidu Knows, Baidu Encyclopedia, Baidu WenKu, Baidu Map Search, Baidu Shenbian, Baidu Ting!, Baidu MP3 Search, Baidu Translation and Baidu Dictionary. In addition, Baidu Web Search enables users to view some accurate answers and structured data, and also allows users to launch some applications directly, which feature is powered by Baidu Open Platform where content providers and developers can submit their contents.

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

**Baidu Video Search.** Baidu Video Search enables users to search for and access through hyperlinks online video clips that are hosted on third parties' websites.

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

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

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

**Baidu Group Buy Directory.** Baidu Group Buy Directory is a navigation site through which users can view group buy items provided by third-party group buy websites by categories and click through links to these group buy websites for more items. Baidu Group Buy Directory has cooperated with more than 100 group buy websites and compiles group buy information covering over 400 cities in China.

**Baidu Open Platform.** Baidu Open Platform is a platform aiming at providing one-stop online services to users by intelligently identifying users' demands before providing optimized treatments and responses and at increasing coverage of Baidu products and services. Baidu Open Platform, accessible through open.baidu.com as a general access, has many other specialized accesses such as app.baidu.com and mobileapp.baidu.com. Content providers and developers can submit their contents and applications to Baidu Open Platform. These contents and applications are presented on Baidu's search result pages directly and at accesses such as open.baidu.com and app.baidu.com by categories. Baidu Open Platform also provides certain application and data application programming interfaces, or APIs, as well as open source tools for developers.

## [Table of Contents](#)

### ***Social-networking Products***

**Baidu Post Bar.** Baidu Post Bar provides users with a query-based searchable community to exchange views and share knowledge and experience. The community can be further expanded by users posting new topics that have not been covered in the community before. In Baidu Post Bar, users can search, read and browse Internet message boards and after signing in, reply to other members of the community publicly. Registered users can also follow and send private messages to each other within the community. Baidu Post Bar covers a broad range of topics and interest areas, such as society, sports and entertainment. It also has video-sharing capabilities, which allow users to post and share video clips in Baidu Post Bar online communities.

**Baidu Personalized Homepage.** Baidu personalized homepage is a customizable landing page giving registered users a personalized experience based on their historical search behavior. Users are presented with an intelligently recommended list of recent favorite websites or online services such as Weibo and online videos and they can add their favorite websites and online applications on their homepage layout. Users can also view updates of their friends in Baidu Post Bar and Baidu Space.

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

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

### ***User-generated-content-based Knowledge Products***

**Baidu Knows.** Baidu Knows provides users with a query-based searchable community to share knowledge and experiences. Through Baidu Knows, registered members of Baidu Knows can post specific questions for other members to respond and also answer questions of other members. Any users of our websites can also search, read and browse questions and answers by registered members of Baidu Knows. Baidu Knows contains a broad range of subjects.

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

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

**Baidu Experience.** Baidu Experience is a platform where users can share their experience by inputting their observations and knowledge following a predetermined format for others to search and browse.

### ***Location-based Products and Services***

**Baidu Map Search.** We offer Baidu Map Search using our proprietary geographic information system (GIS) platform and data from qualified third parties including 3-D and satellite data, to enrich our users' navigation experience. Baidu Map Search enables users to search online maps of large and medium sized cities in

## [Table of Contents](#)

China. Users have the option to type search terms into a single search box to find a particular place, points of interest, such as restaurants, hotels, schools and banks, near a particular place, or get driving directions and public transportation routes. Users can also search their points of interest by categories.

**Baidu Shenbian.** Baidu Shenbian, an online location-based service information sharing platform, allows users to find restaurants and other facilities, in their immediate vicinities. Users can find, share information on and comment on restaurants and other facilities at a location of interest.

### *Music Products*

We have been partnering with many content providers, including well-known international labels such as Universal Music, Warner Music, Sony Music and EMI Music, to provide licensed music for users to stream and download on our platform. Our music products include the following:

**Baidu Ting!.** “Ting” means “listening” in Chinese. It is an advertising supported music portal that offers free music listening and download. Ting’s landing page mainly provides the latest New Releases, Hot Charts and Editor’s Compilation. Daily news, live concert updates and artists’ biographies are also available. Registered Ting members may share songs or albums they like with their friends through popular social-networking sites in China. Members also get personalized features such as compiling personal playlist, favorite music box and personal music recommendation.

**Baidu MP3 Search.** Baidu MP3 Search provides algorithm-generated links to songs and other multimedia files available on the Internet including those authorized and provided by content providers such as music labels. MP3 Top Music, a series of popular music charts in China, reflects in a timely manner the hottest songs favored by Internet audience. Ranking of the charts is based on the number of searches on Baidu within the previous 7-day period.

**Baidu TT Player.** Baidu TT Player is a software that enables users to play back multi-format audio files.

### *PC Client Software*

**Baidu Browser.** Baidu Browser is an Internet browser. Baidu Browser has a landing page with pre-added links of selected popular websites and applications including games. Users can remove these links from their landing pages of Baidu Browser. They can also search for their favorite websites and applications from a collection of websites and applications, most of which are from outside developers, and add them to their Baidu Browser landing pages.

**Baidu Input Method Editor.** Baidu Input Method Editor is an intelligent input method editor which adapts to the ever evolving Chinese language through analyzing popular search terms based on our search technology. It also accommodates mixed use of Chinese and English language without having to switch input methods. Using our cloud computing and web technology, we allow users to use Baidu Input Method online without downloading and installing the client-end application, if they are staying on our website.

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

**Baidu Hi.** Baidu Hi is our instant messaging service. In addition to the major instant messaging functions of chat, grouping and personalization, Baidu Hi also integrates search services, online communities and various other features that we provide.

## [Table of Contents](#)

**Baidu Media Player.** Baidu Media Player is an audio and video player using the streaming media technology. Baidu Media Player enables users to play multimedia files of various popular formats online, as well as multimedia files on their computers off-line.

**Baidu Reader.** Baidu Reader is a document reader that supports major document formats, such as txt, doc, pdf and ppt. Users can use Baidu Reader to read and organize their own documents, browse the library of books already on Baidu WenKu and purchase reading materials directly through the application.

### *Mobile Related Products and Services*

**Baidu Mobile Search.** Baidu Mobile Search enables users to access our search and community-based products and services such as Baidu News, Baidu Post Bar, Baidu Knows and Baidu Map Search using mobile devices, including WAP-enabled mobile phones. Baidu Mobile Search supports voice-activated search to better serve users of mobile devices. By minimizing graphics and interactive contents, Baidu Mobile Search offers a user friendly and productive mobile Internet search experience. In May and October 2009, we entered into arrangements with China Telecom and China Unicom, two mobile carriers in China, respectively, to provide mobile search for their 3G mobile service subscribers. Under these arrangements, our mobile search service will be embedded in the mobile carriers' selected 3G phone modules. Their mobile subscribers will be able to use the pre-installed applications to access various Baidu products and services available to mobile phone users. We are also extending our partnerships with mobile phone manufacturers.

**Baidu Yi.** Baidu Yi is a mobile platform designed for mobile devices based on Android. It provides mobile devices with built-in applications such as Baidu Ting!, Baidu Map Search, an electronic reader named Yi Yue and a Baidu search box. Baidu Yi is compatible with most Android applications developed by third-party developers. In addition, through Baidu Yi, third-party developers can have APIs to integrate search, maps, payments and other features into the applications they develop for Baidu Yi. In December 2011, we launched Baidu Yi-based smart phones in cooperation with Dell.

**Baidu Mobile Browser.** We offer this web browser for mobile phones based on Windows, Symbian and Android.

**Baidu Palm.** Baidu Palm is a user-end application designed specifically for mobile phone users. By downloading and installing Baidu Palm, mobile phone users can access various Baidu products including Baidu Web Search, Baidu News, Baidu Map Search, Baidu Post Bar and Baidu Knows without the need to make multiple registrations.

**Baidu Mobile Phone Input Method.** Baidu Mobile Phone Input Method is a user-end application that supports multiple methods of inputting Chinese characters on mobile phones. It is designed to allow mobile phone users to conduct searches more efficiently.

**Baidu Mobile App Search.** Baidu Mobile App Search is a user-end search application that enables users to find popular third party developed applications including games for mobile devices by category or by typing relevant search terms in a built-in Baidu search box.

**Baidu Contacts.** Baidu Contacts is a contact management tool enhanced with special features. It enables users to search for contacts stored in mobile phones more easily by voice or inputting simple characters and to identify odd calls by viewing the record of number of rings from an unanswered call. Users can also choose to synchronize all their contacts to our servers for backup and send free textual and short voice messages to each other when they both stay online after signing in Baidu Contacts. In addition, Baidu Contacts makes recommendations to users on people they may know or want to know and enables users to connect with others and access their contacts' Weibo directly after setting the connections accordingly.

## [Table of Contents](#)

**Baidu Netdisk.** Baidu Netdisk is a cloud computing based online storage service, which provides users free space to store and access their materials online.

**Other Baidu Mobile Applications.** We offer several other mobile applications which provide functions similar to those provided by their substitutes for non-mobile devices such as Baidu Map Search, Baidu Travel, Baidu Video, Baidu Post Bar, Baidu Ting!, Baidu Knows, Baidu Encyclopedia, Baidu Wenku, Baidu Shenbian and Baidu News. These applications are tailored for mobile device users and also offer some particular functions. For example, Baidu Map Search for mobile devices supports the “Locate Me” feature and points of interest search based on the user’s current location.

### **Other Products and Services**

**Qunar.** Qunar offers real-time searches on flights, hotels and packages, group-buying deals, visa and other travel-related information to consumers, and Internet and mobile technology solutions to travel industry players. According to iResearch, Qunar ranked No. 1 among travel websites in China and had 74.6 million monthly visits in December 2011. Qunar’s search scope covers over 700 data sources, 150,000 hotels, and 10,000 domestic and international flight routes. Qunar also provides over 1,000 daily travel deals in more than 400 travel destinations inside and outside China.

**Baidu Baijob.** Baidu Baijob, offered at Baijob.com, is a platform primarily offering online recruitment and related services. Users can discover and apply for job opportunities through Baidu Baijob.

**BaiduPay.** BaiduPay is our online payment service, which can be used by some of our online marketing customers, users of some of our products and services, and users of some affiliated, associated or third-party websites. In addition, the revenue sharing with Baidu Union members can also be made through BaiduPay.

**Baidu Games.** Baidu Games is a channel where registered users can play web games provided by our online game operator partners.

**Baidu Search and Store.** Baidu Search and Store is a free online bookmarking service that allows registered users to bookmark, store and organize website links in an online space and conduct searches within the bookmarked websites.

**Baidu Statistics.** Baidu Statistics, previously named as Baidu Holmes, is a platform that helps our online marketing customers to evaluate the effect of our online marketing solutions by providing various data and analyses that could be used to monitor return on investments, or ROI. Baidu Union members and other website owners can also benefit from Baidu Statistics in better managing their websites through the data and analyses provided by this platform.

**Baidu Ads Manager.** Baidu Ads Manager is a platform through which website owners could manage promotional links or ads on their websites in an efficient way.

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

**Baidu Top Searches and Search Index.** Baidu Top Searches provides listings of top search terms based on daily search queries entered on Baidu.com. The listings are organized by categories and allow users to easily locate popular search terms on topics of interest. We also offer Baidu Search Index, which shows how frequently a given search term is entered into Baidu sites, together with other relevant information such as its historical trend, geographic distribution and demographic distribution.

## [Table of Contents](#)

**Baidu Sky.** Baidu Sky is a platform through which our users can browse and download software. We also cooperate with telecommunication operators and websites to build mirrored software platforms of Baidu Sky for users.

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

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

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

**Baidu Translation.** Baidu Translation supports online translation of texts and web pages between Chinese, on one side, and English or Japanese, on the other side. Users can input the text or the address of the web page to be translated in the dialogue box, and Baidu Translation will output the translation in the desired language.

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

**Baidu PhotoWonder.** Baidu PhotoWonder is an application for users of smart phones based on iOS and Android to take and beautify photos and share them among some social networking sites.

### *Major Products and Services by Associated or Cooperative Websites*

**Baidu Youa.** In April 2011, Baidu Youa e-commerce platform was closed and Youa Life was thus positioned as a platform focusing on providing users information on life services and local merchants. In November 2011, Youa Life was spun off from us as an independent business operated by a newly founded company named Youa.com Inc, over which we do not have control but have a significant influence. In December 2011, Youa.com Inc. launched a new product at Leho.com which enables users to share their life-styles and experiences by "timeline".

**iQiyi Internet TV.** iQiyi Internet TV allows users to search, watch for free copyrighted movies, television series, cartoons, variety shows and other programs. The programs are provided by content providers under licensing arrangements.

### *International Products and Services*

**Baidu Japanese Products.** Our Japanese search services currently offer Web Search, Image Search and Video Search. We also provide mobile search service in Japan. In addition, we offer Baidu Type, a Japanese input method editor for PC users and an acquired Japanese mobile phone input method editor for Android, named Simeji.

## Products and Services for Customers

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

### *Online Marketing Services Based on Search Queries*

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

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

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

We also offer certain customers value-added consultative services that help to maximize their ROI, including keyword suggestions, account management and performance reporting.

In December 2009, we switched from our previous auction-based online marketing system, which we refer to as Online Marketing Classic Edition, to our new online marketing system, Phoenix Nest. Through enhanced algorithms that generate more relevant advertisements and provides customers with additional tools and information to help them better manage their spending and achieve higher ROI, Phoenix Nest is designed to improve relevance in paid search and increase value for customers, thus driving monetization efficiency.

In 2011, we made several enhancements to our Phoenix Nest platform. For example, we added a new keyword matching option to our exact match and broad match options. We call it "advanced phrase match." This option is more focused than traditional broad match while offering more flexibility and higher coverage than exact match. This option better captures user intent and improves click-through quality for sponsored links. We are seeing encouraging adoption rate for advanced phrase match. We also have updated our Phoenix Nest to follow users' long-term and short-term points of interests aiming at providing personalized sponsored links to users to better capture their needs and thus monetize our traffic more effectively. In addition, the Phoenix Nest is upgraded to provide a more user-friendly interface and interaction mechanism which allow customers to manage their online marketing related information more efficiently.

## [Table of Contents](#)

**Brand-Link.** We offer a brand advertising service, Brand-Link. When Internet users conduct a keyword search using brand names of our customers who subscribe to our Brand-Link services, the search will generate a wide range of brand-specific content, including news reports, promotional announcements, product information and marketing campaigns.

### ***Online Marketing Services Based on Contextuals***

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

### ***Online Marketing Services Based on Search Behaviors of Internet Users***

Online marketing services based on search behaviors of Internet users include, among others, Targetzement and Grand Media using our Targetzement technology, both of which enable our customers' advertisements to match their targeted Internet users who are automatically identified based on the users' past behaviors on the Internet. Targetzement customers pay us a fee based on the number of clicks on their advertisements displayed on Baidu web pages, while Grand Media customers pay us based on a cost per thousand impressions basis for the links on Baidu Union members' properties.

### ***Online Marketing Services of Display Placements***

Online marketing services of display placements allow our customers to display links insensitive to search queries at a designated location on Baidu web pages or Baidu Union members' properties. Our customers mainly pay us, among other forms of payments which are less common, based on the duration of the placement on Baidu search web pages or on a cost per action basis, for example, number of registered users, on Baidu Union members' properties.

### ***Online Marketing Services of Other Forms***

We offer other forms of online marketing services, including directing traffic to customer's content to allow more exposure of such content to users, and to enable users to purchase and use the content through non-mobile devices. Users could also access some of the content through mobile devices.

## **Sales and Distribution**

We sell our online marketing services directly and through our distribution network. We have direct sales presence in Beijing, Shanghai and major cities in Guangdong Province, including Shenzhen, Guangzhou and Dongguan. Our distributors provide numerous services, including identifying customers, collecting payments, assisting customers in setting up accounts with us, suggesting keywords to maximize ROI and engaging in other marketing and educational services aimed at acquiring customers. We offer discounts to distributors as consideration for their services. We have relied on distributors for several reasons. Our P4P customer base in China is geographically diverse and fragmented, as many of our P4P customers are SMEs located in different regions in China. Moreover, SMEs are generally less experienced with online marketing as compared to large companies and therefore benefit from the extensive services provided by distributors. Finally, secure online payment and credit card systems are in early stages of development in China. Distributors serve as an important channel to reach SME customers throughout China and collect payments from them.



## [Table of Contents](#)

We offer our online marketing services to medium and large corporate customers through third-party agencies and our direct sales force. We have local sales staff in Beijing, Shanghai and major cities in Guangdong Province, including Shenzhen, Guangzhou and Dongguan, covering the largest regional markets for our online marketing services.

### **Marketing**

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

Our initial public offering in 2005 and subsequent positive media coverage have significantly enhanced our brand recognition. We have also implemented a number of marketing initiatives designed to promote our brand awareness among potential users, customers and Baidu Union members. For example, we have purchased advertising time on several television channels in China, conducted cross-marketing activities with a number of leading consumer brands, conducted marketing activities targeted at specific types of users like students, launched localized marketing initiatives tailored to potential customers in various regions with the assistance of our distributors, organized and sponsored seminars and discussion forums targeted at existing and potential customers, and conducted marketing activities aiming at keeping close relationships with website owners which are or may become Baidu Union members.

### **Competition**

The Internet search industry in China is rapidly evolving and highly competitive. Our primary competitors include U.S.-based Internet search providers providing Chinese language Internet search services and China-based 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 products and services, the number of customers, distribution channels and the number of associated third-party websites. We also face competition from traditional advertising media.

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

*China-based Internet Companies.* Chinese Internet portals such as Sohu and Tencent offer a broad range of online services, including search service. Sohu has its own search engine, “Sogou”, and Tencent also has its own search engine, “SOSO”. Each of our Chinese 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 some have greater financial resources than we do. We compete with these portals primarily for user traffic and online advertising. In addition, we compete with B2B service providers such as Alibaba, which also offers search services on its websites.

*Other Advertising Media.* Other 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 other advertising media.

## Technology

We provide our web search and P4P technology using our network of computers running customized 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 just counting the number of times a search term appears on a web page. For example, our technology determines the proximity of individual search terms to each other on a given web page, and prioritizes results where the search terms are near each other. Other aspects of a page’s content are also considered. By combining link analysis with our information extraction techniques, we are able to deliver relevant search results.

*Information Extraction Techniques.* We extract information from a web page using high performance algorithms and information extraction techniques. Our techniques enable us to understand web page content, delete extraneous data, build link structures, identify duplicate and junk pages and decide whether to include or exclude a web page based on its quality. Our techniques can process millions of web pages quickly. In addition, our anti-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 an ever-growing number of Chinese web pages. Our spider technology enables us to refresh web indices at intervals ranging from every few minutes to every few weeks. We set the index refresh frequency 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 five minutes, and can be as frequent as every minute, throughout the day given the importance of timely information for news. We also mine multimedia and other forms of files from web page repositories.

Our Project Aladdin, an ongoing research and development project first announced in December 2008, aims at uncovering useful parts of the “Hidden Web,” the part of the Internet that existing search engine technology may not be able to index, in order to enrich search results for our users. Aladdin is now a part of Baidu Open Platform.

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

## [Table of Contents](#)

### ***P4P Technology***

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

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

In December 2009, we completed the switch from Online Marketing Classic Edition, our previous auction-based online marketing system, to Phoenix Nest, our current online marketing system. Compared with the previous auction system, Phoenix Nest, which is designed to generate more relevant advertisements, helps customers more easily find users' favorite search terms to bid on, and provides customers with more tools for budget management and more data for the effective measurement of ROI.

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

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

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

### ***Targetizement Technology***

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

### ***Large-Scale Systems Technology***

We generally use custom software running on clusters of commodity 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, and 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.

## [Table of Contents](#)

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 cost-effective server clusters on linux operating system. We also have management information systems that enable us to perform tasks such as service operations, administration, 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.

### **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 18 issued patents in China and intend to apply for more patents to protect our core technologies. We also enter into confidentiality, non-compete and invention assignment agreements with our employees and consultants and nondisclosure agreements with selected third parties. “百度”, our company’s name “Baidu” in Chinese, has been recognized as a well-known trademark in China by the Trademark Office under the State Administration for Industry and Commerce. In addition to owning the trademark “百度” and the related logo, we have applied for registration of additional trademarks and logos, including “百度一下”, “百度Hi” and “百付宝”. We also have registered certain trademarks in Hong Kong, including “百度” and our company logo, and the United States, including “Baidu”. In addition, we have registered our domain name Baidu.com, hao123.com and baifubao.com with MarkMonitor.com, Baidu.jp with humeia.co.jp and Baidu.cn, Baidu.com.cn, and certain other websites with China National Network Information Center, or CNNIC. We own a variety of intellectually property rights relating to our acquired businesses such as Qunar.

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

### **Regulation**

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

In the opinion of Han Kun Law Offices, our PRC legal counsel, (1) the ownership structure relating to our consolidated affiliated entities complies with current PRC laws and regulations; (2) subject to the disclosure and risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure,” “—Risks Related to Doing Business in China” and “Regulation,” our contractual arrangements with our consolidated affiliated entities and the nominee shareholders are valid and binding on all parties to these arrangements and do not violate existing PRC laws or regulations; and (3) subject to the disclosure and risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure,” “—Risks Related to Doing Business in China” and “Regulation,” the business operations of our consolidated affiliated entities, as described herein, comply with current PRC laws and regulations in all material respects.

## [Table of Contents](#)

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 PRC laws and regulations.

### ***Regulations on Value-Added Telecommunications Services and Internet Content Services***

*Internet content services.* In September 2000, the State Council promulgated the Telecommunications Regulations, which 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 Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts.

In September 2000, the State Council issued the Administrative Measures on Internet Information Services, which require commercial ICP service operators to obtain an ICP license from the relevant government authorities before engaging in any commercial ICP operations within the PRC.

The Administrative Measures for Telecommunications Business Operating License, promulgated by the MIIT with latest amendments becoming effective on April 10, 2009, 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.

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

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

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

## [Table of Contents](#)

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***

According to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises, promulgated by the State Council in December 2001 and amended in September 2008, the ultimate foreign equity ownership in a value-added telecommunications services provider must not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the Ministry of Commerce (or the Ministry of Commerce's authorized local counterparts), which retain considerable discretion in granting approvals. According to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of foreign-invested companies, all of which are Sino-foreign joint ventures engaging in the value-added telecommunication business. We believe that it would be impracticable for us to acquire any equity interest in our consolidated affiliated entities without diverting management attention and resources. In addition, we believe that our contractual arrangements with these entities and the nominee shareholders provide us with sufficient and effective control over these entities. Accordingly, we currently do not plan to acquire any equity interest in any of these entities.

In July 2006, the MIIT issued an Notice on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a value-added telecommunication business operating license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The notice further requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunication service providers are required to maintain network and Internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with the requirements in the notice and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holders, including revoking their value-added telecommunication business operating licenses.

To comply with these PRC regulations, we operate our websites mainly through Baidu Netcom and Beijing Perusal, two of our PRC consolidated affiliated entities. In February 2008, we assisted in establishing another consolidated affiliated entity, BaiduPay, which operates an online payment platform. In December 2010, we assisted in establishing another consolidated affiliated entity, Baidu HR, which provides online employment agency services. All of our consolidated affiliated entities are considered domestic PRC entities under PRC law given that the nominee shareholders are PRC citizens or domestic PRC entities. Each of Baidu Netcom and Beijing Perusal holds a value-added telecommunications business operating license. It remains unclear whether the provision of online payment services by BaiduPay will require BaiduPay to apply for a value-added telecommunications business operating license for "online data processing and transaction processing businesses" as provided in the Catalog of Telecommunications Businesses promulgated by the MIIT, although in practice many companies conducting such business do not apply for such license.

To comply with the Notice of the MIIT on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services, we have transferred certain domain names primarily used in our business to

## [Table of Contents](#)

Baidu Netcom and Beijing Perusal, respectively, and have transferred certain trademarks to BaiduPay. We are also in the process of transferring certain trademarks, including pending trademark applications made by Baidu Online, to Baidu Netcom and Beijing Perusal, respectively. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet business and companies.”

### ***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 MIIT 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.

On September 25, 2005, the State Council News Office and the MIIT jointly issued the Provisions on the Administration of Internet News Information Services, requiring Internet news information service organizations to provide services as approved by the State Council News Office, subject to annual inspection under the provisions. These Provisions also provide that no Internet news information service organizations may take the form of a foreign-invested enterprise, whether a joint venture or a wholly foreign-owned enterprise, and no cooperation between Internet news information service organizations and foreign-invested enterprises is allowed prior to the security evaluation by the State Council News Office.

In December 2006, Baidu Netcom obtained the Internet news license, which permits it to publish Internet news pursuant to the relevant PRC laws and regulations. The Internet news license is subject to annual inspection by relevant government authorities.

### ***Regulations on Internet Culture Activities***

The amended Internet Culture Administration Measures, promulgated by the Ministry of Culture and becoming effective April 1, 2011, require ICP operators engaging in “Internet culture activities” to obtain a permit from the Ministry of Culture. The “Internet culture activities” includes, among other things, online dissemination of Internet cultural products (such as audio-video products, games, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, distribution and broadcasting of Internet cultural products. Imported Internet cultural products are subject to content review by the Ministry of Culture before they are disseminated online and domestic Internet cultural products must be filed with the local branch of the Ministry of Culture within 30 days following the online dissemination. We have hosted certain audio/video programs on the Baidu Movie channel since 2006. Baidu Netcom was granted an Internet culture business permit in April 2007, which was renewed in October 2010.

The Ministry of Culture issued Several Suggestions on the Development and Administration of the Internet Music, which became effective on November 20, 2006. The Suggestions, among other things, reiterate the requirement for the Internet service provider to obtain the Internet culture business permit to carry on any business of Internet music products. In addition, foreign investors are prohibited from engaging in the Internet culture business operation.

Furthermore, the Ministry of Culture promulgated the Notice on Strengthening and Improving the Content Review of Online Music dated August 18, 2009. According to this notice, only “Internet culture operating entities” approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. Internet culture operating entities should establish strict self-monitoring system of online music content and set up special department in charge of such monitoring.

***Regulations on Internet Publishing***

The Interim Provisions for the Administration of Internet Publishing, jointly issued by the General Administration of Press and Publication and the MIIT and becoming effective on August 1, 2002, authorize the General Administration of Press and Publication to grant approval to all entities that engage in Internet publishing. Pursuant to the provisions, “Internet publishing” refers to the act of online spreading of articles, whereby the Internet information service providers select, edit and process works created by themselves or others and subsequently post such works on the Internet or transmit such works to the users’ end via Internet for the public to browse, read, use or download. Baidu Netcom is in the process of applying for the Internet publication business license.

***Regulation on Broadcasting Audio/Video Programs through the Internet***

On July 6, 2004, the State Administration of Radio Film and Television promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the A/V Broadcasting Rules. The A/V Broadcasting Rules apply to the opening, broadcasting, integration, transmission or download of audio/video programs via the Internet and other information networks. Anyone who wishes to engage in Internet broadcasting activities must first obtain an audio/video program transmission license, with a term of two years, issued by the State Administration of Radio Film and Television and operate pursuant to the scope as provided in such license. Foreign-invested enterprises are not allowed to engage in the above business.

On December 20, 2007, the State Administration of Radio Film and Television and the MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services, commonly known as Document 56, which came into effect as of January 31, 2008. Document 56 reiterates the requirement set forth in the A/V Broadcasting Rules that online audio/video service provider must obtain a license from the State Administration of Radio Film and Television. Furthermore, Document 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to relevant official answers to press questions published on the State Administration of Radio Film and Television’s website dated February 3, 2008, officials from the State Administration of Radio Film and Television and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Document 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Document 56 was issued. Baidu Netcom has obtained an audio/video program transmission license, which is valid from January 2010 to January 2013.

***Regulations on Payment Services by Non-financial Institutions***

According to the People’s Bank of China’s Measures Concerning Payment Services by Non-financial Institutions, which took effect from September 1, 2010, and its implementation rules, non-financial institutions that have been providing monetary capital transfer services as an intermediary between payees and payers, including online payment, issuance and acceptance of prepaid card or bank card, and other payment services as specified by the People’s Bank of China, must obtain a license from the People’s Bank of China prior to September 1, 2011, in order to continue providing monetary capital transfer services. We have applied for the license to provide monetary transfer services, and the application is currently being processed by the People’s bank of China. We received the acceptance notice from the local branch of the People’s Bank of China, which effectively extends the September 11, 2011 deadline to the point in time that the People’s Bank of China makes a final decision whether to grant the license. We have not received such license as of the date of this annual report. There is no assurance that we will be able to obtain such license. We will have to cease conducting our online payment business if we fail to obtain such license.



### ***Regulations on Advertisements***

The PRC government regulates advertising, including online advertising, principally through the State Administration for Industry and Commerce, although there are no national PRC laws or regulations specifically regulating online advertising business. Under the Rules for Administration of Foreign-Invested Advertising Enterprise, promulgated by the State Administration for Industry and Commerce and the Ministry of Commerce in March 2004 and amended in October 2008, foreign investors are permitted to own equity interests in PRC advertising companies. However, foreign investors in wholly foreign-owned and joint venture advertising companies are required to have at least three years and two years, respectively, of direct operations in the advertising industry outside of China. Since we have not been involved in advertising outside of China for the required number of years, we cannot hold equity interests in PRC companies engaged in advertising business directly. We conduct our online advertising business through our consolidated affiliated entities in China, Baidu Netcom and Beijing Perusal.

The Administrative Regulations for Advertising Operation Licenses, taking effect as of January 1, 2005, granting a general exemption to enterprises (other than radio stations, television stations, newspapers and magazines, non-corporate entities and other specified entities) from the previous requirement to obtain an advertising operation license in addition to a business license. We conduct our online advertising business through Baidu Netcom and Beijing Perusal, each of which holds a business license that covers online advertising in its business scope.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they prepare or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been performed and that relevant approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In the case of serious violations, the State Administration for Industry and Commerce or its local branches may force the violator to terminate its advertising operation or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties.

### ***Regulations on Internet Mapping Services***

Pursuant to the PRC regulations applicable to Internet mapping services issued by the State Bureau of Surveying and Mapping, maps called and transmitted through Internet are Internet maps. To provide Internet mapping services, the provider must apply for a Surveying and Mapping Qualification Certificate for Internet mapping with the competent surveying and mapping bureau. The PRC regulations also provide for certain conditions and requirements for issuing the Surveying and Mapping Qualification Certificate, such as the number of technical personnel and map security verification personnel, security facilities, and approval from relevant provincial or national government on the service provider's security system, qualification management and filings management. Baidu Netcom currently provides online traffic information inquiry services as well as Internet mapping services and have obtained a Surveying and Mapping Qualification Certificate for Internet mapping.

### ***Regulations on Online Game Virtual Currency***

The Notice to Strengthen the Administration of the Virtual Currency of Online Games jointly promulgated by Ministry of Culture and Ministry of Commerce in 2009, the Interim Administration of Online Games and the Notice of Implementation of the Interim Administration of Online Games issued by Ministry of Culture in 2010 require companies that (i) issue online game virtual currency (including prepaid cards and/or pre-payment or

## [Table of Contents](#)

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

### ***Regulations on Employment Agency Services***

Pursuant to the Employment Promotion Law and the Regulations on Employment Service and Employment Management, which became effective on January 1, 2008, an employment agency that provides intermediary and other services for recruitment by employers and job applications by employees must obtain a license from the competent labor authority. A wholly foreign-owned enterprise (other than owned by Hong Kong and Macao service providers) is prohibited from conducting employment agency business. Baidu HR obtained the required license in September 2011 to conduct its employment agency business.

### ***Tort Liability Law***

The PRC Tort Liability Law became effective on July 1, 2010. In accordance with the Tort Liability Law, Internet users and Internet service providers bear tortious liabilities in the event that they infringe other persons' rights and interests through the Internet. Where an Internet user conducts tortious acts through Internet services, the infringed person has the right to request the Internet service provider take necessary actions such as deleting contents, screening and de-linking; and failing to take necessary actions after being informed will subject the Internet service provider to joint and several liabilities with the Internet user with regard to the additional damages incurred. Where an Internet service provider knows an Internet user is infringing other persons' rights and interests through its Internet service but fails to take necessary actions, it is jointly and severally liable with the Internet user.

### ***Regulations on Intellectual Property Rights***

China has adopted legislation governing intellectual property rights, including 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 PRC Patent Law, with the latest amendment effective on October 1, 2009, provides for patent right for "invention," "utility model" and "design." The purpose of the Patent Law is to protect lawful interests of patent holders, encourage invention, foster applications of invention, enhance innovative capabilities 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, substances obtained by means of nuclear transformation or a design which has major marking effect on the patterns or colors of planographic print products or a combination of both patterns and colors. 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.

## [Table of Contents](#)

*Copyright.* The PRC Copyright Law, with latest amendment effective on April 1, 2010, widens the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to, products disseminated over the Internet and computer software. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

The PRC Supreme People's Court's Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes over Internet Copyright 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 technologies designed to protect copyrights constitutes copyright infringement. Upon request, the ICP operators must provide the rights holder with registration information of the alleged violator, provided that such rights holder has produced relevant identification, copyright certificate and evidence of infringement. An ICP operator is exempted from any liabilities as long as it removes the alleged infringing content after receiving the rights holder's notice accompanied with proper evidence.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the PRC National Copyright Administration and the MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet, which became effective on May 30, 2005. These measures apply to situations where an ICP operator (i) allows another person to post or store any works, recordings, audio or video programs on the websites operated by such ICP operator or (ii) provides links to, or search results for, the works, recordings, audio or video programs posted or transmitted by such person, without editing, revising or selecting the content of such material. Upon receipt of an infringement notice from a legitimate copyright holder, an ICP operator must take remedial actions immediately by removing or disabling access to the infringing content. If an ICP operator knowingly transmits infringing content or fails to take remedial actions after receipt of a notice of infringement harming public interest, the ICP operator could be subject to administrative penalties, including: 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 RMB0.1 million. 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.

Pursuant to the Regulations on the Protection of the Right of Communication through Information Network, which was promulgated by the State Counsel and became effective on July 1, 2006, an Internet service provider may be exempted from liabilities for providing links to infringing or illegal content if it does not know that such content is infringing other parties' rights or is illegal. However, if the legitimate owner of the content notifies the Internet service provider and requests removal of the links to the infringing content, the Internet service provider would be deemed to have constructive knowledge upon receipt of such notification but would be exempted from liabilities if it removes or disconnects the links to the infringing content at the request of the legitimate owner. At the request of the alleged violator, the Internet service provider should immediately restore links to content previously disconnected upon receipt of initial non-infringing evidence.

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

*Software Products.* The amended Administrative Measures on Software Products, which were promulgated by the MIIT and became effective on April 10, 2009, provide a registration and filing system with respect to software products made in or imported into China. Software products may be registered with the competent local authorities in charge of software industry administration. Registered software products may enjoy preferential

## [Table of Contents](#)

treatment status granted by relevant software industry regulations. Software products can be registered for five years, and the registration is renewable upon expiration.

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

*Trademark.* The PRC Trademark Law, with the latest amendment effective on December 1, 2001, together with its implementation rules, protects registered trademarks. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. “百度” is recognized as a well-known trademark in China by the Trademark Office under the State Administration for Industry and Commerce. In addition to owning the trademark “百度” and the related logo, we have applied for registration of additional trademarks and logos, including “百度一下”, “百度Hi” and “百付宝”.

*Domain name.* In September 2002, the CNNIC issued the Implementing Rules for Domain Name Registration setting forth detailed rules for registration of domain names. On November 5, 2004, the MIIT promulgated 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 February 2006, CNNIC issued the Measures on Domain Name Disputes Resolution and its implementing rules, pursuant to which CNNIC can authorize a domain name dispute resolution institution to decide disputes. We have registered Baidu.cn, Baidu.com.cn, hao123.com and certain other domain names with CNNIC.

### **Regulations on Information Security**

The National People’s Congress has enacted legislation that prohibits use of the Internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

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

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

Furthermore, the Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations.

As Baidu Netcom and Beijing Perusal are ICP operators, they are subject to the regulations relating to information security. They have taken measures to comply with such regulations. They are registered with the

## [Table of Contents](#)

relevant government authority in accordance with the mandatory registration requirement. Baidu Netcom's policy is to remove links to web pages which to its knowledge contain information that would be in violation of PRC laws or regulations. In addition, we monitor our websites to ensure our compliance with such laws and regulations.

### ***Regulations on Internet Privacy***

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorized disclosure. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party. Pursuant to the Internet Electronic Messaging Service Administrative Measures, ICP operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent or unless required by law. The relevant telecommunications authorities are further authorized 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, as amended, and various regulations issued by SAFE and other relevant PRC government authorities, RMB is freely convertible to the extent of current account items, such as trade related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, unless expressly exempted by laws and regulations, still require prior approval from SAFE or its provincial branch for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside of the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved or permitted, PRC companies must repatriate foreign currency payments received from abroad. The foreign exchange received by PRC companies, including foreign-invested enterprises, may be retained in their foreign exchange accounts without being exchanged into RMB to the extent permitted by relevant laws and regulations.

#### *Dividend Distribution*

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

#### *Foreign Exchange Registration of Offshore Investment by PRC Residents*

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75, issued on October 21, 2005, and a series of implementation rules and guidance, including the most recent circular relating to operating procedures that came into effect on July 1, 2011, PRC residents, including PRC

## [Table of Contents](#)

resident natural persons or PRC companies, must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, for the purposes of overseas equity financing activities. Such PRC residents are also required to amend their registration or filing with the local branches of SAFE for the injection of equity interests or assets of an onshore enterprise into the offshore company, or the overseas funds raised by such offshore company or any other material change involving a change in the capital of the offshore company. PRC residents who are shareholders of SPVs that were established and which have completed their inbound investment before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

Pursuant to the Measures for the Administration of Individual Foreign Exchange and implementation rules promulgated by SAFE, PRC residents who are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. Failure of the option holders to complete their SAFE registrations may subject these PRC employees to fines and legal sanctions and may also limit the ability of the overseas publicly listed company to contribute additional capital into its PRC subsidiary and limit the PRC subsidiary's ability to distribute dividends.

### ***Regulations on Labor***

The Labor Contract Law, which became effective on January 1, 2008, establishes more restrictions and increases costs for employers, compared to the Labor Law, such as specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labor Contract Law, an employer is obliged to sign labor contract with unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts. The employer has to compensate the employee upon the expiration of a fixed-term labor contract, unless the employee refuses to renew such contract on terms the same as or better than those contained in the expired contract. The employer also has to indemnify an employee if the employer terminates a labor contract without a cause permitted by law. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers must be compensated for three times their regular salaries for each waived vacation day.

### ***Regulations on Taxation***

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

### ***Regulations in Japan***

Although current Japanese law and regulations contain no provisions expressly directed toward legal control of Internet search services such as those operated by our Japanese subsidiaries in Japan, certain existing Japanese law and regulations may nonetheless affect such services. The application to our Japanese subsidiaries of existing Japanese law and regulations relating to issues such as intellectual property ownership and infringement, obscenity and other content regulation, user privacy and data protection, defamation, consumer protection and quality of services in many instances is unclear or unsettled. In all such cases, there is a possibility that providing, editing and processing by an Internet search service of links to web pages which contain materials in violation of applicable Japanese law could result in civil or criminal legal liability on the part of such Internet search service. In addition to the foregoing, there is political and social support within Japan for the adoption of legislation

## [Table of Contents](#)

expressly directed to the legal control of harmful information on the Internet. With this support, a law which aims to protect juveniles from harmful information on the Internet was introduced in June 2008. The law requires Internet service providers, mobile phone Internet service providers and other Internet related businesses to make efforts to take certain measures to protect juveniles from harmful information on the Internet such as introducing filtering software. We conduct our Japan operations in accordance with this law where applicable.

### **C. Organizational Structure**

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

<b>Name</b>	<b>Place of Formation</b>	<b>Relationship</b>
Baidu Online Network Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Baidu Holdings Limited	British Virgin Islands	Wholly owned subsidiary
Beijing Baidu Netcom Science Technology Co., Ltd.	China	Consolidated affiliated entity
Baidu (China) Co., Ltd.	China	Wholly owned subsidiary
Baidu.com Times Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Beijing Perusal Technology Co., Ltd.	China	Consolidated affiliated entity
Baidu Japan Inc.	Japan	Wholly owned subsidiary
Baidu (Hong Kong) Limited	Hong Kong	Wholly owned subsidiary
Beijing BaiduPay Science and Technology Co., Ltd.	China	Consolidated affiliated entity
Baido, Inc.	Japan	Wholly owned subsidiary
Hyakudo, Inc.	Japan	Wholly owned subsidiary
Baidu USA LLC	USA	Wholly owned subsidiary
Baidu International Technology (Shenzhen) Co., Ltd.	China	Wholly owned subsidiary
Baidu HR Consulting (Shanghai) Co., Ltd.	China	Consolidated affiliated entity
Qunar Cayman Islands Limited	Cayman Islands	Majority-owned subsidiary
B.D.Mobile Telecommunications Limited	Cayman Islands	Majority-owned subsidiary
Baidu Cloud Computing Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Baidu Cloud Computing Technology (Shanxi) Co., Ltd.	China	Wholly owned subsidiary

In July 2011, we completed our acquisition of Qunar and have since then consolidated the financial results of Qunar in our consolidated financial statements. We are the majority shareholder of Qunar, owning 62.01% equity interests on an as-converted basis in Qunar.

We own 59.92% equity interests on an as-converted basis in Qiyi.com, Inc. and 66.04% equity interest on an as-converted basis in Youa.com, Inc. However, we do not consolidate the financial results of Qiyi.com, Inc. or Youa.com, Inc. in our financial statements under the U.S. GAAP because of our lack of “control” over the board of directors of Qiyi.com, Inc. and Youa.com, Inc. and certain substantive participating rights provided to other shareholders of these two entities.

### **Contractual Arrangements with Our Consolidated Affiliated Entities and the Nominee Shareholders**

PRC laws and regulations restrict foreign investment in Internet content, online advertising and employment agency businesses. Accordingly, we operate our websites and conduct our online advertising and employment agency business in China through a series of contractual arrangements with our consolidated affiliated entities and the nominee shareholders of our consolidated affiliated entities. These contractual arrangements enable us to:

- receive substantially all of the economic benefits from our consolidated affiliated entities in consideration for the services provided by our wholly-owned subsidiaries;

## Table of Contents

- exercise effective control over our consolidated affiliated entities; and
- hold an exclusive option to purchase all or part of the equity interests in our consolidated affiliated entities when and to the extent permitted by PRC laws.

We do not have any equity interest in our consolidated affiliated entities. However, as a result of contractual arrangements, we have effective control over and are considered the primary beneficiary of these companies, and we have consolidated the financial results of these companies in our consolidated financial statements. If our consolidated affiliated entities or the nominee shareholders fail to perform their respective obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us effective control over our consolidated affiliated entities. Further, if we are unable to maintain effective control, we would not be able to continue to consolidate the financial results of our consolidated affiliated entities in our financial statements. In 2009, 2010 and 2011, we derived approximately 21%, 23% and 29% of our total revenues, respectively, from our consolidated affiliated entities through contractual arrangements. For a detailed description of the regulatory environment that necessitates the adoption of our corporate structure, see “—Regulation.” For a detailed description of the risks associated with our corporate structure, see “Risk Factors—Risks Related to Our Corporate Structure.”

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

### ***Exclusive Technology Consulting and Services Agreement***

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

Each of the exclusive technology consulting and services agreements between Baidu Online and Beijing Perusal, BaiduPay, and Baidu HR contains the same terms as those described above. In the agreement with Baidu HR, Baidu HR must pay its entire net income as service fee and only with Baidu Online’s consent, such service fee can be adjusted. Each of the agreements shall be in effect for an unlimited term, until the term of business of one party expires and is denied extension by the relevant approval authorities.

The amount of service fees Baidu Netcom paid to Baidu Online was 90%, 90% and 89% of its net income before income taxes and the service fees were charged for 2009, 2010 and 2011, respectively. The amount of service fees Beijing Perusal paid to Baidu Online was 93%, 87% and over 100% of its net income before income taxes and the service fees were charged for 2009, 2010 and 2011, respectively. After paying service fees to Baidu Online, net income of Baidu Netcom and Beijing Perusal is insignificant because substantially all of their operating profits have been paid as service fees to Baidu Online. BaiduPay and Baidu HR have not paid any service fees to Baidu Online due to their break-even or loss position since their respective inception.



### ***Operating Agreement***

Pursuant to the operating agreement amongst Baidu Online, Baidu Netcom and the nominee shareholders of Baidu Netcom, Baidu Online provides guidance and instructions on Baidu Netcom's daily operations and financial affairs. Baidu Online has the right to appoint senior executives of Baidu Netcom. The nominee shareholders of Baidu Netcom must appoint the candidates recommended by Baidu Online as their representatives on Baidu Netcom's board of directors. In addition, Baidu Online agrees to guarantee Baidu Netcom's performance under any agreements or arrangements relating to Baidu Netcom's business arrangements with any third party. 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 agreement shall be in effect for an unlimited term, until the term of business of one party expires and is denied extension by the relevant approval authorities.

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

### ***License Agreements***

Baidu Online and Baidu Netcom entered into a software license agreement, a trademark license agreement, a domain name license agreement and a web layout copyright license agreement (collectively, the "License Agreements"). Pursuant to the License Agreements between Baidu Online and Baidu Netcom, Baidu Online has granted to Baidu Netcom the right to use, including but not limited to, a software license, a webpage copyright license, a trademark license, and a domain name license. Baidu Netcom may only use the licenses in their own business operations. Baidu Online has the right to adjust the service fees at its sole discretion. The original term of the software license agreement expired in March 2010 and was renewed on March 11, 2010 for an additional five years. The renewed term will expire on March 10, 2015. The software license agreement may be extended by both parties in writing upon the expiration of this agreement. The original term of the trademark license agreement, domain name license agreement and web layout copyright license agreement expired on March 1, 2009 and was renewed for an additional five years. The renewed term will expire on February 28, 2014.

Baidu Online entered into a trademark license agreement, domain name license agreement and web layout copyright license agreement with both Beijing Perusal and BaiduPay. Each of the license agreements between Baidu Online and Beijing Perusal, and Baidu Online and BaiduPay contains the same terms as those described above. The term of each agreement is 5 years from the execution date of the agreement on June 23, 2006 and February 28, 2008, respectively, and shall be extended for one year automatically at its expiration unless Baidu Online provides written notice not to extend the agreements prior to their expiration.

Baidu Online and Baidu HR have not entered into any license agreements as of December 31, 2011. The license agreements with Beijing Perusal were extended automatically for one year on June 23, 2011 which will expire on June 22, 2012.

### ***Exclusive Equity Purchase Option Agreement***

Pursuant to the exclusive equity purchase option agreement amongst the nominee shareholders of Baidu Netcom, Baidu Netcom and Baidu Online, the nominee 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

## [Table of Contents](#)

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

Each of the exclusive equity purchase option agreements amongst Baidu Online and Beijing Perusal, BaiduPay and Baidu HR and the nominee shareholders contains the same terms as those described above. Each of the agreements shall terminate upon the nominee shareholders of Beijing Perusal, BaiduPay or Baidu HR have transferred all their equity interests in Beijing Perusal, BaiduPay or Baidu HR, as the case may be, to Baidu Online or its designated person or upon expiration of the term of business of one party.

### ***Loan Agreements***

Pursuant to loan agreements amongst the nominee shareholders of Baidu Netcom and Baidu Online, Baidu Online provided interest-free loans with an aggregate amount of RMB100.0 million to the nominee shareholders of Baidu Netcom solely for the latter to fund the capitalization of Baidu Netcom. The loans can be repaid only with the proceeds from sale of the nominee shareholders' equity interest in Baidu Netcom to Baidu Online or its designated person. The term of each loan agreement is ten years following the date of such agreement with the earliest expiring on April 26, 2014 and can be extended with the written consent of both parties before its expiration.

Each of the loan agreements amongst Baidu Online and the nominee shareholders of Beijing Perusal, BaiduPay and Baidu HR contains the same terms as those described above, except that the amount of the loans extended to the nominee shareholders is RMB10.0 million, RMB9.0 million, and RMB50.0 million, respectively. The term of the loan agreements will expire on January 15, 2022, April 26, 2020 and December 27, 2020, respectively, and can be extended with the written consent of both parties before its expiration.

### ***Proxy Agreement/Power of Attorney Agreement***

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

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

**Equity Pledge Agreement**

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

Each of the equity pledge agreements amongst Baidu Online, Beijing Perusal, BaiduPay, and Baidu HR and the nominee shareholders contains the same terms, including term period, as those described above.

The equity pledges described above have been perfected by registration with the relevant local administration for industry and commerce as required for a property right under the PRC Property Rights Law, except for the pledge of 0.5% of the equity interests in Baidu Netcom held by an individual shareholder who recently acquired such equity interests from the previous shareholder pursuant to our direction, and the pledge of the recently increased portion of the registered capital of Beijing Perusal. We are in the process of registering these equity pledges with relevant local administration for industry and commerce.

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

**D. Property, Plant and Equipment**

In November 2009, we moved into Baidu Campus, our new corporate headquarters located in Shangdi, an area designated by the Beijing municipal government as the center of the city's information technology industry. The new facility occupies 91,500 square meters of gross floor area and currently houses our principal executive offices, information and technology center, as well as administrative and support departments, and approximately 4,700 of our employees. We own the land use right to the land on which Baidu Campus was built. We have offices in Beijing, Tokyo (Japan), California (USA) and branch offices in Beijing, Shanghai and selected cities in Guangdong Province, where we lease premises from unrelated third parties.

We host our servers in China at the Internet data centers of China Telecom, China Unicom and China Mobile in Beijing, Tianjin and Suzhou, and we also have content delivery network locations in various cities across China. We expect to use three additional data centers located in Beijing, Nanjing and Hangzhou in 2012.

We commenced construction of the first data center of our own in September 2010. This data center, located in Beijing, commenced operation in September 2011.

## [Table of Contents](#)

We currently host our servers in Hong Kong and Japan at Internet data centers operated by NTT Com Asia Limited and Olympus Business Creation Corp., respectively.

In December 2011, we commenced construction of an office complex in Shenzhen, which will serve as our international center in Southern China. We have paid RMB125.7 million (US\$20.0 million) for the land use right. We expect to complete the planned construction at the end of 2015.

### **Item 4A. Unresolved Staff Comments**

None.

### **Item 5. Operating and Financial Review and Prospects**

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

#### **A. Operating Results**

##### **Overview**

Our operations are primarily based in China, where we derive almost all of our revenues. Total revenues in 2011 were RMB14.5 billion (US\$2.3 billion), an 83.2% increase over 2010. Operating profit in 2011 was RMB7.6 billion (US\$1.2 billion), a 91.4% increase over 2010. Net income attributable to Baidu, Inc. in 2011 was RMB6.6 billion (US\$1.1 billion), an 88.3% increase over 2010.

Our total assets as of December 31, 2011 were RMB23.3 billion (US\$3.7 billion), of which cash and cash equivalent amounted to RMB4.1 billion (US\$655.8 million). Our total liabilities were RMB7.0 billion (US\$1.1 billion), accounting for 30.1% of total liabilities and equity. As of December 31, 2011, our retained earnings accumulated to RMB13.6 billion (US\$2.2 billion).

In July 2011, we completed our acquisition of a majority stake in Qunar, owning 62.01% equity interests on an as-converted basis. We have since then consolidated the financial results of Qunar in our consolidated financial statements.

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

##### **Revenues**

##### ***Revenue Generation***

We derive almost all of our revenues from online marketing services, which accounted for approximately 99.9%, 100.0% and 99.9% of our total revenues in 2009, 2010 and 2011, respectively.

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

## [Table of Contents](#)

We also provide to our customers other performance-based online marketing services and time-based online advertising services. For other performance-based online marketing services, our customers pay us based on performance criteria other than click-throughs, such as the number of telephone calls brought to our customers, the number of users registered with our customers, or the number of minimum click-throughs; while for time-based online advertising services, our customers pay us based on the duration of the advertisement placed on our websites.

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

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

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

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

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

### ***Revenue Collection***

We collect payments for our P4P services both from our customers directly and through our distributors. We have expanded our direct sales effort in several cities in China, including Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan, and as a result, P4P payments collected through our direct sales have been increasing. We require our P4P customers to pay a deposit before using our P4P services and remind them by an automated notice to replenish the accounts after their account balance falls below a designated amount. We deduct the amount due to us from the deposit paid by a customer when a user clicks on the customer's link in the search results.

We offer payment terms to some of our customers of other performance-based online marketing services and time-based online advertising services. In addition, we offer longer payment terms to certain qualified distributors, consistent with industry practice.

## [Table of Contents](#)

As of December 31, 2011, we had accounts receivable of RMB599.6 million (US\$95.3 million), net of allowance of RMB5.8 million (US\$0.9 million), mainly due from customers of other performance-based online marketing services and time-based online advertising services.

### Operating Costs and Expenses

Our operating costs and expenses consist of cost of revenues, selling, general and administrative expenses, and research and development expenses. Share-based compensation expenses are allocated among the above three categories of operating costs and expenses, based on the nature of the work of the employees who have received share-based compensation. Our total operating costs and expenses increased significantly from 2009 to 2011 due to the growth of our business.

### Cost of Revenues

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

	For the Years Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US\$	%
	(In thousands, except percentages)						
Total revenues	4,447,776	100.0	7,915,074	100.0	14,500,786	2,303,943	100.0
Cost of revenues:							
Business tax and surcharges	(275,924)	(6.2)	(504,846)	(6.4)	(1,024,858)	(162,834)	(7.1)
Traffic acquisition costs	(697,673)	(15.7)	(758,078)	(9.6)	(1,155,546)	(183,598)	(8.0)
Bandwidth costs	(203,927)	(4.6)	(310,540)	(3.9)	(626,444)	(99,532)	(4.3)
Depreciation of servers and other equipment	(250,969)	(5.6)	(331,685)	(4.2)	(657,845)	(104,521)	(4.5)
Operational costs	(181,369)	(4.1)	(237,837)	(3.0)	(424,663)	(67,472)	(2.9)
Share-based compensation expenses	(6,374)	(0.1)	(6,302)	(0.1)	(7,527)	(1,196)	(0.1)
Total cost of revenues	<u>(1,616,236)</u>	<u>(36.3)</u>	<u>(2,149,288)</u>	<u>(27.2)</u>	<u>(3,896,883)</u>	<u>(619,153)</u>	<u>(26.9)</u>

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

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

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

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

## [Table of Contents](#)

### **Operating Expenses**

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

	For the Years Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US\$	%
	(In thousands, except percentages)						
Total revenues	4,447,776	100.0	7,915,074	100.0	14,500,786	2,303,943	100.0
Cost of revenues	(1,616,236)	(36.3)	(2,149,288)	(27.2)	(3,896,883)	(619,153)	(26.9)
Selling, general and administrative	(803,988)	(18.1)	(1,088,980)	(13.7)	(1,692,810)	(268,961)	(11.7)
Selling and marketing	(573,088)	(12.9)	(778,353)	(9.8)	(1,216,718)	(193,317)	(8.4)
General and administrative	(230,900)	(5.2)	(310,627)	(3.9)	(476,092)	(75,644)	(3.3)
Research and development	(422,615)	(9.5)	(718,038)	(9.1)	(1,334,434)	(212,020)	(9.2)
Total costs and operating expenses	(2,842,839)	(63.9)	(3,956,306)	(50.0)	(6,924,127)	(1,100,134)	(47.8)

#### *Selling, General and Administrative Expenses*

Our selling and marketing expenses primarily consist of compensation for our sales and marketing personnel and promotional and marketing expenses. We expect to incur higher selling and marketing expenses as a result of increased compensation for our sales and marketing personnel and our intensified marketing and brand-promotion efforts.

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.

#### *Research and Development Expenses*

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

#### *Share-based Compensation Expenses*

We grant options to our employees as a type of share-based compensation award. As of December 31, 2011, there was RMB53.1 million (US\$8.4 million) unrecognized share-based compensation cost related to options of Baidu, Inc., which is expected to be recognized over a weighted-average vesting period of 2.53 years. In addition, as of December 31, 2011, there was RMB37.9 million (US\$6.0 million) unrecognized share-based compensation cost related to options of Qunar, which is expected to be recognized over a weighted-average vesting period of 2.72 years. To the extent the actual forfeiture rate is different from our original estimate, actual share-based compensation cost related to these awards may be different from our expectation.

In addition to options, Baidu, Inc. started awarding restricted shares to employees in 2006. As of December 31, 2011, there was RMB328.4 million (US\$52.2 million) unrecognized share-based compensation cost related to restricted shares, which is expected to be recognized over a weighted-average vesting period of 2.89 years. To the extent the actual forfeiture rate is different from our original estimate, actual share-based compensation cost related to these awards may be different from our expectation.

## [Table of Contents](#)

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

	For the Years Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US\$	%
(In thousands, except percentages)							
<b>Allocation of Share-based Compensation Expenses</b>							
Cost of revenues	6,374	7.4	6,302	6.7	7,527	1,196	4.9
Selling, general and administrative	38,681	44.8	36,811	39.3	50,012	7,946	32.9
Research and development	41,263	47.8	50,623	54.0	94,489	15,013	62.2
Total share-based compensation expenses	<u>86,318</u>	<u>100.0</u>	<u>93,736</u>	<u>100.0</u>	<u>152,028</u>	<u>24,155</u>	<u>100</u>

## Taxation

Under the current laws of the Cayman Islands and the British Virgin Islands, we and our direct subsidiary Baidu Holdings Limited are not subject to income or capital gain tax. Under the current laws of Hong Kong, Baidu (Hong Kong) Limited is exempted from income tax on its foreign-derived income. Additionally, dividend payments made by any of these companies are not subject to withholding tax in those jurisdictions.

### PRC Enterprise Income Tax

**Enterprise Income Tax.** According to the EIT Law, as further clarified by the Implementation Rules of the EIT Law and the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the EIT Law, foreign-invested enterprises and domestic enterprises are subject to EIT at a uniform rate of 25%. The EIT rate applicable to the enterprises established before March 16, 2007 that were eligible for preferential tax rate according to then effective tax laws and regulations will gradually transition to the uniform 25% EIT rate by January 1, 2013. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the EIT Law if they qualify as “High and New Technology Enterprises strongly supported by the state,” subject to certain general factors described therein.

Under a Caishui (2008) No. 1 Notice promulgated jointly by the Ministry of Finance and the State Administration of Taxation on February 22, 2008, other than the preferential EIT treatments specified under the EIT Law, the Implementation Rules of the EIT Law and certain other tax regulations, all preferential EIT treatments granted prior to January 1, 2008 are eliminated. Pursuant to a Caishui Circular 69 jointly promulgated by the Ministry of Finance and the State Administration of Taxation on April 24, 2009, subject to verification, a qualified software enterprise established prior to January 1, 2008 may continue to enjoy the tax holidays previously granted to it as a “software enterprise.” Where the software enterprise had already started to enjoy its tax holidays before 2008, it may continue to enjoy the remaining tax holidays from 2008 until the expiration of such tax holidays. Baidu China was granted “software enterprise” status by the Shanghai Municipal Information Commission in 2006 prior to the effective date of the EIT Law and was entitled to a full exemption from EIT from 2006 to 2007 and a 50% tax reduction from 2008 to 2010. Therefore, Baidu China continued to enjoy a 50% reduced EIT rate from 2008 to 2010 as a “software enterprise.” The EIT rate currently applicable to Baidu China is 24% for 2011.

Pursuant to the Administrative Measures on the Recognition of High and New Technology Enterprises that became effective simultaneously with the EIT Law, the provincial counterparts of the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation shall jointly determine whether an enterprise is qualified as a high and new technology enterprise under the EIT Law. In making such determination, these government agencies shall consider, among other factors, ownership of core technology, whether the products or services fall within the scope of high and new technology strongly supported by the state as specified



## [Table of Contents](#)

in the measures, the ratios of technical personnel and research and development personnel to total personnel, the ratio of research and development expenditures to annual sales revenues, the ratio of revenues attributed to high and new technology products or services to total revenues, and other measures set forth in relevant guidance.

In December 2008, our PRC subsidiaries Baidu Online and Baidu Times were designated by relevant government authorities as “High and New Technology Enterprise” under the EIT Law. Baidu Online and Baidu Times received the High and New Technology Enterprise certificates jointly issued by the Beijing authorities in February 2009 and obtained the renewed certificates in January 2012. Our PRC consolidated affiliated entity, Baidu Netcom, was also designated by relevant government authorities as “High and New Technology Enterprise” under the EIT Law in December 2010 and received the High and New Technology Enterprise certificates jointly issued by the Beijing authorities in May 2011. Therefore, Baidu Online, Baidu Times and Baidu Netcom are entitled to enjoy a preferential tax rate of 15% as long as they maintain their qualification as “High and New Technology Enterprise” under the EIT Law. Baidu China has also applied for the status of “High and New Technology Enterprise” in 2011, which, if approved, may reduce its applicable tax rate to 15%. In addition, Baidu Times will continue to benefit from the remaining tax holidays granted to it under the applicable PRC tax laws and regulations effective before January 1, 2008, namely, a preferential 7.5% EIT rate for the three years from 2009 to 2011 as a certified foreign-invested High and New Technology Enterprise located in Beijing Zhongguancun Science Park (part of the Beijing New Technology Industry Development Zone).

Furthermore, in February 2011, Baidu Online was announced as a “Key Software Enterprise” jointly by the National Development and Reform Commission, MIIT, Ministry of Commerce and State Administration of Taxation, which entitled it to enjoy a preferential income tax rate of 10% for 2010. The status as a “Key Software Enterprise” is subject to an annual assessment by the relevant governmental authorities in China. There is no assurance that Baidu Online will continue to maintain the status in the future.

If Baidu China fails to obtain the qualification as a “High and New Technology Enterprise” or any of Baidu Online, Baidu Times and Baidu Netcom fails to maintain the “High and New Technology Enterprise” qualification under the EIT Law, their tax rates will increase, which could have a material and adverse effect on our results of operations and financial position.

If our PRC subsidiaries or consolidated affiliated entities no longer qualify for preferential tax treatment, we will consider available options under applicable law that would enable us to qualify for further preferential tax treatment. To the extent we are unable to offset the impact of the expiration of existing preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, the expiration of existing preferential tax treatment may cause our effective tax rate to increase. The amount of income tax payable by our PRC subsidiaries and consolidated affiliated entities in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to, each of the entities. Our effective tax rate depends partially on the extent of the relative contribution of each of our subsidiaries and consolidated affiliated entities to our consolidated taxable income. In 2009, 2010 and 2011, our consolidated effective tax rate was 11.76%, 13.20% and 15.22%, respectively.

### ***Withholding Tax***

Under the EIT Law and the Implementation Rules, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors, and proceeds from any such foreign enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to a 10% withholding tax unless such foreign enterprise investor’s jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding. The Caishui (2008) No. 1 Notice issued on February 22, 2008 further clarifies that undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 will be exempted from any withholding tax.

The British Virgin Islands, where Baidu Holdings Limited, the sole shareholder of our PRC subsidiary Baidu Online, was incorporated, does not have such a tax treaty with China. Baidu (Hong Kong) Limited, our

## [Table of Contents](#)

wholly owned subsidiary and the sole shareholder of our PRC subsidiaries Baidu China and Baidu Times, was incorporated in Hong Kong, which has a tax arrangement with China that provides for a lower withholding tax rate of 5% under certain conditions. However, the State Administration of Taxation promulgated a SAT Circular 601 on October 27, 2009, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” with respect to dividend, interest and royalty income under China’s tax treaties and tax arrangements. According to SAT Circular 601, a beneficial owner shall have ownership and right to dispose of the income or the rights and properties giving rise to such income. A beneficial owner generally engages in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to a company that is set up primarily for the purpose of evading or reducing taxes or transferring or accumulating profits.

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

### ***Tax Residence***

Under the EIT Law and the Implementation Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and will be subject to the EIT at the rate of 25% on its worldwide income payable to the tax authority where such “de facto management bodies” locate. The Implementation Rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.”

Pursuant to SAT Circular 82 issued by the State Administration of Taxation on April 22, 2009, an overseas registered enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management bodies” located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (iv) no less than half of the enterprise’s directors or senior management with voting rights reside in the PRC. Although SAT Circular 82 only applies to overseas registered enterprises controlled by PRC enterprises and not those controlled by PRC individuals or foreigners, the determining criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

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

### ***PRC Business Tax***

Revenues from our P4P services are subject to a 5% PRC business tax. Revenues from our online advertising services are subject to business taxes, surcharges and cultural business construction fees totaling approximately 8.5% of the online advertising revenues. Revenues from our other services are also subject to a 5% business tax.

In November 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two tax circulars setting out the details of the Shanghai VAT pilot rules, which took effect on January 1, 2012. The VAT pilot rules change the charge of sales tax from business tax to VAT for certain service industries in

## [Table of Contents](#)

Shanghai. Our entities located in Shanghai fall within the pilot arrangements and are recognized as the VAT general taxpayers at the rate of 6%.

### **PRC Urban Maintenance and Construction Tax and Education Surcharge**

From December 1, 2010, the urban maintenance and construction tax and education surcharge that were previously only applicable to pure PRC domestic enterprises and individuals, began to apply to foreign-invested enterprises, foreign enterprises and individual foreigners as well. Any entity, foreign-invested or purely domestic, or individual that is subject to consumption tax, VAT and business tax is also required to pay urban maintenance and construction tax. The rates of urban maintenance and construction tax are 7%, 5% or 1% of the amount of consumption tax, VAT and business tax actually paid depending on where the taxpayer is located. All entities and individuals who pay consumption tax, VAT and business tax are also required to pay education surcharge at a rate of 3%, and local education surcharge at a rate of 2% of the amount of VAT, business tax and consumption tax actually paid.

### **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 results of operations. We believe that period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the Years Ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US\$
	(In thousands)			
<b>Consolidated Statements of Income Data</b>				
Revenues:				
Online marketing services	4,445,310	7,912,869	14,489,767	2,302,192
Other services	2,466	2,205	11,019	1,751
<b>Total revenues</b>	<b>4,447,776</b>	<b>7,915,074</b>	<b>14,500,786</b>	<b>2,303,943</b>
Operating costs and expenses <sup>(1)</sup> :				
Cost of revenues	(1,616,236)	(2,149,288)	(3,896,883)	(619,153)
Selling, general and administrative	(803,988)	(1,088,980)	(1,692,810)	(268,961)
Research and development	(422,615)	(718,038)	(1,334,434)	(212,020)
<b>Total operating costs and expenses</b>	<b>(2,842,839)</b>	<b>(3,956,306)</b>	<b>(6,924,127)</b>	<b>(1,100,134)</b>
<b>Operating profit</b>	<b>1,604,937</b>	<b>3,958,768</b>	<b>7,576,659</b>	<b>1,203,809</b>
Interest income, net	32,661	67,121	335,650	53,329
Other income, net, including exchange gains or losses	45,752	44,239	76,278	12,120
Loss from equity method investments	(229)	(8,965)	(179,408)	(28,505)
Taxation	(198,017)	(535,995)	(1,188,861)	(188,891)
<b>Net income</b>	<b>1,485,104</b>	<b>3,525,168</b>	<b>6,620,318</b>	<b>1,051,862</b>
Less: Net loss attributable to noncontrolling interests	—	—	(18,319)	(2,911)
<b>Net income attributable to Baidu, Inc.</b>	<b>1,485,104</b>	<b>3,525,168</b>	<b>6,638,637</b>	<b>1,054,773</b>
<b>(1) Share-based compensation expenses:</b>				
Cost of revenues	(6,374)	(6,302)	(7,527)	(1,196)
Selling, general and administrative	(38,681)	(36,811)	(50,012)	(7,946)
Research and development	(41,263)	(50,623)	(94,489)	(15,013)
	<b>(86,318)</b>	<b>(93,736)</b>	<b>(152,028)</b>	<b>(24,155)</b>

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

*Revenues.* Our total revenues increased by 83.2% from RMB7.9 billion in 2010 to RMB14.5 billion (US\$2.3 billion) in 2011. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 83.1% from RMB7.9 billion in 2010 to RMB14.5 billion (US\$2.3 billion) in 2011. This increase was mainly attributable to the increase in the number of our online marketing customers from approximately 412,000 in 2010 to over 488,000 in 2011, and the increase in the average revenue per customer from approximately RMB19,200 in 2010 to approximately RMB29,700 (US\$4,719) in 2011. The increase in our online marketing customers was mainly due to our effective distribution network and our expanded direct sales, especially in Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan. The increase in the average revenue per customer was primarily attributable to the increase in the number of paid clicks and the higher price per click as more customers participated in our P4P auction platform. The number of paid clicks increased by approximately 64.2% from 2010 to 2011.

*Operating Costs and Expenses.* Our total operating costs and expenses increased by 75.0% from RMB4.0 billion in 2010 to RMB6.9 billion (US\$1.1 billion) in 2011. This increase was primarily due to the expansion of our business.

- *Cost of Revenues.* Our cost of revenues increased by 81.3% from RMB2.1 billion in 2010 to RMB3.9 billion (US\$619.2 million) in 2011. This increase was primarily due to the following factors:
  - *Traffic Acquisition Costs.* Our traffic acquisition costs increased by 52.4% from RMB758.1 million in 2010 to RMB1.2 billion (US\$183.6 million) in 2011. Traffic acquisition costs represent 8.0% of total revenues in 2011, compared to 9.6% in 2010. The decrease in traffic acquisition costs as a percentage of total revenues is primarily due to our traffic optimization efforts.
  - *Bandwidth Costs and Depreciation Expenses.* Our bandwidth costs increased by 101.7% from RMB310.5 million in 2010 to RMB626.4 million (US\$99.5 million) in 2011. Our depreciation expenses of servers and other equipment increased by 98.3% from RMB331.7 million in 2010 to RMB657.8 million (US\$104.5 million) in 2011. The absolute increases in these costs were due to the expansion of our business.
  - *Business Tax and Surcharges.* Our business tax and surcharges increased by 103.0% from RMB504.8 million in 2010 to RMB1.0 billion (US\$162.8 million) in 2011, primarily as a result of the increase in our online marketing revenues.
  - *Operational Costs.* Our operational costs increased by 78.6% from RMB237.8 million in 2010 to RMB424.7 million (US\$67.5 million) in 2011, primarily due to amortization of acquired intangible assets related to Qunar acquisition, the increase in consumption of durable computer parts, higher compensation paid to our operation and technical support staff and higher music content acquisition cost.
- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 55.4% from RMB1.1 billion in 2010 to RMB1.7 billion (US\$269.0 million) in 2011. This increase was primarily due to the following factors:
  - total salaries and benefits and staff-related expenses increased by 57.2% from RMB546.5 million in 2010 to RMB859.0 million (US\$136.5 million) in 2011, primarily due to the increased direct sales commission and headcount to support our expanded online marketing services;
  - total office operating expenses increased by 34.6% from RMB108.8 million in 2010 to RMB146.4 million (US\$23.3 million) in 2011, primarily as a result of increase and expansion of our offices;
  - total traveling, communication and business development expenses increased by 66.1% from RMB37.9 million in 2010 to RMB63.0 million (US\$10.0 million) in 2011, primarily due to the increased headcount and activities to support our expanded online marketing services; and

## [Table of Contents](#)

- marketing and promotion expenses increased by 74.8% from RMB215.6 million in 2010 to RMB376.8 million (US\$59.9 million) in 2011 primarily due to the increased marketing and promotion activities.
- share-based compensation expenses allocated to selling, general and administrative expenses increased by 35.9% from RMB36.8 million in 2010 to RMB50.0 million (US\$7.9 million) in 2011.
- *Research and Development Expenses.* Our research and development expenses increased by 85.8% from RMB718.0 million in 2010 to RMB1.3 billion (US\$212.0 million) in 2011, primarily due to an increase in the number of research and development staff.

*Operating Profit.* As a result of the foregoing, we generated an operating profit of RMB7.6 billion (US\$1.2 billion) in 2011, a 91.4% increase from RMB4.0 billion in 2010.

*Other income, net, including exchange gains or losses.* Our other income, net, including exchange gains or losses was RMB76.3 million (US\$12.1 million) in 2011, compared to RMB44.2 million in 2010, primarily due to the increase of subsidies received in 2011.

*Loss from equity method investments:* Our loss from equity method investments increased from RMB9.0 million in 2010 to RMB179.4 million (US\$28.5 million), primarily due to the recognized accumulated losses of Qiyi.com, Inc. and some joint ventures in 2011.

*Taxation.* Our income tax expenses increased by 121.8% from RMB536.0 million in 2010 to RMB1.2 billion (US\$188.9 million) in 2011, primarily due to the significant increase in profit before tax in 2011 and the expiration of preferential tax treatment for one of our PRC subsidiaries in 2011.

*Net income attributable to Baidu, Inc.* As a result of the foregoing, net income attributable to Baidu, Inc. increased by 88.3% from RMB3.5 billion in 2010 to RMB6.6 billion (US\$1.1 billion) in 2011.

### **Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

*Revenues.* Our total revenues increased by 78.0% from RMB4.4 billion in 2009 to RMB7.9 billion in 2010. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 78.0% from RMB4.4 billion in 2009 to RMB7.9 billion in 2010. This increase was mainly attributable to the increase in the number of our online marketing customers from approximately 317,000 in 2009 to over 412,000 in 2010, and the increase in the average revenue per customer from approximately RMB14,000 in 2009 to approximately RMB19,200 in 2010. The increase in our online marketing customers was mainly due to our effective distribution network and our expanded direct sales, especially in Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan. The increase in the average revenue per customer was primarily attributable to the increase in the number of paid clicks and the higher price per click as more customers participated in our P4P auction platform. The number of paid clicks increased by approximately 56.1% from 2009 to 2010.

*Operating Costs and Expenses.* Our total operating costs and expenses increased by 39.2% from RMB2.8 billion in 2009 to RMB4.0 billion in 2010. This increase was primarily due to the expansion of our business.

- *Cost of Revenues.* Our cost of revenues increased by 33.0% from RMB1.6 billion in 2009 to RMB2.1 billion in 2010. This increase was primarily due to the following factors:
  - *Traffic Acquisition Costs.* Our traffic acquisition costs increased by 8.7% from RMB697.7 million in 2009 to RMB758.1 million in 2010. Traffic acquisition costs represent 9.6% of total revenues in 2010, compared to 15.7% in 2009. The decrease in traffic acquisition costs as a percentage of total revenues is primarily due to Baidu Union's traffic optimization effort.

## [Table of Contents](#)

- *Bandwidth Costs and Depreciation Expenses.* Our bandwidth costs increased by 52.3% from RMB203.9 million in 2009 to RMB310.5 million in 2010. Our depreciation expenses of servers and other equipment increased by 32.2% from RMB251.0 million in 2009 to RMB331.7 million in 2010. The absolute increases in these costs were due to the expansion of our business. However, these costs in 2010 accounted for a lower percentage of total revenues than in 2009. The decreases in bandwidth costs and depreciation expenses as percentages of total revenues reflect our improved efficiency as well as the scalability of our Internet-based business model.
- *Business Tax and Surcharges.* Our business tax and surcharges increased by 83.0% from RMB275.9 million in 2009 to RMB504.8 million in 2010, primarily as a result of the increase in our online marketing revenues.
- *Operational Costs.* Our operational costs increased by 31.1% from RMB181.4 million in 2009 to RMB237.8 million in 2010, primarily due to the increase in consumption of durable computer parts and higher compensation paid to our operation and technical support staff.
- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 35.4% from RMB804.0 million in 2009 to RMB1.1 billion in 2010. This increase was primarily due to the following factors:
  - total salaries and benefits and staff-related expenses increased by 36.5% from RMB400.3 million in 2009 to RMB546.5 million in 2010, primarily due to the increased direct sales headcount to support our expanded online marketing services;
  - total office operating expenses increased by 27.2% from RMB85.5 million in 2009 to RMB108.8 million in 2010, primarily as a result of increase and expansion of our direct sales offices;
  - total traveling, communication and business development expenses increased by 23.0% from RMB30.8 million in 2009 to RMB37.9 million in 2010, primarily due to the increased direct sales headcount and activities to support our expanded online marketing services; and
  - marketing and promotion expenses increased by 35.6% from RMB159.0 million in 2009 to RMB215.6 million in 2010 primarily due to the increased marketing and promotion activities.

The above increases were partially offset by a 4.8% decrease in share-based compensation expenses allocated to selling, general and administrative expenses from RMB38.7 million in 2009 to RMB36.8 million in 2010, primarily due to the cancellation of some share-based awards granted to our former officers in prior years.

- *Research and Development Expenses.* Our research and development expenses increased by 69.9% from RMB422.6 million in 2009 to RMB718.0 million in 2010, primarily due to an increase in the number and compensation levels of research and development staff.

*Operating Profit.* As a result of the foregoing, we generated an operating profit of RMB4.0 billion in 2010, a 146.7% increase from 2009.

*Other income, net, including exchange gains or losses.* Our other income, net, including exchange gains or losses was RMB44.2 million in 2010, compared to RMB45.8 million in 2009.

*Taxation.* Our income tax expenses increased by 170.7% from RMB198.0 million in 2009 to RMB536.0 million in 2010, primarily due to the significant increase in profit before tax in 2010.

*Net income attributable to Baidu, Inc.* As a result of the foregoing, net income attributable to Baidu, Inc. increased by 137.4% from RMB1.5 billion in 2009 to RMB3.5 billion in 2010.

## **Inflation**

Inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2009, 2010 and 2011 were a decrease of 0.7%, an increase of 3.3% and an increase of 5.4%, respectively. The year-over-year percent changes in the consumer price index for January 2010, 2011 and 2012 were increases of 1.5%, 4.9% and 4.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

## **Foreign Currency**

The average exchange rate between U.S. dollar and RMB has declined from RMB8.2264 per U.S. dollar in July 2005 to RMB6.3482 per U.S. dollar in December 2011. The functional currency of our subsidiaries in Japan is the Japanese yen, and their reporting currency is RMB. During 2011, the Japanese yen appreciated by approximately 1.2% against RMB. As of December 31, 2011, we recorded RMB84.4 million (US\$13.4 million) of net foreign currency translation loss in accumulated other comprehensive loss as a component of shareholders' equity. We have not hedged exposures to exchange fluctuations using any hedging instruments. See also "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Fluctuation in the value of the RMB may have a material and adverse effect on your investment." and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Risk."

## **Critical Accounting Policies**

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

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

## **Consolidation of Affiliated Entities**

In order to comply with PRC laws and regulations limiting foreign ownership of Internet, online advertising and employment agency businesses, we conduct our ICP, online advertising and employment agency businesses through our affiliated entities in China by means of contractual arrangements. We have entered into certain exclusive agreements with the affiliated entities through our subsidiaries, which obligate them to absorb a majority of the risk of loss and receive a majority of the residual returns from the affiliated entities' activities. In addition, we have entered into certain agreements with the affiliated entities, the nominee shareholders of

## [Table of Contents](#)

affiliated entities and the authorized individuals through our subsidiaries, including but not limited to, loan agreements for the paid-in capital of the affiliated entities, option agreements to acquire the equity interests in the affiliated entities when permitted by PRC law, and share pledge agreements for the equity interests in the affiliated entities. Despite the lack of technical equity ownership, there exists a parent-subsidiary relationship between us and the affiliated entities through our subsidiaries, whereby the nominee shareholders of the affiliated entities effectively assigned all of their voting rights underlying their equity interest in the affiliated entities to our subsidiaries, and our subsidiaries have the power to direct the activities that most significantly impact the affiliated entities' economic performance. Through the other aforementioned agreements, we demonstrate our ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of affiliated entities. Based on these contractual arrangements, we consolidate the affiliated entities as required by Accounting Standards Codification ("ASC") subtopic 810-10, *Consolidation: Overall*, because we hold all the variable interests of the affiliated entities through the subsidiaries, which are the primary beneficiaries of the affiliated entities. We will reconsider the initial determination of whether a legal entity is a consolidated affiliated entity upon certain events occurred. See "Item 3.D. Risk Factors—Risks Related to Our Corporate Structure."

### **Revenue Recognition**

We recognize revenues based on the following principles:

#### Online marketing services

##### **(1) Auction-based pay-for-performance service**

Our auction-based P4P platform enables a customer to place its website link and related description on our search result list. The customers make bids on keywords based on how much they are willing to pay for each click to their listings in the search results listed on our website and the relevance between the keywords and the customer's businesses. Internet users' search of the keyword will trigger the display of the listings. The ranking of the customer's listing depends on both the bidding price and the listing's relevance to the keyword searched. Customer pays us only when a user clicks on one of its website links. Revenue is recognized when a user clicks on one of the customer-sponsored website links, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC subtopic 605-10 ("ASC 605-10"), *Revenue Recognition: Overall*.

For certain P4P customers engaged through direct sales, we may provide certain value-added consultative support services to help its customers to better utilize its P4P online marketing system. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

##### **(2) Other performance-based online marketing services**

To the extent we provide online marketing services based on performance criteria other than click-throughs, such as the number of telephone calls brought to our customers, the number of users registered with our customers, 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 ASC 605-10.

##### **(3) Time-based online advertising services**

For time-based online advertising services such as text links, banners, or other forms of graphical advertisements, we recognize revenue, in accordance with ASC 605-10, on a pro-rata basis over the contractual term commencing on the date the customer's advertisement is displayed in a specified web page. For certain



## [Table of Contents](#)

time-based contractual agreements, we may also provide certain performance guarantees, in which cases revenue is recognized at the later of the completion of the time commitment or performance guarantee.

### **(4) Online marketing services involving Baidu Union**

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

### **(5) Barter transactions**

We engages in barter transactions from time to time and in such situations follows the guidance set forth in ASC subtopic 845-10 ("ASC 845-10"), *Nonmonetary Transactions: Overall*. While nonmonetary transactions are generally recorded at fair value, if such value is not determinable within reasonable limits, the transaction is recognized based on the carrying value of the product or services provided. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

In addition, we recognized revenues for barter transactions involving advertising in accordance with ASC subtopic 605-20 ("ASC 605-20"), *Revenue recognition: Services*. However, neither the amount recognized nor the volume of such transactions qualified for income recognition was material for any of the periods presented.

In certain instances, we may be granted equity instruments in exchange for services. In accordance with ASC subtopic 505-50 ("ASC 505-50"), *Equity: Equity-based Payments to Non-Employees*, if we provide services in exchange for equity instruments, we measure the fair value of those equity instruments for revenue recognition purposes as of the earlier of either of the following dates:

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

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

### **(6) Other revenue recognition related policies**

We prospectively adopted Accounting Standards Update ("ASU") No. 2009-13 ("ASU 2009-13"), *Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force ("EITF") that amends ASC 605-25, on January 1, 2011.

Prior to the adoption of ASU 2009-13, if a sales arrangement involves multiple deliverables, which are considered separate units of accounting in accordance with ASC subtopic 605-25 ("ASC 605-25"), *Revenue Recognition: Multiple-Element Arrangements*, the total revenue on such arrangement is allocated to the individual deliverables based on their relative fair values. If sufficient vendor-specific objective evidence of fair value ("VSOE") does not exist for the allocation of revenue, the fee for the entire arrangement is recognized ratably over the term of the arrangement or upon the delivery of the last deliverable, when other revenue recognition criteria have been met.

## [Table of Contents](#)

In accordance with ASU 2009-13, certain delivered items in multiple-element arrangements, which previously would not qualify for separate units of accounting due to the lack of VSOE or Third-Party Evidence (“TPE”) of selling price, are accounted for as separate units of accounting, to which the total consideration of the arrangements is allocated based on management’s best estimate of the selling price (“BESP”). We consider all reasonably available information in determining the BESP, including both market and entity-specific factors. The adoption of ASU 2009-13 does not have a material effect on our financial statements, and the pattern and timing of revenue recognition is not changed materially.

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

We provide sales incentives to customers to entitle customers to receive reductions in the price of the online marketing services by meeting certain cumulative consumption requirements. We accounts for these award credits granted to members in conjunction with a current sale of products or services as a multiple-element arrangement by analogizing to ASC 605-25 with adoption of ASU 2009-13. The consideration allocated to the award credits, as deferred revenue, is based on an assumption that the customer will purchase the minimum amount of future service necessary to obtain the maximum award credits available. The deferred revenue is recognized as revenue proportionately as the future services are delivered to the customer or when the award credits expire.

Cash received in advance from customers is recorded as customer advances and deposits. The unused cash balances remaining in customers’ accounts are included as a liability of us. Deferred revenue is recorded when services are provided before the other revenue recognition criteria set forth in ASC 605-10 are fulfilled.

We operate an online game platform, on which registered users could access games provided by online-game developers. The rights and obligations of each party to the arrangement indicate that we are acting as an agent whereas the online-game developer is the principal as a result of being the primary obligor in the arrangement. We recognize the shared revenue on a net basis, based on the ratios pre-determined with the online game developers when all the revenue recognition criteria set forth in ASC 605-10 are met, which is generally when the user purchases virtual currencies issued by the game developers through our payment channel. The amount of revenues recognized was not significant in each of the years presented.

### **Share-based Compensation**

We account for share-based compensation in accordance with ASC subtopic 718-10, or ASC 718-10, *Compensation-Stock Compensation: Overall*. Under the provisions of ASC 718-10, share-based compensation cost is estimated at the grant date based on the award’s fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility and expected option life. Volatility is measured using historical daily price changes of our ADSs over the respective expected life of the option. Expected option life is the number of years that we estimate, based on the vesting and contractual terms and employee demographics. If any of the assumptions used in the BSM model change significantly, share-based compensation expenses may differ materially in the future from that recorded in the current period.

In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. Further, to the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly.

## [Table of Contents](#)

### **Income Taxes**

We are subject to income taxes in the PRC and Japan. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes.

ASC subtopic 740-10 or ASC 740-10, *Income Taxes: Overall*, contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

We make assumptions, judgments and estimates in the recognition and measurement of a tax position taken or expected to be taken in a tax return. These judgments, assumptions and estimates take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts of unrecognized, uncertain tax positions, if any, provided or to be provided for in our consolidated financial statements. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. In general, PRC and Japanese tax authorities have up to five and seven years, respectively, to conduct examination on our tax filings. Accordingly, our PRC subsidiaries' and affiliated entities' tax filings for the tax years 2007 to 2011 and our Japanese subsidiary's tax filings for the tax years 2007 to 2011 remain open to examination by the respective taxing jurisdictions.

Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations. Actual results of operations and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, and thus materially impact our financial position and results of operations. We do not believe that net deferred tax assets associated with our Japan operations are more likely than not to be realized. Consequently, we have provided full valuation allowances on the related net deferred tax assets. For reconciliation of tax computed by applying the respective statutory income tax rate to pre-tax income, please see "Income taxes" under Note 11 to our audited consolidated financial statements.

### **Allowance for Doubtful Accounts**

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

We maintain allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. We review the accounts receivable on a periodic basis and make general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, the customer's past payment history, its current credit-worthiness and current economic trends. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, or if the operators decide not to pay us, additional allowances may be required which could materially impact our financial position and results of operations.

### ***Impairment of Long-Lived Assets***

We evaluate long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC subtopic 360-10, *Property, Plant and Equipment: Overall*. We assess the recoverability of an asset group based on the undiscounted future cash flows the asset group is expected to generate and recognize an impairment loss when the estimated undiscounted future cash flows expected to result from the use of the asset group plus net proceeds expected from the disposition of the asset group, if any, are less than the carrying value of the asset group. If we identify an impairment, we reduce the carrying amount of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We use estimates and judgments in our impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. The impairment charges of long-lived assets are nil, nil and RMB5.5 million (US\$0.9 million) for 2009, 2010 and 2011, respectively.

### ***Impairment of Indefinite-Lived Intangible Assets***

We assess indefinite-lived intangible assets for impairment in accordance with ASC subtopic 350-20, or ASC 350-20, *Intangibles-Goodwill and Other: Goodwill*, which require an intangible asset that is not subject to amortization, shall be tested for impairment at least annually and more frequently upon the occurrence of certain events, as defined by ASC 360-10. Intangible assets with an indefinite useful life are not amortized. In accordance with this policy, one of the domain name assets, which was acquired in July 2006, one license acquired in November 2011 and the “Baidu” trademark are not subject to amortization, as the remaining useful life is indefinite.

We perform impairment assessment on intangible assets with indefinite lives on December 31 in each of the 2009, 2010 and 2011 fiscal years or when events or changes in circumstance indicate that assets might be impaired using the one-step process required by ASC 360-10. We compare the fair value of an intangible asset with its carrying amount, if the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates and market price. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets. Market prices are based on potential purchase quotes from third party. The impairment charges of indefinite-lived intangible assets are nil, nil and RMB2.5 million (US\$0.4 million) for 2009, 2010 and 2011, respectively.

### ***Impairment of Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. We assess goodwill for impairment in accordance with ASC subtopic 350-20, or ASC 350-20, *Intangibles — Goodwill and Other: Goodwill*, which requires that goodwill be tested for impairment at the “reporting unit level” at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

Prior to the acquisition of Qunar, we had one reporting unit because no discrete financial information was available below the consolidated level. Subsequent to the acquisition of Qunar, there are segment managers who regularly review operating results of Qunar and the rest of us, which constitute two separate reporting units. Goodwill was tested for impairment in the annual impairment tests on December 31 in each year using two-step process required by ASC 350-20.

We early adopted ASU No. 2011-08 (“ASU 2011-08”), *Intangibles—Goodwill and Other* (“ASC 350”), in the fourth quarter of 2011 and elected to perform a qualitative assessment on the reporting unit other than Qunar

## [Table of Contents](#)

to determine whether further impairment testing on goodwill was necessary. We first assess the qualitative factors to determine whether it is necessary to perform the current two-step test. After assessing the totality of events or circumstances such as those described in ASC 350-20, as well as evaluating, on the basis of the weight of evidence, the significance of all identified events and circumstances, we determine that it is not more likely than not that the fair value of a reporting unit other than Qunar is less than its carrying amount, then the further two steps of the goodwill impairment test are unnecessary. In addition, the goodwill of the reporting unit of Qunar, which was acquired in 2011, was tested for impairment in the annual impairment test on December 31, 2011, using the two-step process required by ASC 350-20. First, we reviewed the carrying amount of the reporting unit of Qunar compared to the “fair value” of the reporting unit estimated based on significant inputs that are not observable in the market. If such comparison reflected potential impairment, we would then prepare the discounted cash flow analysis. Such analysis is based on cash flow assumptions that are consistent with the plans and estimates being used to manage the business. Cash flow assumptions include estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for the reporting unit. An excess of the carrying value of the goodwill over the fair value of the goodwill would indicate that the goodwill may be impaired. Finally, if we determined that goodwill may be impaired, the “implied fair value” of the goodwill, as defined by ASC 350-20, would be compared to its carrying amount to determine the impairment loss, if any. The fair value of the reporting unit of Qunar significantly exceeded its carrying amount, thus, goodwill assigned to this reporting unit was not impaired and we were not required to perform further testing. As a result of the above analysis, the two reporting units are considered not impaired as of December 31, 2011.

The impairment loss recognized in 2011 was related to goodwill resulting from an insignificant business combination made in 2011, the underlying business of which was never integrated into our business after its acquisition. Due to a significant decline in the popularity and performance of the acquired business and failure to achieve its expected market share, we plan to abandon this acquired business, although certain assets were still in limited use as at December 31, 2011. Hence, an impairment charge was made for the entire amount of goodwill relating to the business acquired. The impairment charges of goodwill are nil, nil and RMB113.0 million (US\$18.0 million) for 2009, 2010 and 2011, respectively.

### ***Impairment of Long-term Investments***

Our long-term investments consist of cost method investments and equity method investments. Our long-term investments primarily focus on the privately-held companies.

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

The fair value determination, particularly for investments in privately-held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and the determination of whether any identified impairment is other-than-temporary. If impairment is considered other-than-temporary, we will write down the asset to its fair value and take the corresponding charge to the consolidated financial statements. The impairment charges of long-term investments are nil, nil and RMB47.9 million (US\$7.6 million) for 2009, 2010 and 2011, respectively.

### **Business Combination**

We account for business combination using the acquisition method of accounting in accordance with ASC subtopic 805 or ASC 805: *Business Combinations*, and allocate the cost of acquired companies to the tangible and intangible assets acquired, liabilities assumed and any noncontrolling interest based upon their estimated fair value at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred as well as the contingent considerations and all contractual contingencies as of the acquisition date. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of comprehensive income. We account for acquisition-related costs as expenses in the periods in which the costs are incurred.

In determining the fair value of assets acquired and liabilities assumed in a business combination, we primarily use recognized valuation methods such as an income approach or a cost approach and apply present value techniques. Our significant estimates in the income or cost approach include identifying business factor such as size, growth, profitability, risk and ROI and assessing comparable revenue and operating income multiples in estimating the fair value. Further, we make certain assumptions within present value techniques including discount rate adjustments techniques and expected cash flow techniques. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured and the availability of sufficient data. We make estimates and judgments in determining the fair value of the acquired assets, liabilities and any noncontrolling interest based on independent appraisal reports as well as its experience with similar assets and liabilities in similar industries. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material. Further changes in our assumptions or the interrelationship of those assumptions may adversely or negatively impact future valuations. In future measurements of fair value, adverse changes in discounted cash flow assumptions could result in an impairment of goodwill or intangible assets that would require a non-cash charge to the consolidated statements of operations.

### **Recent Accounting Pronouncements**

In May 2011, the FASB issued ASU No.2011-04 (“ASU 2011-04”), *Fair Value Measurement* (“ASC 820”) which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. We will adopt ASU 2011-04 beginning January 1, 2012 and do not expect the adoption will have a material impact on our consolidated financial statements and disclosures.

In June 2011, the FASB issued ASU No. 2011-05 (“ASU 2011-05”), *Comprehensive Income* (Topic 220), *Presentation of Comprehensive Income*, which eliminates the current option to report other comprehensive income (“OCI”) and its components in the statements of shareholders’ equity. Instead, an entity will be required to present items of net income and OCI in one continuous statement or in two separate, but consecutive, statements. In December 2011, the FASB issued ASU No. 2011-12 (“ASU 2011-12”), *Comprehensive Income* (Topic 220), *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This ASU defers the ASU 2011-05 requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements and the requirement to report reclassification adjustments in interim periods. The amendments in ASU 2011-05 and ASU 2011-12 should be applied retrospectively and are effective for fiscal years and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We early adopted ASU 2011-05 in the year ended

## [Table of Contents](#)

December 31, 2011 by presenting items of net income and OCI in one continuous statement, Consolidated Statements of Comprehensive Income. Comparative information in the prior years has been rearranged to conform to the presentation in accordance with ASU 2011-05.

In September 2011, the FASB issued ASU 2011-08, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We early adopted ASU 2011-08 in the fourth quarter of 2011 and elect to perform a qualitative assessment on one of the two reporting unit to determine whether further impairment testing on goodwill was necessary.

### **B. Liquidity and Capital Resources**

Our principal sources of liquidity are our cash, cash equivalents and short-term investments, which comprise fixed-rate and adjustable-rate investments maturing within one year, as well as the cash flow generated from our operations. We believe that our current cash, cash equivalents, short-term investments and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks.

Furthermore, cash transfers from our PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may affect the value of your investment.”

In October 2010, we entered into a long-term credit arrangement with the Export-Import Bank of China with a credit facility of RMB140.0 million (US\$22.2 million) to finance some of government-sponsored research projects, at the initial annual interest rate of 5.60%, which is to be adjusted quarterly referencing to the People’s Bank of China’s benchmark rate over the same period. The government would provide a cash subsidy at the amount that approximates the interest of the loan. As of December 31, 2011, we had an outstanding balance of RMB140.0 million (US\$22.2 million), among which RMB46.0 million (US\$7.3 million) and RMB94.0 million (US\$14.9 million) will be due within 2012 and 2013, respectively.

In January 2011, we entered into a short-term loan arrangement with Bank of China (Macau Branch) with a credit facility of US\$30.0 million for general corporate purposes. We had drawn down US\$20.0 million as of December 31, 2011, with a floating interest rate of LIBOR plus 1.5% per annum and a maturity term of 12 months, which was secured by the pledge of the Letter of Credit issued by Bank of China (Beijing Branch) to Baidu Online.

Additionally, in July 2011, we entered into a two-year unsecured loan arrangement with Goldman Sachs Lending Partners LLC of US\$350.0 million, at an annual interest rate of 1.30%. The loan was used to acquire Qunar’s ordinary shares and recorded as long-term debt. The loan will be due in July 2013.

As of December 31, 2011, we had RMB125.9 million (US\$20.0 million) and RMB2.3 billion (US\$369.2 million) in short-term loan and long-term loans, respectively.

## [Table of Contents](#)

### Cash Flows and Working Capital

As of December 31, 2009, 2010 and 2011, we had RMB4.6 billion, RMB8.2 billion and RMB14.2 billion (US\$2.3 billion) in cash, cash equivalents and short-term investments.

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

	For the Years Ended December 31,			
	2009	2010	2011	
	RMB	RMB	RMB	US\$
	(In thousands)			
Net cash generated from operating activities	2,264,484	4,700,481	8,178,819	1,299,483
Net cash used in investing activities	(536,069)	(1,217,522)	(14,250,529)	(2,264,181)
Net cash generated from financing activities	95,093	124,751	2,425,810	385,422
Effect of exchange rate changes on cash	(741)	(6,110)	(8,594)	(1,364)
Net increase (decrease) in cash and cash equivalents	1,822,767	3,601,600	(3,654,494)	(580,640)
Cash and cash equivalents at beginning of the period	2,357,609	4,180,376	7,781,976	1,236,431
Cash and cash equivalents at end of the period	4,180,376	7,781,976	4,127,482	655,791

#### Operating Activities

Net cash generated from operating activities increased to RMB8.2 billion (US\$1.3 billion) in 2011 from RMB4.7 billion in 2010. This increase was mainly attributable to several factors, including (i) the substantial increase in net income to RMB6.6 billion (US\$1.1 billion) in 2011 from RMB3.5 billion in 2010; (ii) the increase in add-back of non-cash expenses, mainly consisting of depreciation expenses, amortization of intangible assets and loss from equity method investments; and (iii) the increases in customer advance and accounts payable.

Net cash generated from operating activities increased to RMB4.7 billion in 2010 from RMB2.3 billion in 2009. This increase was mainly attributable to several factors, including (i) the substantial increase in net income to RMB3.5 billion in 2010 from RMB1.5 billion in 2009; (ii) the increase in add-back of non-cash expenses, mainly consisting of depreciation expenses; and (iii) the increases in customer advance, deferred revenues and accounts payable.

#### Investing Activities

Net cash used in investing activities increased from RMB1.2 billion in 2010 to RMB14.3 billion (US\$2.3 billion) in 2011, primarily due to purchase of short-term investments, the acquisition of fixed assets, long-term investments and acquisitions of certain businesses. The net cash outflow in the purchases and sales and maturities of short-term investments in 2011 was RMB9.5 billion (US\$1.5 billion).

Net cash used in investing activities increased from RMB536.1 million in 2009 to RMB1.2 billion in 2010, primarily due to the acquisition of fixed assets and long-term investments.

#### Financing Activities

Net cash flow generated from financing activities was RMB2.4 billion (US\$385.4 million) in 2011, compared to a net cash flow of RMB124.8 million generated from financing activities in 2010, primarily due to the increase in proceeds from the short-term loan and the unsecured long-term debt incurred in 2011.



## [Table of Contents](#)

Net cash flow generated from financing activities was RMB124.8 million in 2010, compared to a net cash flow of RMB95.1 million generated from financing activities in 2009, primarily due to the increase in proceeds from the long-term lines of credit.

### ***Holding Company Structure***

We are a holding company with no operations of our own. We conduct our operations in China primarily through our indirect wholly owned subsidiaries and our consolidated affiliated entities in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our PRC subsidiaries and license and service fees paid by our PRC consolidated affiliated entities. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to us. In addition, our PRC subsidiaries and consolidated affiliated entities are required to set aside certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies.

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

Our consolidated affiliated entities must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of our consolidated affiliated entities is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of the after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the amended PRC Company Law, appropriation to the statutory public welfare fund is no longer mandatory. Appropriations to the discretionary surplus fund are made at the discretion of our consolidated affiliated entities.

Under PRC laws and regulations, our PRC subsidiaries and consolidated affiliated entities are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. The amounts restricted include the paid up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of our consolidated affiliated entities in which we have no legal ownership, totaling approximately RMB879.4 million, RMB1.2 billion and RMB1.2 billion (US\$193.6 million) as of December 31, 2009, 2010 and 2011, respectively.

Furthermore, cash transfers from our PRC subsidiaries to our subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may affect the value of your investment.”

### **Capital Expenditures**

We made capital expenditures of RMB399.3 million, RMB895.3 million and RMB1.8 billion (US\$280.0 million) in 2009, 2010 and 2011, respectively, representing 9.0%, 11.3% and 12.2% of our total revenues, respectively. In 2011, our capital expenditures were used primarily to purchase servers, network equipment and other computer hardware for our business. We funded our capital expenditures primarily with net cash flow generated from operating activities.

## [Table of Contents](#)

We completed the construction and renovation of our new corporate headquarters, Baidu Campus, in 2009, and moved into the new building in November 2009. Our capital expenditures in connection with the construction and renovation of Baidu Campus, were RMB209.2 million in 2009, RMB38.7 million in 2010 and RMB1.6 million (US\$0.3 million) in 2011, excluding the payment for the land use right.

In December 2011, we commenced construction of an office complex in Shenzhen, which will serve as our international center in Southern China. We have paid RMB125.7 million (US\$20.0 million) for the land use right. We expect to complete the planned construction at the end of 2015.

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

### **C. Research and Development**

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

In each of the three years ended December 31, 2009, 2010 and 2011, our research and development expenditures, including share-based compensation expenses for research and development staff, were RMB422.6 million, RMB718.0 million and RMB1.3 billion (US\$212.0 million), representing 9.5%, 9.1% and 9.2% of our total revenues for 2009, 2010 and 2011, respectively. Our research and development expenses consist primarily of personnel-related costs. We have expensed substantially all of the development costs for the research and development of products and new functionality as incurred, except for certain internal-use software.

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2011 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

### **E. Off-Balance Sheet Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any off-balance sheet derivative instruments. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**F. Contractual Obligations**

The following table sets forth our contractual obligations by specified categories as of December 31, 2011.

	Payment Due by Period				More Than 5 Years
	Total	Less Than 1 Year	1-3 Years	3-5 Years	
	(In RMB thousands)				
Long-Term Debt Obligations <sup>(1)</sup>	2,405,865	77,664	2,328,201	—	—
Capital Lease Obligations <sup>(2)</sup>	53,154	20,603	28,845	3,706	—
Operating Lease Obligations <sup>(3)</sup>	1,497,962	498,853	622,659	328,815	47,635
Purchase Obligations <sup>(4)</sup>	665,891	665,891	—	—	—
<b>Total</b>	<b>4,622,872</b>	<b>1,263,011</b>	<b>2,979,705</b>	<b>332,521</b>	<b>47,635</b>

- (1) The long-term debt obligations represent a loan from the Export-Import Bank of China and a two-year unsecured loan from Goldman Sachs Lending Partners LLC. The total interest to be paid for the two loans is RMB12.6 million (US\$2.0 million) and RMB50.4 million (US\$8.0 million), respectively. Please see "Loans Payable" under Note 10 to our audited consolidated financial statements.
- (2) Capital lease obligations represent our obligations for leasing servers, and the total amount of interest to be paid is RMB5.3 million (US\$0.8 million).
- (3) Operating lease obligations represent our obligations for leasing premises and bandwidth.
- (4) Purchase obligations consist primarily of expenditures on the construction of our office building and computer equipments for our own data centers, and the consideration to be paid for business combinations.

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

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

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

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Robin Yanhong Li	43	Chairman and Chief Executive Officer
Jennifer Li	44	Chief Financial Officer
William I. Chang *	48	Chief Scientist
William Decker	65	Independent Director
James Ding	46	Independent Director
Nobuyuki Idei	74	Independent Director
Greg Penner	42	Independent Director

\* Mr. William I. Chang has resigned from the position as our chief scientist, effective on March 31, 2012.

Robin Yanhong Li is co-founder, chairman and chief executive officer of our company, and oversees our overall strategy and business operations. Mr. Li has been serving as 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. Mr. Li currently serves as an independent director and chairman of the compensation committee of New Oriental Education & Technology Group Inc., a NYSE-listed company that provides private educational services in China. Mr. Li also acts as the vice chairman of the Internet Society of China (ISC). Mr. Li received a bachelor's degree in information science from Peking University in China and a master's degree in computer science from the State University of New York at Buffalo.

Jennifer Li has served as our chief financial officer since March 2008. Ms. Li is in charge of our finance and accounting, human resources, marketing and communications, purchasing, corporate development and certain other areas. Ms. Li has extensive experience in U.S. GAAP reporting and in developing and leading finance and accounting teams before she joined us. Prior to joining our company, Ms. Li served as controller of General Motors Acceptance Corporation (GMAC)'s North American Operations from 2005 to 2008. Prior to GMAC, Ms. Li worked at General Motors China, where she was responsible for overseeing finance functions of General Motors' wholly owned and joint venture businesses in China from 2001 to 2004, with the last post as its chief financial officer. From 1994 to 2001, she held several other finance positions at General Motors in Canada, the United States and Singapore. Ms. Li has been serving as a director of Philip Morris International, Inc. since May 2010. Ms. Li has been recognized by the Wall Street Journal, the Financial Times and Forbes as one of "Asia's Most Watched Women" and one of the "Top 50 Women in the World to Watch." Ms. Li holds an M.B.A. degree from the University of British Columbia in Vancouver, B.C., Canada and a bachelor of arts degree from Tsinghua University in China.

William I. Chang served as our chief scientist from January 2007 to March 2012. Dr. Chang is a recognized expert in search technology, online community and advertising business models. From 2001 to January 2007, he served as chairman, president and chief executive officer of Affini, Inc., a search technology and software company he founded. Since January 2007, he has served as chairman of Affini, Inc. From 2000 to 2001, Dr. Chang served as chief technology officer at Sentius Corporation, a hypertext software company, where he created a contextual advertising product. From 1998 to 1999, Dr. Chang served as vice president of Go Network. From 1997 to 1998, he was the chief technology officer of Infoseek, where he created the Infoseek natural language search engine for both the Internet search and enterprise applications. From 1991 to 1995, Dr. Chang worked as a postdoctoral fellow and associate staff researcher with the Cold Spring Harbor Laboratory, where he

## [Table of Contents](#)

mapped a genome and invented a protein sequence search methodology. Dr. Chang received a bachelor degree in mathematics from Harvard University and a Ph.D. in computer science from the University of California, Berkeley.

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

*James Ding* has served as our independent director since our initial public offering in August 2005. Mr. Ding has served as a co-chairman of the board of directors of AsiaInfo-Linkage Inc., a NASDAQ-listed company, since AsiaInfo Holdings, Inc., or AsiaInfo, merged with Linkage Technologies International Holdings Limited in July 2010. Prior to that, Mr. Ding served as the chairman of the board of AsiaInfo between April 2003 and July 2010, and a member of the board since AsiaInfo's inception in 1993. Mr. Ding served as the chief executive officer and president of AsiaInfo from 1999 to 2003 and as senior vice president and chief technology officer of AsiaInfo from 1993 to 1999. Mr. Ding is currently a general partner and managing director of GSR Ventures, an early stage venture fund focusing on technology, media and telecom investment in China. Mr. Ding also serves as a director of NetQin Mobile Inc., a leading NYSE-listed SaaS provider of consumer-centric mobile Internet services focusing on security and productivity. Mr. Ding received a master's degree in information science from the University of California, Los Angeles and a bachelor's degree in chemistry from Peking University in China.

*Nobuyuki Idei* has served as our independent director since June 2007. Being an experienced director, Mr. Idei currently also serves as chairman of the Advisory Board of Sony Corporation, director of Accenture, director of FreeBit Co, Ltd., director of Lenovo Group and chairman of the National Conference on Fostering Beautiful Forests in Japan. Mr. Idei is founder and chief executive officer of Quantum Leaps Corporation, a specialist consultancy that advises private and public institutions on the changing role of technology in the 21st century. From 2000 to 2005, Mr. Idei was chairman and chief executive officer of Sony Corporation. Prior to that, Mr. Idei held a range of leadership positions at Sony including general manager of the audio division, senior general manager of the home video group, and president and representative director. Mr. Idei has also served in a number of other advisory positions including as counselor to the Bank of Japan, member of Japan's national IT Strategy Council, and as vice chairman of Nippon Keidanren. Mr. Idei received a bachelor of science degree in economics and politics from Waseda University in Tokyo.

*Greg Penner* has served as our director since July 2004. Mr. Penner is a general partner at Madrone Capital Partners, an investment management firm based in Menlo Park, California. From 2002 to 2004, Mr. Penner was the senior vice president and chief financial officer of Wal-Mart Japan. From 2000 to 2002, Mr. Penner was senior vice president of finance and strategy for Walmart.com. From 1997 to 2000, Mr. Penner was a general partner at Peninsula Capital, an early stage venture capital fund. Previously, Mr. Penner worked in strategic planning at Wal-Mart Stores, Inc. and corporate finance at Goldman, Sachs & Co. Mr. Penner also serves as a director of Wal-Mart Stores, Inc., Hyatt Hotels Corporation and 99Bill Corporation. He is also a director of The Charter Growth Fund and sits on the board of Teach for America. Mr. Penner received a bachelor's degree in international economics from the School of Foreign Service at Georgetown University and an M.B.A. degree from the Stanford Graduate School of Business.

**B. Compensation**

In 2011, we paid an aggregate of approximately RMB9.7 million (US\$1.5 million) in cash compensation and granted options to purchase an aggregate of 6,064 Class A ordinary shares and 1,188 restricted Class A ordinary shares to our executive officers as a group. We also paid an aggregate of approximately RMB0.9 million (US\$0.1 million) in cash compensation to our non-executive directors as a group. We did not grant any options or restricted Class A ordinary shares to our non-executive directors in 2011. Our PRC subsidiaries and consolidated affiliated entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned statutory contributions mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company except as required under applicable PRC law.

Our board of directors and shareholders approved the issuance of up to 5,040,000 ordinary shares upon exercise of awards granted under our 2000 option plan. Our 2000 option plan terminated in January 2010 upon the expiration of its ten-year term. As of December 31, 2011, an aggregate of 41,358 Class A ordinary shares were issuable upon exercise of outstanding awards granted under our 2000 option plan. At the annual general meeting held on December 16, 2008, our shareholders approved a new 2008 share incentive plan, which has reserved an additional 3,428,777 Class A ordinary shares for awards to be granted pursuant to its terms. As of December 31, 2011, options to purchase an aggregate of 31,218 Class A ordinary shares and an aggregate of 69,288 restricted shares of Class A ordinary shares had been granted under the 2008 share incentive plan.

The following table summarizes, as of December 31, 2011, the outstanding options and restricted shares that we granted to our current directors and executive officers and to other individuals as a group under our 2000 option plan and 2008 share incentive plan.

Name	Ordinary Shares Underlying Outstanding Options	Exercise Price (US\$/Share)	Grant Date	Expiration Date
Robin Yanhong Li	20,000	133.86	February 11, 2009	February 11, 2014
	4,247	1,058.90	January 25, 2011	January 24, 2016
	59 <sup>(1)</sup>	—	January 27, 2010	N/A
	832 <sup>(1)</sup>	—	January 25, 2011	N/A
Jennifer Li	*	133.86	February 11, 2009	February 11, 2014
	*	424.36	January 27, 2010	January 26, 2015
	*	1,058.90	January 25, 2011	January 24, 2016
	* <sup>(1)</sup>	—	January 27, 2010	N/A
	* <sup>(1)</sup>	—	January 25, 2011	N/A
William I. Chang	*	1,058.90	January 25, 2011	January 24, 2016
	* <sup>(1)</sup>	—	January 25, 2011	N/A
William Decker	* <sup>(1)</sup>	—	January 27, 2010	N/A
James Ding	<sup>(1)</sup>	—	January 27, 2010	N/A
Nobuyuki Idei	*	183.23	January 10, 2008	July 25, 2012
	* <sup>(1)</sup>	—	January 27, 2010	N/A
Greg Penner	* <sup>(1)</sup>	—	January 27, 2010	N/A
Other individuals as a group	79,637	—	—	—

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

(1) Restricted shares.

## [Table of Contents](#)

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

### **2000 Option Plan**

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

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

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

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

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

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

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

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

*Vesting Schedule.* In general, the plan administrator determines, or the award agreement specifies, the vesting schedule. Options generally vest over a four-year period beginning from one year after the grant date. The award agreements may provide that grantees may elect at any time during their employment or service to exercise any part or all of the awards prior to full vesting of the awards. But such early exercise may be subject to

## [Table of Contents](#)

a repurchase right as determined by the plan administrator. When an optionee's employment or service is terminated, the optionee may exercise his or her options that have vested as of the termination date within three months of termination or as determined by our plan administrator.

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

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

### **2008 Share Incentive Plan**

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

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

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

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

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

*Acceleration of Awards upon Corporate Transactions.* The outstanding awards will accelerate (i) upon occurrence of a change-of-control corporate transaction where any person acquires at least 50% of the total combined voting power of our outstanding securities or the incumbent board members no longer constitute at



## Table of Contents

least 50% of our board, or (ii) upon occurrence of any other change-of-control corporate transaction in which the successor entity does not assume our outstanding awards under our 2008 share incentive plan, provided that the plan participant remains an employee, consultant or member of our board of directors on the effective date of the corporate transaction. In such event, each outstanding award will become fully exercisable and all forfeiture restrictions on such award will lapse immediately prior to the specified effective date of the corporate transaction.

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

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

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

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

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

## **C. Board Practices**

### **Board of Directors**

Our board of directors has five directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money,

## [Table of Contents](#)

mortgage its undertakings, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. The remuneration to be paid to the directors is determined by the board of directors. There is no age limit requirement for directors.

### **Committees of the Board of Directors**

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

#### ***Audit Committee***

Our audit committee consists of William Decker, James Ding and Greg Penner, all of whom satisfy the “independence” requirements of Rule 5605(a)(2) of the NASDAQ Stock Market Rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Our board of directors has determined that Mr. Decker is an audit committee financial expert as defined in the instructions to Item 16A of the Form 20-F. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

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

In 2011, our audit committee held meetings or passed resolutions by unanimous written consent six times.

#### ***Compensation Committee***

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

- reviewing and approving executive compensation;
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans;
- determining our policy with respect to change of control or “parachute” payments; and
- managing and reviewing director and executive officer indemnification and insurance matters.

In 2011, our compensation committee passed resolutions by unanimous written consent five times.

## [Table of Contents](#)

### **Corporate Governance and Nominating Committee**

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

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

In 2011, our corporate governance and nominating committee passed resolutions by unanimous written consent once.

### **Terms of Directors and Executive Officers**

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

### **D. Employees**

We had 7,353, 10,887 and 16,082 employees as of December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, we had 841 employees in management and administration, 6,392 employees in research and development, 1,256 employees in operation and service, and 7,593 employees in sales and marketing. As of December 31, 2011, we had 10,829 employees in Beijing, 5,226 employees outside of Beijing but within China, and 27 employees outside of China. We also hire temporary employees and contractors from time to time. Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good. However, as our operations and employee base further expand, we cannot assure you that we will always be able to maintain good relations with all of our employees. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—We may not be able to manage our expanding operations effectively.”

### **E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our shares as of December 31, 2011 by:

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

## Table of Contents

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

Directors and Executive Officers:	Shares Beneficially Owned	
	Number <sup>(1)</sup>	% <sup>(2)</sup>
Robin Yanhong Li <sup>(3)</sup>	5,580,928	16.0%
Jennifer Li <sup>(4)</sup>	*	*
William I. Chang <sup>(5)</sup>	*	*
William Decker <sup>(6)</sup>	*	*
James Ding <sup>(7)</sup>	*	*
Nobuyuki Idei <sup>(8)</sup>	*	*
Greg Penner <sup>(9)</sup>	*	*
All Directors and Executive Officers as a Group <sup>(10)</sup>	5,908,278	16.9%
<b>Principal Shareholders:</b>		
Handsome Reward Limited <sup>(11)</sup>	5,490,000	15.7%
Baillie Gifford & Co (Scottish partnership) <sup>(12)</sup>	2,618,149	7.5%
T. Rowe Price Associates, Inc. <sup>(13)</sup>	2,423,182	6.9%

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

- (1) The number of shares beneficially owned by each named director and executive officer includes the shares beneficially owned by such person, the shares underlying all options held by such person that have vested or will vest within 60 days after December 31, 2011, and restricted shares held by such person that will vest within 60 days after December 31, 2011. The options and restricted shares were granted under our 2000 option plan or 2008 share incentive plan.
- (2) Percentage of beneficial ownership of each named director and executive officer is based on 34,914,117 ordinary shares (consisting of 27,111,117 Class A ordinary shares and 7,803,000 Class B ordinary shares) of our company outstanding as of December 31, 2011, the number of ordinary shares underlying options that have vested or will vest within 60 days after December 31, 2011, and the number of restricted shares that will vest within 60 days after December 31, 2011, each as held by such person as of that date.
- (3) Includes (i) 37,665 Class A Ordinary Shares directly held by Mr. Li on record; (ii) 35,249 Class A Ordinary Shares in the form of ADSs held in the brokerage account of the administrator of the issuer’s employee stock option program; (iii) 1,353 restricted Class A Ordinary Shares that have vested as of December 31, 2011; (iv) 16,151 Class A Ordinary Shares issuable upon exercise of options within 60 days after the date of December 31, 2011; (v) 510 Class A Ordinary Shares issuable upon vesting of restricted shares within 60 days after the date of December 31, 2011 and (vi) 5,490,000 Class B Ordinary Shares held by Handsome Reward Limited, a British Virgin Islands company wholly owned and controlled by Mr. Li, and excludes 1,676,667 Class B Ordinary Shares held by Melissa Ma, Mr. Li’s wife, of which Mr. Li disclaims beneficial ownership. The business address of Mr. Li is c/o Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (4) The business address of Ms. Li is c/o Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (5) The business address of Mr. Chang is c/o Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (6) The address of Mr. Decker is 24 Nordic Way, Saranac Lake, NY, 12983, U.S.A.
- (7) The business address of Mr. Ding is 4/F, Zhongdian Information Tower No. 6 Zhongguancun South Street, Haidian District, Beijing 100086, PRC.
- (8) The business address of Mr. Idei’s address is Tokyo Ginko Kyoukai Building 16F,1-3-1, Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan.
- (9) The business address of Mr. Penner is 3000 Sand Hill Road, Building 1, Suite 150, Menlo Park, California 94025, U.S.A.
- (10) Includes ordinary shares, ordinary shares issuable upon exercise of options and restricted shares, held by all of our directors and executive officers as a group.
- (11) Represents 5,490,000 Class B ordinary shares held by Handsome Reward Limited, a British Virgin Island company wholly owned and controlled by Mr. Robin Yanhong Li. The business address of Handsome Reward Limited is c/o Robin Yanhong Li, Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (12) Represents 2,618,149 Class A ordinary shares in the form of ADSs held by Baillie Gifford & Co (Scottish partnership), as reported on Schedule 13G filed by Baillie Gifford & Co (Scottish partnership) on January 17, 2012. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of December 31, 2011. The address of Baillie Gifford & Co (Scottish partnership) is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK.
- (13) Represents 2,423,182 Class A ordinary shares in the form of ADSs held by T. Rowe Price Associates, Inc., as reported on Schedule 13G filed by T. Rowe Price Associates, Inc. on February 14, 2012. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of December 31, 2011. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202, U.S.A.

## [Table of Contents](#)

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 issued Class A ordinary shares represented by our ADSs in our initial public offering in 2005. Holders of our Class B ordinary shares may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our ADSs—Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.”

As of December 31, 2011, 34,914,117 of our ordinary shares were issued and outstanding. To our knowledge, approximately 78.8% of our total outstanding ordinary shares were held by six record shareholders in the United States, including approximately 77.5% held by The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

### **Item 7. Major Shareholders and Related Party Transactions**

#### **A. Major Shareholders**

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

#### **B. Related Party Transactions**

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

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

As of December 31, 2009, 2010 and 2011, we had nil, RMB98.7 million and RMB249.7 million (US\$39.7 million) due from related parties. The amounts due from related parties primarily represent amounts in connection with advertising services provided and borrowings provided by us to our equity investees. The amounts due from our equity investees are unsecured and repayable on contract terms, which arose in the ordinary course of business. The amounts outstanding as of December 31, 2011 and March 29, 2012 were RMB249.7 million (US\$39.7 million) and RMB288.6 million (US\$45.8 million), respectively.

As of December 31, 2009, 2010 and 2011, we had nil, RMB95.7 million and RMB148.9 million (US\$23.7 million) due to related parties. The amounts due to related parties represent unsecured and interest free loans provided by our equity investees, which arose in the ordinary course of business. The amounts outstanding as of December 31, 2011 and March 29, 2012 were RMB148.9 million (US\$23.7 million) and RMB196.3 million (US\$31.2 million), respectively.

#### **Share Options and Restricted Shares Grants**

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

#### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

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

### **Legal Proceedings**

From time to time, we have been involved in litigation or other disputes regarding, among other things, copyright and trademark infringement, defamation, unfair competition and labor disputes. Our search results provide links to materials, and our Baidu Wenku, Baidu Post Bar, Baidu Knows, Baidu Space and other Baidu communities may contain materials, in which others may allege to own copyrights, trademarks or image rights or which others may claim to be defamatory or objectionable. We have received notice letters from third parties asserting copyright infringement, unfair competition, defamation, breach of contract and labor-related claims against us.

In March 2008, we received complaints filed by three record companies against us, alleging, among other things, that we have aided illegal online copying of music by providing links to pirated music. In January 2010, the First Intermediate People's Court of Beijing, in separately issued rulings, dismissed the complaints filed by the three record companies. Applying the Protection of the Right of Communication through Information Network, which was promulgated by the PRC State Council and became effective on July 1, 2006, the court held that the record companies' claims lacked factual and legal basis. The plaintiffs have filed appeals with the High People's Court of Beijing. In July 2011, in connection with our entry into a landmark agreement for the distribution of digital music with One-Stop China (OSC), a joint venture established by the three record companies, we also entered into a settlement agreement with them, which was endorsed by the Beijing High People's Court and ended the outstanding litigation between the three record companies and us.

In December 2009, the Haidian District People's Court in Beijing issued a ruling against us in a lawsuit filed by the Music Copyright Society of China. In the ruling, the court held that our display of certain song lyrics in response to users' search requests constituted infringement of the plaintiff's rights of communication through information network, and ordered us to pay for the plaintiff's damages and litigation related expenses. We appealed the court's ruling with the First Intermediate People's Court of Beijing. On July 19, 2010, the First Intermediate People's Court of Beijing ruled in the plaintiff's favor, and upheld the award for the plaintiff. See "Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—We may face intellectual property infringement claims and other related claims that could be time-consuming and costly to defend and may result in an adverse impact over our operations."

In January 2009, we received a complaint filed by a medical company alleging that we had violated the new PRC Anti-Monopoly Law by abusing our dominant market position to screen out the website of the medical company. In December 2009, the First Intermediate People's Court of Beijing issued a ruling dismissing all the claims made by the plaintiff. In the ruling, the court held, among other things, that the plaintiff's allegation that we have abused dominant market position as defined in the Anti-Monopoly Law lacks factual and legal support. The plaintiff filed an appeal with the High People's Court of Beijing. On July 9, 2010, the High People's Court of Beijing upheld the First Intermediate People's Court of Beijing's ruling in our favor. The plaintiff has not filed any further appeals. Because the Anti-Monopoly Law is still new, and there have been very few court rulings and no judicial or administrative interpretations on certain key concepts used in the law, there is no assurance that a court would reach the same conclusion in a similar case against us in the future.

In September 2011, three Chinese writers filed 16 complaints against us before the Haidian District People's Court in Beijing, alleging that our Baidu Wenku had infringed their copyrights to certain literary works. In December 2011, the plaintiffs withdrew their complaints. However, in January 2012, the writers re-filed their complaints for the same claims with the Haidian District People's Court in Beijing, seeking compensation in an

## [Table of Contents](#)

aggregate amount of RMB1.9 million (US\$0.3 million). The cases are currently pending before the Haidian District People's Court in Beijing.

As of December 31, 2011, we were involved in 84 cases pending in various PRC courts. The aggregate amount of compensation sought under these cases is approximately RMB17.3 million (US\$2.8 million).

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

### **Dividend Policy**

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

Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

### **B. Significant Changes**

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

## **Item 9. The Offer and Listing**

### **A. Offering and Listing Details**

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

## Table of Contents

The following table provides the high and low trading prices for our ADSs on NASDAQ for (1) the years 2007, 2008, 2009, 2010 and 2011, (2) each of the four quarters of 2010 and 2011, and (3) each of the past six full months. For ease of comparison, the ADS prices before May 12, 2010 have been retroactively adjusted to reflect the ADS to Class A ordinary share ratio change that took effect on May 12, 2010.

	Trading Price	
	High	Low
<b>Annual Highs and Lows</b>		
2007	42.92	9.28
2008	39.77	10.05
2009	44.33	10.50
2010	115.04	38.47
2011	165.96	97.58
<b>Quarterly Highs and Lows</b>		
First Quarter 2010	62.85	38.47
Second Quarter 2010	82.29	59.68
Third Quarter 2010	107.19	65.90
Fourth Quarter 2010	115.04	94.33
First Quarter 2011	138.53	97.58
Second Quarter 2011	156.04	114.14
Third Quarter 2011	165.96	100.95
Fourth Quarter 2011	147.68	102.00
<b>Monthly Highs and Lows</b>		
September 2011	150.46	100.95
October 2011	147.68	102.00
November 2011	144.94	118.00
December 2011	137.21	110.69
January 2012	132.25	117.17
February 2012	142.49	126.06
March 2012 (through March 28, 2012)	154.15	131.40

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

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

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.



## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

The following are summaries of material provisions of our third amended and restated memorandum and articles of association, as well as the Companies Law (2011 Revision) insofar as they relate to the material terms of our ordinary shares.

#### **Registered Office and Objects**

The Registered Office of our company is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2011 Revision), as amended from time to time, or any other law of the Cayman Islands.

#### **Board of Directors**

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

#### **Ordinary Shares**

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

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

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

**Voting Rights.** All of our shareholders have the right to receive notice of shareholders’ meetings and to attend, speak and vote at such meetings. In respect of matters requiring shareholders’ vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 10 votes. A shareholder may participate at a shareholders’ meeting in person, by proxy or by telephone conference or other communications

## [Table of Contents](#)

equipment by means of which all the shareholders participating in the meeting can communicate with each other. At any shareholders' meeting, a resolution put to the vote of the meeting shall be decided on a poll conducted by the chairman of the meeting.

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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

### **Preferred Shares**

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

### **C. Material Contracts**

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

### **D. Exchange Controls**

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

### **E. Taxation**

The following summary of the material Cayman Islands, People’s Republic of China and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

#### **Cayman Islands Taxation**

According to Maples and Calder, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in,

## [Table of Contents](#)

or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **People's Republic of China Taxation**

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

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

### **United States Federal Income Taxation**

The following discussion describes certain material United States federal income tax considerations under present law of the purchase, ownership and disposition of the ADSs or ordinary shares. This summary applies only to investors that are U.S. Holders (as defined below) and that hold the ADSs or ordinary shares as capital assets 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 Form 20-F and on United States Treasury regulations in effect or, in some cases, proposed, as of the date of this Form 20-F, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax considerations described below.

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

- banks;
- financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- regulated investment companies;
- certain expatriates or former long-term residents of the United States;
- governments or agencies or instrumentalities thereof;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting shares;

## [Table of Contents](#)

- estates and trusts;
- persons holding ADSs or ordinary shares through partnerships (including certain entities treated as partnerships for U.S. federal income tax purposes) or other pass-through entities; or
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as consideration.

**U.S. Holders are urged to consult their tax advisors about the application of the United States 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 will apply if you are a “U.S. Holder.” You are a “U.S. Holder” if you are the beneficial owner of ADSs or ordinary shares and you are, for United States federal income tax purposes,

- a citizen or individual resident of the United States;
- a corporation (or other entity subject to tax as a corporation for United States federal income tax purposes) that is created or organized in or under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to United States 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 United States persons or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

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

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, you will be treated as the holder of the underlying ordinary shares represented by those ADSs for United States federal income tax purposes.

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

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

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (computed under United States federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from U.S. corporations.

With respect to non-corporate U.S. Holders (including individual U.S. Holders) for taxable years beginning before January 1, 2013, dividends may be taxed at the lower applicable capital gains rate (“qualified dividend

## [Table of Contents](#)

income”) provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefit of the income tax treaty between the United States and the PRC, (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, (3) certain holding period requirements are met, and (4) such non-corporate U.S. Holders are not under an obligation to make related payments with respect to positions in substantially similar or related property. For this purpose, ADSs listed on the NASDAQ Global Market will generally be considered to be readily tradable on an established securities market in the United States. You should consult your tax advisor regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares, you may be able to obtain a reduced rate of PRC withholding taxes under the income tax treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. U.S. Holders should consult their own tax advisors regarding the creditability of any PRC tax. 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 ADSs or ordinary shares will 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 for United States federal income tax purposes. Therefore, a U.S. Holder should expect that a distribution will be reported 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 (in U.S. dollars) for the ADS or ordinary share and your tax basis (in U.S. dollars) in the ADS or ordinary share. The gain or loss will generally be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss (in the case of losses, subject to certain limitations). However, in the event we are deemed to be a Chinese “resident enterprise” under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat such gain as PRC source income. U.S. Holders should consult their own tax advisors regarding the creditability of any PRC tax.

### ***Passive Foreign Investment Company***

Based on the market value of our ADSs and ordinary shares, the composition of our assets and income and our operations, we believe that for our taxable year ended December 31, 2011, we were not a passive foreign investment company (“PFIC”) for United States federal income tax purposes. However, our PFIC status for the current taxable year ending December 31, 2012 will not be determinable until its close, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year (or any future taxable year). A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (the “income test”), or

## [Table of Contents](#)

- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the shares.

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

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

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for that taxable year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such taxable year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. If you make a valid mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. Such deductions, however, are allowable only to the extent of any net mark-to-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

## [Table of Contents](#)

ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make such a mark-to-market election, tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us (except that the lower applicable capital gains rate would not apply).

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

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

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

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 IRS and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Pursuant to the Hiring Incentives to Restore Employment Act enacted on March 18, 2010, in tax years beginning after the date of enactment, an individual U.S. Holder and certain entities may be required to submit to the IRS certain information with respect to his or her beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on his or her behalf by a U.S. financial institution. This new law also imposes penalties if an individual U.S. Holder is required to submit such information to the IRS and fails to do so.

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

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.



## **H. Documents on Display**

We previously filed with the SEC our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our ordinary shares.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year, which is December 31, for fiscal years ending on or after December 15, 2011. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

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

## **I. Subsidiary Information**

Not applicable.

## **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

### **Interest Rate Risk**

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

We had RMB10.1 billion (US\$1.6 billion) short-term investments as of December 31, 2011, with a weighted average duration of approximately 0.32 years. A hypothetical one percentage point (100 basis-point) increase in interest rates would have resulted in a decrease of approximately RMB31.2 million (US\$5.0 million) in the fair value of these short-term investments at December 31, 2011.

## Foreign Exchange Risk

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

The RMB appreciated by 4.6% against the U.S. dollar in 2011. A hypothetical 10% decrease in the exchange rate of the U.S. dollar against the RMB would have resulted in a decrease of RMB68.5 million (US\$10.9 million) in the value of our U.S. dollar-denominated financial assets at December 31, 2011.

## Item 12. Description of Securities Other than Equity Securities

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

## Fees and Charges Our ADS holders May Have to Pay

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

### Persons depositing or withdrawing shares must pay:

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

### 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

## [Table of Contents](#)

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### **Persons depositing or withdrawing shares must pay:**

US\$0.02 (or less) per ADS

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

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

Expenses of the depositary

Registration or transfer fees

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

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

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### **For:**

- Any cash distribution to registered ADS holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to registered ADS holders
- Depositary services
- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars
- Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
- As necessary
- As necessary

### **Fees and Other Payments Made by the Depositary to Us**

The depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. In February 2012, we received US\$3.9 million (after tax) reimbursement from the depositary for our expenses incurred in connection with investor relationship programs related to the ADS facility and the travel expense of our key personnel in connection with such programs.

## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

### Item 15. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

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

Based upon that evaluation, our management has concluded that, as of December 31, 2011, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

#### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Qunar Cayman Islands Limited, which is included in the 2011 consolidated financial statements of Baidu, Inc. and constituted RMB332.6 million (US\$52.8 million) and RMB121.7 million (US\$19.3 million) of total and net assets, respectively, as of December 31, 2011 and RMB147.1 million (US\$23.4 million) and RMB2.6 million (US\$0.4 million) of revenues and net income, respectively. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our independent registered public accounting firm, Ernst & Young Hua Ming, has audited the effectiveness of our internal control over financial reporting as of December 31, 2011, as stated in its report, which appears on page F-3 of this annual report on Form 20-F.

#### Changes in Internal Control over Financial Reporting

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

## [Table of Contents](#)

### **Item 16A. Audit Committee Financial Expert**

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

### **Item 16B. Code of Ethics**

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

### **Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming, our principal external auditors, for the periods indicated.

	<u>2010</u>	<u>2011</u>
Audit fees <sup>(1)</sup>	US\$1,082,121	US\$1,241,361
Audit-related fees	—	—
Tax fees <sup>(2)</sup>	US\$ 9,848	US\$ 10,327
All other fees	—	—

(1) "Audit fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements. In 2010 and 2011, the audit refers to integrated audit, including financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) "Tax fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice, and tax planning. In 2010 and 2011, the tax fees refer to fees paid to our principal auditors to review the compliance of our tax documentation.

All audit and non-audit services provided by our independent auditors must be pre-approved by our audit committee. Our audit committee has adopted a combination of two approaches in pre-approving proposed services: general pre-approval and specific pre-approval. With general approval, proposed services are pre-approved without consideration of specific case-by-case services; with specific approval, proposed services require the specific pre-approval of the audit committee. Unless a type of service has received general pre-approval, it will require specific pre-approval by our audit committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee.

All requests or applications for services to be provided by our independent auditors that do not require specific approval by our audit committee will be submitted to our chief financial officer and must include a detailed description of the services to be rendered. The chief financial officer will determine whether such services are included within the list of services that have received the general pre-approval of the audit committee. The audit committee will be informed on a timely basis of any such services. Requests or applications to provide services that require specific approval by our audit committee will be submitted to the audit committee by both our independent auditors and our chief financial officer and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

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[Table of Contents](#)

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

NASDAQ Stock Market Rule 5620 requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. However, NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters. Maples and Calder, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2011. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders' approvals.

Other than the annual meeting practice described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under NASDAQ Stock Market Rules.

**Item 16H. Mine Safety Disclosure**

Not applicable.

**PART III****Item 17. Financial Statements**

We have elected to provide financial statements pursuant to Item 18.

**Item 18. Financial Statements**

The consolidated financial statements of Baidu, Inc., its subsidiaries and its consolidated affiliated entities are included at the end of this annual report.

**Item 19. Exhibits**

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 99.2 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
2.1	Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 1 of the prospectus filed with the Securities and Exchange Commission on January 5, 2009 pursuant to Rule 424(b)(3) under the Securities Act)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 of Amendment No. 5 to our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on August 2, 2005)
2.3	Form of Deposit Agreement among the Registrant, the depository and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.1	Second Amended and Restated Shareholders Agreement, dated June 9, 2004, among the Registrant and other parties therein (incorporated by reference to Exhibit 4.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.2	2000 Option Plan (amended and restated effective December 16, 2008) (incorporated by reference to Exhibit 99.3 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
4.3	2008 Share Incentive Plan (incorporated by reference to Exhibit 99.4 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
4.4	Form of Indemnification Agreement with the Registrant's directors (incorporated by reference to Exhibit 10.3 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.5	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.6*	Translation of Exclusive Technology Consulting and Services Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom and the supplementary agreement dated April 22, 2010
4.7	Translation of Business Cooperation Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.3 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)

## [Table of Contents](#)

<u>Exhibit Number</u>	<u>Description of Document</u>
4.8	Translation of Operating Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.9	Translation of Software License Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.5 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.10	Translation of Trademark License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated January 18, 2005 (incorporated by reference to Exhibit 99.6 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.11	Translation of Domain Name License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 99.7 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.12	Translation of Web Layout Copyright License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 99.8 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.13	Translation of Proxy Agreement dated August 9, 2004 among Baidu Online, Baidu Netcom, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.9 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.14	Translation of Equity Pledge Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.10 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.15	Translation of Exclusive Equity Purchase Option Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.11 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.16*	Translation of Loan Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.12 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005) and the Supplementary Agreement among Baidu Online, Baidu Netcom, Robin Yanhong Li, Eric Yong Xu and Haoyu Shen dated January 11, 2011
4.17	Translation of Form of Irrevocable Powers of Attorney issued by the shareholders of Baidu Netcom (incorporated by reference to Exhibit 99.13 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.18	Translation of the form of Technology Consulting and Services Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.19 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.19	Translation of the form of Operating Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.20 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.20	Translation of the form of Web Layout Copyright License Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.21 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)



## [Table of Contents](#)

<u>Exhibit Number</u>	<u>Description of Document</u>
4.21	Translation of the form of Proxy Agreement among Baidu Online, a consolidated affiliated PRC entity and the shareholders of the consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.22 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.22	Translation of the form of Equity Pledge Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.23 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.23	Translation of the form of Exclusive Equity Purchase Option Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.24 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.24	Translation of the form of Loan Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.25 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.25*	Translation of the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement dated June 23, 2006 between Baidu Online and Beijing Perusal, dated as of April 22, 2010
4.26	Translation of the Operating Agreement dated June 23, 2006 between Baidu Online, Beijing Perusal, Jiping Liu and Yazhu Zhang and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.26 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.27	Translation of the Webpage Layout Copyright License Agreement dated June 23, 2006 between Baidu Online and Beijing Perusal (incorporated by reference to Exhibit 4.27 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.28	Translation of the Proxy Agreement dated June 23, 2006 among Jiping Liu, Yazhu Zhang and Baidu Online (incorporated by reference to Exhibit 4.28 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.29 *	Translation of the Amended and Restated Equity Pledge Agreements between Baidu Online and Yazhu Zhang, and between Baidu Online and Jiping Liu, both dated January 16, 2012
4.30 *	Translation of the Amended and Restated Equity Purchase Option Agreements between Baidu Online, Jiping Liu and Beijing Perusal, and between Baidu Online, Yazhu Zhang and Beijing Perusal, both dated January 16, 2012
4.31	Translation of Irrevocable Powers of Attorney issued by Jiping Liu and Yazhu Zhang, the shareholders of Beijing Perusal, both dated June 23, 2006 (incorporated by reference to Exhibit 4.31 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.32 *	Translation of the Amended and Restated Loan Agreements between Baidu Online and Jiping Liu and between Baidu Online and Yazhu Zhang, both dated January 16, 2012
4.33	Translation of the Technology Consulting and Services Agreement dated February 28, 2008 between Baidu Online and BaiduPay and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.33 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.34	Translation of the Operating Agreement dated February 28, 2008 between Baidu Online, BaiduPay, Jun Yu and Beijing Netcom and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.34 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)

## [Table of Contents](#)

<u>Exhibit Number</u>	<u>Description of Document</u>
4.35	Translation of the Webpage Layout Copyright License Agreement dated February 28, 2008 between Baidu Online and BaiduPay (incorporated by reference to Exhibit 4.35 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.36	Translation of the Proxy Agreement between Hu Cai and Baidu Online, dated March 5, 2010 (incorporated by reference to Exhibit 4.36 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.37	Translation of the Equity Pledge Agreement between Baidu Online and Hu Cai, dated March 5, 2010 (incorporated by reference to Exhibit 4.37 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.38	Translation of the Exclusive Equity Purchase Option Agreement between Baidu Online, Hu Cai and BaiduPay, dated March 5, 2010 (incorporated by reference to Exhibit 4.38 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.39	Translation of Irrevocable Powers of Attorney issued by Hu Cai, the individual shareholder of BaiduPay, dated March 5, 2010 (incorporated by reference to Exhibit 4.39 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.40	Translation of the Loan Agreement between Baidu Online and Hu Cai, dated March 5, 2010 (incorporated by reference to Exhibit 4.40 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.41	Translation of the Technology Consulting and Services Agreement dated December 28, 2010 between Baidu HR and Baidu Online (incorporated by reference to Exhibit 4.41 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.42	Translation of the Operating Agreement dated December 28, 2010 between Baidu HR, Baidu Online and Robin Yanhong Li (incorporated by reference to Exhibit 4.42 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.43	Translation of the Proxy Agreement between Robin Yanhong Li and Baidu Online, dated December 28, 2010 (incorporated by reference to Exhibit 4.43 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.44	Translation of the Equity Pledge Agreement between Robin Yanhong Li and Baidu Online, dated December 28, 2010 (incorporated by reference to Exhibit 4.44 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.45	Translation of the Exclusive Equity Purchase Option Agreement between Baidu HR, Baidu Online and Robin Yanhong Li, dated December 28, 2010 (incorporated by reference to Exhibit 4.45 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.46	Translation of the Loan Agreement between Baidu Online and Robin Yanhong Li, dated December 28, 2010 (incorporated by reference to Exhibit 4.46 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.47	Translation of the Trademark Transfer Agreement between Baidu Online and Baidu Netcom, dated March 1, 2010 (incorporated by reference to Exhibit 4.47 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.48	Translation of the supplementary agreements, dated March 11, 2010 and April 22, 2010 to the Software License Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 4.48 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)

## Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
4.49	Translation of the supplementary agreements, dated March 1, 2010 and April 22, 2010 to the Trademark License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated January 18, 2005 (incorporated by reference to Exhibit 4.49 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.50	Translation of the supplementary agreement dated March 1, 2010 to the Web Layout Copyright License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 4.50 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.51	Translation of the supplementary agreement dated April 22, 2010 to the Operating Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 4.51 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.52	Translation of the supplementary agreement dated March 1, 2010 to the Domain Name License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 4.52 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.53	Translations of the supplementary agreement dated April 22, 2010 to the Exclusive Equity Purchase Option Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 4.53 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.54	Translation of the Baidu Pay-for-Performance Distributors Management Agreement between Baidu Online and Baidu Netcom, dated December 22, 2010 (incorporated by reference to Exhibit 4.54 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.55 *	Translation of the supplementary agreement by and among Baidu Online, Beijing Perusal, Jiping Liu and Yazhu Zhang dated September 6, 2011
4.56 *	Translation of the supplementary agreement to the Exclusive Technology Consulting and Services Agreement between Baidu HR and Baidu Online dated September 6, 2011
4.57 *	Translation of the supplementary agreement to the Operating Agreement by and among Baidu Online, Robin Yanhong Li, Badu HR and Baidu Netcom dated September 6, 2011
4.58 *	Translation of the Termination Agreement to the Proxy Agreement between Robin Yanhong Li and Baidu Online dated September 6, 2011
4.59 *	Translation of the Proxy Agreement among Baidu Netcom, Baidu Online and Baidu HR dated September 6, 2011
4.60 *	Translation of the supplementary agreement to the Equity Pledge Agreement by and among Robin Yanhong Li, Baidu Netcom and Baidu Online dated September 6, 2011
4.61 *	Translation of the supplementary agreement to the Equity Pledge Agreement between Baidu Netcom and Baidu Online dated September 6, 2011
4.62 *	Translation of the supplementary agreement to the Exclusive Equity Purchase Option Agreement by and among Baidu Online, Robin Yanhong Li, Baidu HR and Baidu Netcom dated September 6, 2011

## Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
4.63 *	Translation of Loan Agreement dated February 10, 2006 between Baidu Online and Robin Yanhong Li
4.64 *	Translation of Loan Agreement dated March 6, 2008 between Baidu Online and Robin Yanhong Li
4.65 *	Translation of the supplementary agreement to the Loan Agreement by and among Robin Yanhong Li, Baidu Netcom and Baidu Online dated September 6, 2011
4.66 *	Translation of the supplementary agreement by and among Baidu Online, Baidu HR and Baidu Netcom dated September 6, 2011
4.67 *	Translation of the supplementary agreement to the Trademark License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011
4.68 *	Translation of the supplementary agreement to the Software License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011
4.69 *	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011
4.70 *	Translation of the supplementary agreement to the Business Cooperation Agreement between Baidu Online and Baidu Netcom dated January 30, 2011
4.71 *	Translation of the supplementary agreement to the Domain Name License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011
4.72 *	Translation of the Supplementary Agreement to the Amended and Restated Loan Agreement by and among Baidu Online, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011
4.73 *	Translation of the Supplementary Agreement to the Amended and Restated Equity Pledge Agreement by and among Baidu Online, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011
4.74 *	Translation of the Equity Pledge Agreement between Baidu Online and Robin Yanhong Li dated December 1, 2011
4.75 *	Translation of the Supplementary Agreement by and among Baidu Online, Baidu Netcom, Robin Yanhong Li and Zhan Wang dated September 6, 2011
4.76*	Translation of the Supplementary Agreement to the Amended and Restated Equity Purchase Option Agreement and its Supplementary Agreement among Baidu Online, Robin Yanhong Li, Haoyu Shen, Baidu Netcom and Zhan Wang dated August 26, 2011
4.77*	Translation of the Supplementary Agreement to the Operating Agreement and its Supplementary Agreement among Baidu Online, Baidu Netcom, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011
4.78*	Translation of the Proxy Agreement among Robin Yanhong Li, Zhan Wang and Baidu Online dated August 26, 2011
4.79*	Translation of Supplementary Agreement among Baidu Online, BaiduPay, Baidu Netcom and Hu Cai dated September 6, 2011
4.80*	Translation of the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement between Baidu Online and BaiduPay dated September 6, 2011
4.81 *	Ordinary Shares Purchase Agreement between Qunar Cayman Islands Limited and Baidu Holdings Limited dated June 24, 2011.

## Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
4.82 *	Credit Facility Agreement by and among Baidu, Inc., Goldman Sachs (Asia) L.L.C. and The Bank of New York Mellon, Hong Kong Branch dated July 14, 2011
8.1*	List of Principal Subsidiaries and Consolidated Affiliated Entities
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.14 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of Ernst & Young Hua Ming
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL ***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

\*\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Baidu, Inc.

By: /s/ Robin Yanhong Li

Name: Robin Yanhong Li

Title: Chairman and Chief Executive Officer

Date: March 29, 2012

[Table of Contents](#)

BAIDU, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page(s)</u>
<a href="#">Reports of Independent Registered Public Accounting Firm</a>	F-2 -F-3
<a href="#">Consolidated Balance Sheets as of December 31, 2010 and 2011</a>	F-4
<a href="#">Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2009, 2010 and 2011</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2010 and 2011</a>	F-6
<a href="#">Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2009, 2010 and 2011</a>	F-7
<a href="#">Notes to the Consolidated Financial Statements</a>	F-8 -F-55

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Baidu, Inc.

We have audited the accompanying consolidated balance sheets of Baidu, Inc. (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baidu, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Baidu, Inc.’s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming

Beijing, The People’s Republic of China  
March 29, 2012



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Baidu, Inc.

We have audited Baidu, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Baidu, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Qunar Cayman Islands Limited, which is included in the 2011 consolidated financial statements of Baidu, Inc. and constituted RMB332.57 million and RMB121.68 million of total and net assets, respectively, as of December 31, 2011 and RMB147.08 million and RMB2.64 million of revenues and net income, respectively. Our audit of internal control over financial reporting of Baidu, Inc. also did not include an evaluation of the internal control over financial reporting of Qunar Cayman Islands Limited.

In our opinion, Baidu, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Baidu, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of Baidu, Inc., and our report dated March 29, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming

Beijing, The People's Republic of China

March 29, 2012

[Table of Contents](#)

BAIDU, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except for number of shares and per share data)

	Notes	December 31,		
		2010 RMB	2011 RMB	2011 US\$
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	2	7,781,976	4,127,482	655,791
Restricted cash	2	38,278	483,387	76,803
Short-term investments	4	376,492	10,051,578	1,597,035
Accounts receivable, net of allowance of RMB2,223 for 2010 and RMB5,806 (US\$922) for 2011	5	296,900	599,558	95,260
Due from related parties	18	98,660	149,728	23,790
Deferred tax assets, net	11	86,487	121,411	19,290
Other assets, current	6	103,654	315,012	50,050
<b>Total current assets</b>		<b>8,782,447</b>	<b>15,848,156</b>	<b>2,518,019</b>
<b>Non-current assets:</b>				
Fixed assets, net	7	1,622,412	2,744,241	436,016
Intangible assets, net	8	115,798	928,511	147,525
Goodwill	8	63,686	2,419,542	384,427
Long-term investments, net	4	287,968	734,360	116,678
Due from related parties	18	—	100,000	15,888
Deferred tax assets, net	11	30,843	52,125	8,282
Other assets, non-current		145,285	513,606	81,604
<b>Total non-current assets</b>		<b>2,265,992</b>	<b>7,492,385</b>	<b>1,190,420</b>
<b>Total assets</b>		<b>11,048,439</b>	<b>23,340,541</b>	<b>3,708,439</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities:</b>				
Short-term loans	10	—	125,878	20,000
Accounts payable and accrued liabilities	9	1,317,771	2,545,445	404,430
Customer advances and deposits		1,029,344	1,573,967	250,078
Deferred revenue		109,032	62,705	9,963
Deferred income		—	34,779	5,526
Due to related parties	18	95,700	—	—
Long-term loans, current portion	10	—	46,000	7,309
Capital lease obligation		—	17,773	2,824
<b>Total current liabilities</b>		<b>2,551,847</b>	<b>4,406,547</b>	<b>700,130</b>
<b>Non-current liabilities:</b>				
Deferred income		5,000	19,942	3,168
Long-term loans	10	86,000	2,277,925	361,926
Due to related parties	18	—	148,873	23,654
Deferred tax liabilities	11	—	131,629	20,914
Capital lease obligation		—	30,112	4,784
<b>Total non-current liabilities</b>		<b>91,000</b>	<b>2,608,481</b>	<b>414,446</b>
<b>Total liabilities</b>		<b>2,642,847</b>	<b>7,015,028</b>	<b>1,114,576</b>
<b>Commitments and contingencies</b>	13			
<b>Redeemable noncontrolling interests</b>	14	—	935,978	148,712
<b>Equity</b>				
Class A Ordinary Shares, par value US\$0.00005 per share, 825,000,000 shares authorized, and 27,045,340 shares and 27,111,117 shares issued and outstanding as at December 31, 2010 and 2011	15	12	12	2
Class B Ordinary Shares, par value US\$0.00005 per share, 35,400,000 shares authorized, and 7,804,332 shares and 7,803,000 shares issued and outstanding as at December 31, 2010 and 2011	15	3	3	—
Additional paid-in capital		1,557,258	1,771,770	281,505
Retained earnings	15	6,965,697	13,604,334	2,161,511
Accumulated other comprehensive loss		(117,378)	(84,403)	(13,410)
<b>Total Baidu, Inc. shareholders' equity</b>		<b>8,405,592</b>	<b>15,291,716</b>	<b>2,429,608</b>
<b>Noncontrolling interests</b>		<b>—</b>	<b>97,819</b>	<b>15,543</b>
<b>Total equity</b>		<b>8,405,592</b>	<b>15,389,535</b>	<b>2,445,151</b>
<b>Total liabilities and equity</b>		<b>11,048,439</b>	<b>23,340,541</b>	<b>3,708,439</b>

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

BAIDU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	Notes	For the Years Ended December 31,			
		2009 RMB	2010 RMB	2011 RMB	2011 US\$
<b>Revenues:</b>					
Online marketing services		4,445,310	7,912,869	14,489,767	2,302,192
Other services		2,466	2,205	11,019	1,751
<b>Total revenues</b>		<b>4,447,776</b>	<b>7,915,074</b>	<b>14,500,786</b>	<b>2,303,943</b>
<b>Operating costs and expenses:</b>					
Cost of revenues		(1,616,236)	(2,149,288)	(3,896,883)	(619,153)
Selling, general and administrative		(803,988)	(1,088,980)	(1,692,810)	(268,961)
Research and development		(422,615)	(718,038)	(1,334,434)	(212,020)
<b>Total operating costs and expenses</b>		<b>(2,842,839)</b>	<b>(3,956,306)</b>	<b>(6,924,127)</b>	<b>(1,100,134)</b>
<b>Operating profit</b>		<b>1,604,937</b>	<b>3,958,768</b>	<b>7,576,659</b>	<b>1,203,809</b>
<b>Other income:</b>					
Interest income, net		32,661	67,121	335,650	53,329
Foreign exchange (loss) gain, net		(42)	6	(1,959)	(311)
Loss from equity method investments		(229)	(8,965)	(179,408)	(28,505)
Other income, net		45,794	44,233	78,237	12,431
<b>Total other income</b>		<b>78,184</b>	<b>102,395</b>	<b>232,520</b>	<b>36,944</b>
<b>Income before income taxes</b>		<b>1,683,121</b>	<b>4,061,163</b>	<b>7,809,179</b>	<b>1,240,753</b>
Income taxes	11	(198,017)	(535,995)	(1,188,861)	(188,891)
<b>Net income</b>		<b>1,485,104</b>	<b>3,525,168</b>	<b>6,620,318</b>	<b>1,051,862</b>
<b>Net loss attributable to noncontrolling interests</b>		<b>—</b>	<b>—</b>	<b>(18,319)</b>	<b>(2,911)</b>
<b>Net income attributable to Baidu, Inc.</b>		<b>1,485,104</b>	<b>3,525,168</b>	<b>6,638,637</b>	<b>1,054,773</b>
<b>Earnings per share for Class A and Class B ordinary shares:</b>					
	16				
Net income attributable to Baidu, Inc. -Basic		42.96	101.28	190.27	30.23
Net income attributable to Baidu, Inc. -Diluted		42.70	100.96	189.88	30.17
<b>Earnings per ADS (1 Class A ordinary share equals 10 ADSs):</b>					
	16				
Net income attributable to Baidu, Inc. -Basic		4.30	10.13	19.03	3.02
Net income attributable to Baidu, Inc. -Diluted		4.27	10.10	18.99	3.02
<b>Weighted average number of Class A and Class B ordinary shares outstanding</b>					
Basic		34,570,790	34,805,362	34,890,050	34,890,050
Diluted		34,776,366	34,917,835	34,962,831	34,962,831
<b>Other comprehensive income (loss), net of tax</b>					
Foreign currency translation adjustment		(3,961)	(3,611)	32,930	5,233
Unrealized gains on available-for-sale securities		—	—	45	7
<b>Other comprehensive income (loss), net of tax</b>		<b>(3,961)</b>	<b>(3,611)</b>	<b>32,975</b>	<b>5,240</b>
<b>Comprehensive income</b>		<b>1,481,143</b>	<b>3,521,557</b>	<b>6,653,293</b>	<b>1,057,102</b>
Comprehensive loss attributable to noncontrolling interests		—	—	(19,314)	(3,069)
<b>Comprehensive income attributable to Baidu, Inc.</b>		<b>1,481,143</b>	<b>3,521,557</b>	<b>6,672,607</b>	<b>1,060,171</b>

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

BAIDU, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”))

	For the Years Ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US\$
<b>Cash flows from operating activities:</b>				
Net income	1,485,104	3,525,168	6,620,318	1,051,862
Adjustments to reconcile net income to net cash generated from operating activities:				
Depreciation of fixed assets and others	306,281	431,099	819,239	130,164
Fixed assets written off	2,606	7,679	31	5
Amortization of intangible assets	10,729	10,252	65,673	10,434
Deferred income tax, net	(10,839)	(74,374)	(64,701)	(10,280)
Share-based compensation	86,318	93,736	152,028	24,155
Provision (reversal) for doubtful accounts	493	(6,940)	3,500	556
Gain on investments, net	(8,181)	(41,193)	(200,209)	(31,810)
Impairment on long-term investments	—	—	47,886	7,608
Loss from equity method investments	229	8,965	179,408	28,505
Other noncash income	—	—	(36,813)	(5,848)
Changes in operating assets and liabilities net of effects of acquisition:				
Restricted cash	(14,951)	(18,765)	(156,219)	(24,821)
Accounts receivable	(69,331)	(128,307)	(282,467)	(44,879)
Other assets	5,752	(28,560)	(211,719)	(33,639)
Due from related parties	10,697	(98,660)	(151,068)	(24,002)
Customer advances and deposits	185,302	421,516	519,716	82,574
Accounts payable and accrued liabilities	236,012	431,168	817,649	129,911
Deferred revenue	38,595	66,997	(46,327)	(7,360)
Deferred income	(332)	5,000	49,721	7,900
Due to related parties	—	95,700	53,173	8,448
<b>Net cash generated from operating activities</b>	<b>2,264,484</b>	<b>4,700,481</b>	<b>8,178,819</b>	<b>1,299,483</b>
<b>Cash flows from investing activities:</b>				
Acquisition of fixed assets	(399,312)	(895,309)	(1,762,114)	(279,972)
Disposal of fixed assets	—	—	2,461	391
Acquisition of businesses	(12,000)	—	(1,945,870)	(309,167)
Acquisition of intangible assets	—	(2,452)	(433,591)	(68,891)
Capitalization of software costs	(11,392)	(10,179)	(42,687)	(6,782)
Purchases of long-term investments	(2,250)	(282,932)	(488,905)	(77,679)
Disposal of long-term investments	—	—	12,047	1,914
Purchases of short-term investments	(779,676)	(2,620,265)	(10,972,774)	(1,743,398)
Sales and maturities of short-term investments	707,929	2,661,794	1,484,968	235,937
Acquisition of long-term prepaid computer parts	(39,368)	(68,179)	(104,064)	(16,534)
<b>Net cash used in investing activities</b>	<b>(536,069)</b>	<b>(1,217,522)</b>	<b>(14,250,529)</b>	<b>(2,264,181)</b>
<b>Cash flows from financing activities:</b>				
Capital injection of noncontrolling interests holders	—	—	43,970	6,986
Proceeds from short-term debt	—	—	125,878	20,000
Proceeds from long-term debt	—	86,000	2,232,778	354,753
Proceeds from exercise of share options	40,442	38,751	23,184	3,683
Structured share repurchase, net	79,070	—	—	—
Repurchase of ordinary shares	(24,419)	—	—	—
<b>Net cash generated from financing activities</b>	<b>95,093</b>	<b>124,751</b>	<b>2,425,810</b>	<b>385,422</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(741)</b>	<b>(6,110)</b>	<b>(8,594)</b>	<b>(1,364)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,822,767</b>	<b>3,601,600</b>	<b>(3,654,494)</b>	<b>(580,640)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>2,357,609</b>	<b>4,180,376</b>	<b>7,781,976</b>	<b>1,236,431</b>
<b>Cash and cash equivalents at end of the year</b>	<b>4,180,376</b>	<b>7,781,976</b>	<b>4,127,482</b>	<b>655,791</b>
<b>Supplemental disclosures:</b>				
Interest paid	—	709	17,521	2,784
Income taxes paid	150,170	436,632	1,165,218	185,134
<b>Non-cash investing activities:</b>				
Capital lease obligation	—	—	47,885	7,608
Acquisition of fixed assets included in accounts payable and accrued liabilities	139,038	248,540	245,794	39,053
Acquisition of other non-current assets included in accounts payable and accrued liabilities	5,176	29,130	30,938	4,916
Non-cash acquisitions of investments	—	3,982	194,286	30,869

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands of Renminbi ("RMB"), and in thousands of U.S. Dollars ("US\$"), except for number of shares)

	Attributable to Baidu, Inc.						Total shareholders' equity RMB
	Ordinary shares		Additional paid-in capital RMB	Retained earnings RMB	Accumulated other comprehensive loss RMB	Noncontrolling interests RMB	
	Number of shares	Amount RMB					
<b>Balances at December 31, 2008</b>	34,515,833	15	1,218,356	1,979,844	(109,552)	—	3,088,663
Net income	—	—	—	1,485,104	—	—	1,485,104
Other comprehensive income	—	—	—	—	(3,961)	—	(3,961)
Exercise of share-based awards	270,199	—	41,121	—	—	—	41,121
Share-based compensation	—	—	87,523	—	—	—	87,523
Structured share repurchase	—	—	79,070	—	—	—	79,070
Repurchase of ordinary shares	(32,740)	—	—	(24,419)	—	—	(24,419)
<b>Balances at December 31, 2009</b>	<u>34,753,292</u>	<u>15</u>	<u>1,426,070</u>	<u>3,440,529</u>	<u>(113,513)</u>	<u>—</u>	<u>4,753,101</u>
Net income	—	—	—	3,525,168	—	—	3,525,168
Other comprehensive income	—	—	254	—	(3,865)	—	(3,611)
Exercise of share-based awards	96,380	—	36,819	—	—	—	36,819
Share-based compensation	—	—	94,115	—	—	—	94,115
<b>Balances at December 31, 2010</b>	<u>34,849,672</u>	<u>15</u>	<u>1,557,258</u>	<u>6,965,697</u>	<u>(117,378)</u>	<u>—</u>	<u>8,405,592</u>
Net income	—	—	—	6,638,637	—	(8,035)	6,630,602
Other comprehensive income	—	—	—	—	32,975	—	32,975
Exercise of share-based awards	64,445	—	25,553	—	—	—	25,553
Share-based compensation	—	—	148,575	—	—	—	148,575
Business combination	—	—	—	—	—	104,832	104,832
Equity issuance of subsidiaries	—	—	40,384	—	—	1,022	41,406
<b>Balances at December 31, 2011</b>	<u>34,914,117</u>	<u>15</u>	<u>1,771,770</u>	<u>13,604,334</u>	<u>(84,403)</u>	<u>97,819</u>	<u>15,389,535</u>
<b>Balances at December 31, 2011, in US\$</b>		<u>2</u>	<u>281,505</u>	<u>2,161,511</u>	<u>(13,410)</u>	<u>15,543</u>	<u>2,445,151</u>

The accompanying notes are an integral part of the consolidated financial statements.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS**

Baidu, Inc. (“Baidu” or the “Company”) was incorporated under the laws of the Cayman Islands on January 18, 2000. The Company is the sole shareholder of Baidu Holdings Ltd. (“Baidu Holdings”) incorporated in the British Virgin Islands.

As of December 31, 2011, Baidu Holdings owns the following wholly-owned subsidiaries:

- Baidu Online Network Technology (Beijing) Co., Ltd. (“Baidu Online”) incorporated under the laws of the People’s Republic of China (“PRC”) on January 18, 2000,
- Baidu Japan Inc. (“Baidu Japan”) incorporated under the laws of Japan on December 13, 2006,
- Baidu (Hong Kong) Limited (“Baidu HK”) incorporated under the laws of Hong Kong on November 27, 2007, and
- Baidu International Technology (Shenzhen) Co., Ltd. (“Baidu International”) incorporated under the laws of the PRC on November 23, 2010.

As of December 31, 2011, Baidu Holdings owns the following majority-owned subsidiaries:

- B.D. Mobile Telecommunication Limited (“B.D. Mobile”) incorporated under the laws of Cayman Islands on January 25, 2011, and
- Qunar Cayman Islands Limited (“Qunar”) incorporated under the laws of the Cayman Islands and acquired by Baidu Holdings on July 20, 2011.

Baidu HK owns the following wholly-owned subsidiaries in the PRC:

- Baidu (China) Co., Ltd. (“Baidu China”) incorporated under the laws of the PRC on June 6, 2005, and
- Baidu.com Times Technology (Beijing) Co., Ltd. (“Baidu Times”) incorporated under the laws of the PRC on April 19, 2006.

Baidu Japan has established the following wholly-owned subsidiaries in Japan and the United States of America (“USA”):

- Hyakudo Inc. (“Hyakudo”) incorporated under the laws of Japan on April 14, 2008,
- Baido, Inc. (“Baido”) incorporated under the laws of Japan on April 14, 2008, and
- Baidu USA LLC incorporated under the laws of the USA on November 12, 2010.

As of December 31, 2011, the Company also effectively controls the following variable interest entities (“VIE”) through Baidu Online:

- Beijing Baidu Netcom Science Technology Co., Ltd. (“Baidu Netcom”) incorporated under the laws of the PRC on June 5, 2001,
- Beijing Perusal Technology Co., Ltd. (“Beijing Perusal”) incorporated under the laws of the PRC on June 6, 2006,
- Beijing BaiduPay Science and Technology Co., Ltd. (“BaiduPay”) incorporated under the laws of the PRC on February 27, 2008, and
- Baidu HR Consulting (Shanghai) Co., Ltd. (“Baidu HR”) incorporated under the laws of the PRC on December 28, 2010.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)**

Furthermore, Baidu Netcom acquired Beijing Founder Network Technology Co., Ltd. on November 25, 2011.

The Company, its wholly-owned and majority-owned subsidiaries and VIEs are hereinafter collectively referred to as the “Group.” The Group offers Internet search solutions and online marketing solutions, operates an e-commerce online payment platform which enables customers to make payments online, develops and markets scalable web application software and provides related services, as well as provides human resource related services including employment agency services. The Group’s principal geographic market is in the PRC and Japan. The Company does not conduct any substantive operations of its own but conducts its primary business operations through its wholly-owned and majority-owned subsidiaries and VIEs in the PRC.

PRC laws and regulations prohibit or restrict foreign ownership of Internet content, advertising and employment agency businesses. To comply with these foreign ownership restrictions, the Group operates its websites and primarily provides online advertising services in the PRC through VIEs, the PRC legal entities that were established by the individuals authorized by the Group. The paid-in capital of the VIEs was funded by the Group through loans extended to the authorized individuals. The Group has entered into certain exclusive agreements with the VIEs through Baidu Online and certain other subsidiaries (collectively the “Primary Beneficiaries”), which obligate the Primary Beneficiaries to absorb a majority of the risk of loss from the VIEs’ activities and entitles the Primary Beneficiaries to receive a majority of their residual returns. In addition, the Group has entered into certain agreements with the authorized individuals through the Primary Beneficiaries, including loan agreements for the paid-in capital of the VIEs, option agreements to acquire the equity interests in the VIEs when permitted by the PRC laws, and share pledge agreements for the equity interests in the VIEs held by the authorized individuals.

Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Company and VIEs through certain agreements with the authorized individuals through the Primary Beneficiaries, including loan agreements for the paid-in capital of the VIEs, option agreements to acquire the equity interests in the VIEs when permitted by the PRC laws, and share pledge agreements for the equity interests in the VIEs held by the authorized individuals. The shareholders of VIEs, who are the authorized individuals except for two noncontrolling shareholders of Baidu HR (shareholders of VIEs mentioned hereinafter only refer to those authorized individuals), effectively assigned all of their voting rights underlying their equity interest in VIEs to the Primary Beneficiaries. In addition, through the other aforementioned agreements, the Company, through the Primary Beneficiaries, demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of VIEs. The VIEs are subject to operating risks, which determine the variability of the Company’s interest in those entities. Based on these contractual arrangements, the Company consolidates the VIEs as required by Accounting Standards Codification (“ASC”) subtopic 810-10 (“ASC 810-10”), *Consolidation: Overall*, because the Company holds all the variable interests of VIEs through the Primary Beneficiaries.

The principal terms of the agreements entered into between Primary Beneficiaries, VIEs and their respective shareholders are further described below:

***Loan Agreements***

Pursuant to loan agreements amongst the shareholders of Baidu Netcom and Baidu Online, Baidu Online provided interest-free loans with an aggregate amount of RMB100 million to the shareholders of Baidu Netcom solely for the latter to fund the capitalization of Baidu Netcom. The loans can be repaid only with

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)**

***Loan Agreements (continued)***

the proceeds from sale of the shareholders' equity interest in Baidu Netcom to Baidu Online or its designated person. The term of the loan agreements will expire on April 26, 2014 and can be extended with the written consent of both parties before its expiration.

Each of the loan agreements amongst Baidu Online and the respective shareholders of Beijing Perusal, BaiduPay and Baidu HR contains the same terms as those described above, except that the amount of the loans extended to the respective shareholders is RMB1.0 million, RMB 9.0 million, and RMB50.0 million, respectively. The term of the loan agreements will expire on May 18, 2016, April 26, 2020, and December 27, 2020, respectively, and can be extended with the written consent of both parties before its expiration.

***Exclusive Equity Purchase Option Agreement***

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

Each of the exclusive equity purchase option agreements amongst Baidu Online and Beijing Perusal, BaiduPay and Baidu HR and their respective shareholders contains the same terms as those described above. Each of the agreements will terminate upon the shareholders of Beijing Perusal, BaiduPay or Baidu HR have transferred all their equity interests in Beijing Perusal, BaiduPay or Baidu HR, as the case may be, to Baidu Online or its designated person.

***Proxy Agreement/Power of Attorney Agreement***

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

Each of the proxy agreements amongst Baidu Online and the shareholders of Beijing Perusal, BaiduPay, and Baidu HR contain the same terms as those described above. Each of the proxy agreements will be in effect



BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)**

***Proxy Agreement/Power of Attorney Agreement (continued)***

for an unlimited term unless terminated in writing by Baidu Online. Each of the powers of attorney will be in effect for as long as the shareholder of Beijing Perusal, BaiduPay or Baidu HR holds any equity interests in Beijing Perusal, BaiduPay or Baidu HR, as the case may be.

***Operating Agreement***

Pursuant to the operating agreement amongst Baidu Online, Baidu Netcom and the shareholders of Baidu Netcom, Baidu Online provides guidance and instructions on Baidu Netcom's daily operations and financial affairs. Baidu Online has the right to appoint senior executives of Baidu Netcom. The shareholders of Baidu Netcom must appoint the candidates recommended by Baidu Online as their representatives on Baidu Netcom's board of directors. In addition, Baidu Online agrees to guarantee Baidu Netcom's performance under any agreements or arrangements relating to Baidu Netcom's business arrangements with any third party. 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 agreement will be in effect for an unlimited term, until the term of business of one party expires and is denied extension by the relevant approval authorities.

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

***Exclusive Technology Consulting and Services Agreement***

Pursuant to the exclusive technology consulting and services agreement between Baidu Online and Baidu Netcom, Baidu Online has the exclusive right to provide to Baidu Netcom technology consulting and services related to, among other things, the maintenance of servers, software development, design of advertisements, and e-commerce technical services. Baidu Online also seconded employees to Baidu Netcom for whom Baidu Netcom bears the costs and expenses. Baidu Online owns the intellectual property rights resulting from the performance of this agreement. Baidu Netcom pays a monthly service fee to Baidu Online based upon a pre-agreed formula as defined in the agreement. Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom. The agreement will be in effect for an unlimited term, until the term of business of one party expires and is denied extension by the relevant approval authorities.

Each of the exclusive technology consulting and services agreements between Baidu Online and Beijing Perusal, BaiduPay, and Baidu HR contains the same terms as those described above, except for the formula calculating the service fees. Baidu Netcom and Beijing Perusal should pay Baidu Online a monthly service fee equal to the product of the standard monthly fee for page view per thousand times multiplied by the actual times of page view for the month divided by 1,000, respectively; Baidu HR should pay its entire net income as technology consulting and service fee to Baidu Online; and the agreement between Baidu Online

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)**

***Exclusive Technology Consulting and Services Agreement (continued)***

and BaiduPay does not provide a formula to calculate the quarterly fee, as BaiduPay has yet to achieve profitability. Each of the agreements will be in effect for an unlimited term, until the term of business of one party expires and is denied extension by the relevant approval authorities.

***License Agreements***

Baidu Online and Baidu Netcom entered into a software license agreement, a trademark license agreement, a domain name license agreement and a web layout copyright license agreement (collectively, the "License Agreements"). Pursuant to the License Agreements between Baidu Online and Baidu Netcom, Baidu Online has granted to Baidu Netcom the right to use (including but not limited to) a software license, a webpage copyright license, a trademark license, and a domain name license. Baidu Netcom may only use the licenses in their own business operations. Baidu Online has the right to adjust the service fees at its sole discretion. The original term of the software license agreement expired in March 2010 and was renewed on March 11, 2010. The renewed term will expire on March 10, 2015. The software license agreement may be extended by both parties in writing upon the expiration of this agreement. The original term of the trademark license agreement, domain name license agreement and web layout copyright license agreement expired on March 1, 2009 and was renewed then. The renewed term will expire on February 28, 2014.

Baidu Online entered into a trademark license agreement, domain name license agreement and web layout copyright license agreement with both Beijing Perusal and BaiduPay. Each of the license agreements between Baidu Online and Beijing Perusal, and Baidu Online and BaiduPay contains the same terms as those described above. The term of each agreement is 5 years from the execution date of the agreement on June 23, 2006 and February 28, 2008, respectively, and would be extended for one year automatically at its expiration unless Baidu Online provides written notice not to extend the agreements prior to their expiration.

Baidu Online and Baidu HR have not entered into any license agreements as of December 31, 2011. The license agreements with Beijing Perusal were extended automatically for one year and will expire on June 22, 2012.

***Equity Pledge Agreement***

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

Each of the equity pledge agreements amongst Baidu Online, Beijing Perusal, BaiduPay, and Baidu HR and the respective shareholders contains the same terms, including term period, as those described above. Each equity pledge is perfected by registration with relevant local administration for industry and commerce which is required for a property right under the PRC Property Rights Law.

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)**

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

There are similar agreements entered into by Primary Beneficiaries other than Baidu Online with their VIEs and the respective shareholders, which results in a parent-subsidary relationship between the Company and VIEs through these contractual agreements. The assets, liabilities and results of operations of these VIEs are insignificant.

The management believes that, (i) the ownership structure of the Company and its VIEs is in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIEs and their shareholders are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Group's business operations are in compliance with existing PRC laws and regulations in all material respects.

However, uncertainties in the PRC legal system could cause the Company's current ownership structure to be found in violation of existing and/or future PRC laws or regulations and could limit the Company's ability, through the Primary Beneficiaries, to enforce its rights under these contractual arrangements. Furthermore, shareholders of the VIEs may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the above aforementioned agreements.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC law, the Company may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Company's business and operating licenses, being required to restructure the Company's operations or discontinue the Company's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its operations. In such case, the Company may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs.

## [Table of Contents](#)

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

The following tables set forth the assets, liabilities and results of operations of the VIEs and their subsidiaries included in the Company's consolidated balance sheets and statements of comprehensive income:

	As of December 31,		
	2010	2010	2011
	RMB	RMB	US\$
	(In thousands)		
Total assets	1,194,045	1,808,784	287,387
current	564,729	1,008,640	160,257
non-current	629,316	800,144	127,130
Total liabilities	852,945	1,456,328	231,387
current	766,945	1,342,268	213,265
non-current	86,000	114,060	18,122

  

	For the years ended December 31,			
	2009	2010	2010	2011
	RMB	RMB	RMB	US\$
	(In thousands)			
Total revenues	934,814	1,832,629	4,205,327	668,159
Net income	27,263	46,234	119,294	18,954

As of December 31, 2011, there was no pledge or collateralization of their assets. The amount of the net assets of VIEs, which are restricted under PRC laws and regulations (Note 15), was RMB352.46 million (US\$56.00 million) as of December 31, 2011.

#### ***Basis of Accounting***

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

#### ***Principles of Consolidation***

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs. All inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation. The Company has included the results of operations of acquired businesses from the respective dates of acquisition.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management evaluates estimates, including those related to the accounts receivable allowances, fair values of options to purchase the Company's or its subsidiaries' ordinary shares, fair values of certain equity investments, the purchase price allocation and fair value of noncontrolling

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)**

***Use of Estimates (continued)***

interests with respect to the business combinations, and deferred tax valuation allowance, among others. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

***Comparative Information***

The items of intangible assets and accounts payable and accrued liabilities in prior years' consolidated financial statements have been reclassified to conform to the current year's presentation to facilitate comparison as a result of increases of significance of those items.

***Currency Translation for Financial Statements Presentation***

Translations of amounts from RMB into US\$ for the convenience of the reader have been calculated at the exchange rate of RMB6.2939 per US\$1.00 on December 30, 2011, the last business day in fiscal year 2011, as published on the website of the United States Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at such rate.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Foreign Currency***

The Company's functional currency is the US\$. The Company's subsidiaries and VIEs determine their functional currencies based on the criteria of ASC subtopic 830-10 ("ASC 830-10"), *Foreign Currency Matters: Overall*, 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 (loss) 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 comprehensive income as a component of other income.

***Segment Reporting***

In accordance with ASC subtopic 280-10 ("ASC 280-10"), *Segment Reporting: Overall*, the Company's chief operating decision makers rely upon consolidated results of operations when making decisions about allocating resources and assessing performance of the Company; hence, the Company has only one single operating segment. The Company does not distinguish between markets or segments for the purpose of internal reporting.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Business Combinations***

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

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

***Cash and Cash Equivalents***

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value, and primarily consist of cash and investments in interest bearing demand deposit accounts, time deposits, highly liquid investments and money market funds. All time deposits, money market funds and other highly liquid investments with original maturities of three months or less from the date of purchase are classified as cash equivalents.

Restricted Cash

Restricted cash consists of the cash reserved in escrow account to pay for the remaining consideration in relation to the acquisition of Qunar (Note 3), cash pledged to secure for the Letter of Credit issued by Bank of China Beijing Branch (Note 10) and the cash balances deposited by the customers of the Company's e-commerce online payment platform.

In 2008, the Company introduced an e-commerce platform and an online payment platform which enables e-commerce merchants and customers to send and receive payments online. Cash balances deposited by the customers of the Company's e-commerce platform are considered restricted because they cannot be used for the operations of the Group or any other purpose not designated by customers. When customers fund their accounts in the e-commerce platform using their bank accounts, the deposited balance is included in the Company's bank account until customers either use the cash to settle their online transactions or withdraw the cash.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Accounts Receivable***

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

The Company maintains allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectibility of individual balances. In evaluating the collectibility of individual receivable balances, the Company considers many factors, including the age of the balance, the customer's historical payment history, its current credit-worthiness and current economic trends.

***Investments***

**Short-Term Investments**

All highly liquid investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments which are stated at their approximate fair value. The Company accounts for short-term investments in accordance with ASC subtopic 320-10 ("ASC 320-10"), *Investments - Debt and Equity Securities: Overall*. The Company classifies the short-term investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", whose classification determines the respective accounting methods stipulated by ASC 320-10. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in the consolidated statements of comprehensive income.

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company's policy and ASC 320-10. If the Company concludes that it does not intend or is not required to sell an impaired debt security before the recovery of its amortized cost basis, the impairment is considered temporary and the held-to-maturity securities continue to be recognized at the amortized costs. When the Company intends to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in the consolidated statements of comprehensive income equal to the entire excess of the debt security's amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more likely than not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Investments (continued)***

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale investment is reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income in shareholders' equity. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. An impairment loss on the available-for-sale debt securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

**Long-term Investments**

The Company's long-term investments consist of cost method investments and equity method investments.

In accordance with ASC subtopic 325-20 ("ASC 325-20"), *Investments-Other: Cost Method Investments*, for investments in an investee over which the Company does not have significant influence, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in the consolidated statements of comprehensive income equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC subtopic 323-10 ("ASC 323-10"), *Investments-Equity Method and Joint Ventures: Overall*. Under the equity method, the Company initially records its investment at cost and the difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investment on the consolidated balance sheets. The Company subsequently adjusts the carrying amount of the investment to recognize the Company's proportionate share of each equity investee's net income or loss into consolidated statements of comprehensive income after the date of acquisition. The Company will discontinue applying equity method if an investment (and additional financial supports to the investee, if any) has been reduced to zero. When the equity-method investment in ordinary shares is reduced to zero and further investments are made that have a higher liquidation preference than ordinary shares, the Company would recognize the loss based on its percentage of the investment with the same liquidation preference, and the loss would be applied to those investments of a lower liquidation preference first before being further applied to the investments of a higher liquidation preference. The Company evaluates the equity method investments for impairment under ASC 323-10. An impairment loss on the equity method investments is recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fair Value Measurements of Financial Instruments***

Financial instruments are in the form of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, customer advances and deposits and short-term and long-term loans. The carrying amounts of these financial instruments except for loans payable approximate fair value because of their generally short maturities. The carrying amount of loans payable approximates its fair value due to the fact that the related interest rates approximate rates currently offered by the Company's bankers for similar debt instruments of comparable maturities.

***Research, Development, and Computer Software***

**Capitalization of Software Developed for Internal Use**

The Company has capitalized certain internal use software development costs in accordance with ASC subtopic 350-40 ("ASC 350-40"), *Intangibles-Goodwill and Other: Internal-Use Software*, amounting to RMB12.59 million, RMB10.38 million and RMB44.26 million (US\$7.03 million) for the years ended December 31, 2009, 2010 and 2011, respectively. The Company capitalizes certain costs relating to software acquired, developed, or modified solely to meet the Company's internal requirements and for which there are no substantive plans to market the software. These costs mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software projects during the application development stage. Capitalized internal-use software costs are included in fixed assets, net. The amortization expense for capitalized software costs amounted to RMB9.77 million, RMB8.86 million and RMB7.51 million (US\$1.19 million) for the years ended December 31, 2009, 2010 and 2011, respectively. The unamortized amount of capitalized internal use software development costs was RMB15.28 million and RMB52.04 million (US\$8.27million) as of December 31, 2010 and 2011, respectively.

**Research and Development Expenses**

Research and development expenses consist primarily of personnel-related costs. The Company has expensed substantially all development costs included in the research and development of products and new functionality added to the existing products as incurred, except for certain internal-use software.

***Fixed Assets***

Fixed assets are stated at cost less accumulated depreciation. Depreciation or amortization is recorded on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

Office building	- 45 years
Office building related facility, machinery and equipment	- 15 years
Computer equipment	- 3 or 5 years
Internal use software development costs	- 3 years
Office equipment	- 3 or 5 years
Vehicles	- 5 years
Leasehold improvements	- over the shorter of lease terms or estimated useful lives of the assets

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fixed Assets (continued)***

Fixed assets have no estimated residual value except for the office building and its related facility, machinery and equipment, which have an estimated residual value of 4% of the cost.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive income.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific fixed assets items and depreciation of these assets commences when they are ready for their intended use.

***Goodwill and Intangible Assets***

**Goodwill**

The Company assesses goodwill for impairment in accordance with ASC subtopic 350-20 ("ASC 350-20"), *Intangibles - Goodwill and Other: Goodwill*, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20. Prior to the acquisition of Qunar, the Company had one reporting unit because no discrete financial information was available below the consolidation level. Subsequent to the acquisition of Qunar, there are segment managers who regularly review operating results of Qunar and the rest of the Company, which constitute two separate reporting units. Goodwill was tested for impairment in the annual impairment tests on December 31 in each year using the two-step process required by ASC 350-20 before 2011. First, the Company reviewed the carrying amount of the reporting units compared to the "fair value" of the reporting units based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting units exceeds the carrying value of the reporting units, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting units exceeds the fair value of the reporting units, then the Company must perform the second step of the impairment test in order to determine the implied fair values of the reporting units' goodwill. That is, the Company would then prepare the discounted cash flow analyses. Such analyses are based on cash flow assumptions that are consistent with the plans and estimates being used to manage the business. An excess carrying value compared to fair value would indicate that goodwill may be impaired. Finally, if the Company determined that goodwill may be impaired, the implied fair value of the goodwill, as defined by ASC 350-20, would be compared to its carrying amount to determine the impairment loss, if any. Goodwill of the Qunar reporting unit, which was acquired in 2011, was tested for impairment in the annual impairment tests on December 31, 2011 using the two-step process. The fair value of the Qunar reporting unit significantly exceeded its carrying amount, thus, goodwill assigned to this reporting unit was not impaired and the Company was not required to perform further testing. The Company early adopted ASU No. 2011-08, *Intangibles—Goodwill and Other*, in the fourth quarter of 2011 and elected to perform a qualitative assessment on the reporting unit other than Qunar to determine whether further impairment testing on goodwill was necessary. Based on the requirements of

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Goodwill and Intangible Assets (continued)***

ASU No. 2011-08, the Company evaluated all relevant factors, weighed all factors in their totality and concluded it was not more likely than not the fair value was less than the carrying amount of the reporting unit other than Qunar, then further impairment testing on goodwill was unnecessary.

**Intangible Assets**

Intangible assets with finite lives are carried at cost less accumulated amortization. The land use right is amortized using a straight-line method over the shorter of its estimated economic life or the term of related land use right contract. All other intangible assets with finite lives are amortized using the straight-line method over the estimated economic life.

Intangible assets have weighted average useful lives from the date of purchase as follows:

Land use right	- 50 years
Customer relationships	- 9.3 years
Software	- 4.8 years
Trademarks	- 10 years
User list	- 3.0 years
Others	- 4.2 years

Intangible assets with an indefinite useful life are not amortized.

If the intangible assets that are not being amortized are subsequently determined to have a finite useful life, the assets will be tested for impairment in accordance with ASC subtopic 350-30 ("ASC 350-30"), *Intangibles-Goodwill and Other: General Intangibles Other than Goodwill*, and then amortized prospectively over their estimated remaining useful lives and accounted for in the same manner as other intangible assets that are subject to amortization. Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

***Impairment of Long-Lived Assets Other Than Goodwill***

The Company evaluates long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC subtopic 360-10 ("ASC 360-10"), *Property, Plant and Equipment: Overall*. When such events occur, the Company assesses the recoverability of the assets group based on the undiscounted future cash flow the assets group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from disposition of the assets group, if any, is less than the carrying value of the assets group. If the Company identifies an impairment, the Company reduces the carrying amount of the assets group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. The Company uses estimates and judgments in its impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

**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 service**

The Company's auction-based pay-for-performance ("P4P") platform enables a customer to place its website link and related description on the Company's search result list. The customers make bids on keywords based on how much they are willing to pay for each click to their listings in the search results listed on the Company's website and the relevance between the keywords and the customer's businesses. Internet users' search of the keyword will trigger the display of the listings. The ranking of the customer's listing depends on both the bidding price and the listing's relevance to the keyword searched. Customer pays the Company only when a user clicks on one of its website links. Revenue is recognized when a user clicks on one of the customer-sponsored website links, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC subtopic 605-10 ("ASC 605-10"), *Revenue Recognition: Overall*.

For certain P4P customers engaged through direct sales, the Company may provide certain value-added consultative support services to help its customers to better utilize its P4P online marketing system. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

**(2) Other performance-based online marketing services**

To the extent the Company provides online marketing services based on performance criteria other than click-throughs, such as the number of telephone calls brought to its customers, the number of users registered with its customers, 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 ASC 605-10.

**(3) Time-based online advertising services**

For time-based online advertising services such as text links, banners, or other forms of graphical advertisements, the Company recognizes revenue, in accordance with ASC 605-10, on a pro-rata basis over the contractual term commencing on the date the customer's advertisement is displayed in a specified webpage. For certain time-based contractual agreements, the Company may also provide certain performance guarantees, in which cases revenue is recognized at the later of the completion of the time commitment or performance guarantee.

**(4) Online marketing services involving Baidu Union**

Baidu Union is the program through which the Company expands distribution of its customers' sponsored links or advertisements by leveraging traffic of the Baidu Union members' internet properties. The Company makes payments to Baidu Union members for acquisition of traffic. The Company recognizes gross revenue for the amount of fees it receives from its customers. Payments made to Baidu Union members are included in cost of revenues as traffic acquisition costs.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Revenue Recognition (continued)***

(5) Barter transactions

The Company engages in barter transactions from time to time and in such situations follows the guidance set forth in ASC subtopic 845-10 (“ASC 845-10”), *Nonmonetary Transactions: Overall*. While nonmonetary transactions are generally recorded at fair value, if such value is not determinable within reasonable limits, the transaction is recognized based on the carrying value of the product or services provided. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

In addition, the Company recognized revenues for barter transactions involving advertising in accordance with ASC subtopic 605-20 (“ASC 605-20”), *Revenue recognition: Services*. However, neither the amount recognized nor the volume of such transactions qualified for income recognition was material for any of the periods presented.

In certain instances, the Company may be granted equity instruments in exchange for services. In accordance with ASC subtopic 505-50 (“ASC 505-50”), *Equity: Equity-based Payments to Non-Employees*, if the Company provides services in exchange for equity instruments, the Company measures the fair value of those equity instruments for revenue recognition purposes as of the earlier of either of the following dates:

- The date the parties come to a mutual understanding of the terms of the equity-based compensation arrangement and a commitment for performance by the Company to earn the equity instruments is reached;
- The date at which the Company’s performance necessary to earn the equity instruments is completed.

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

(6) Other revenue recognition related policies

The Company prospectively adopted Accounting Standards Update (“ASU”) No. 2009-13 (“ASU 2009-13”), *Multiple-Deliverable Revenue Arrangements*, a consensus of the FASB Emerging Issues Task Force (“EITF”) that amends ASC 605-25, on January 1, 2011.

Prior to the adoption of ASU 2009-13, if a sales arrangement involves multiple deliverables, which are considered separate units of accounting in accordance with ASC subtopic 605-25 (“ASC 605-25”), *Revenue Recognition: Multiple-Element Arrangements*, the total revenue on such arrangement is allocated to the individual deliverables based on their relative fair values. If sufficient vendor-specific objective evidence of fair value (“VSOE”) does not exist for the allocation of revenue, the fee for the entire arrangement is recognized ratably over the term of the arrangement or upon the delivery of the last deliverable, when other revenue recognition criteria have been met.

In accordance with ASU 2009-13, certain delivered items in multiple-element arrangements, which previously would not qualify for separate units of accounting due to the lack of VSOE or Third-Party Evidence (“TPE”) of selling price, are accounted for as separate units of accounting, to which the total consideration of the arrangements is allocated based on management’s best estimate of the selling price (“BESP”). The Company

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Revenue Recognition (continued)*

considers all reasonably available information in determining the BESP, including both market and entity-specific factors. The adoption of ASU 2009-13 did not have a material effect on the Company's consolidated financial statements, as the pattern and timing of revenue recognition was not changed materially.

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

The Company provides sales incentives to customers to entitle customers to receive reductions in the price of the online marketing services by meeting certain cumulative consumption requirements. The Company accounts for these award credits granted to members in conjunction with a current sale of products or services as a multiple-element arrangement by analogizing to ASC 605-25 with adoption of ASU 2009-13. The consideration allocated to the award credits, as deferred revenue is based on an assumption that the customer will purchase the minimum amount of future service necessary to obtain the maximum award credits available. The deferred revenue is recognized as revenue proportionately as the future services are delivered to the customer or when the award credits expire.

Cash received in advance from customers is recorded as customer advances and deposits. The unused cash balances remaining in customers' accounts are included as a liability of the Company. Deferred revenue is recorded when services are provided before the other revenue recognition criteria set forth in ASC 605-10 are fulfilled.

The Company operates an online game platform, on which registered users could access games provided by online game developers. The rights and obligations of each party to the arrangement indicate that the Company is acting as an agent whereas the online game developer is the principal as a result of being the primary obligor in the arrangement. The Company recognizes the shared revenue, on a net basis, based on the ratios pre-determined with the online game developers when all the revenue recognition criteria set forth in ASC 605-10 are met, which is generally when the user purchases virtual currencies issued by the game developers through the Company's payment channel. The amount of revenues recognized was not significant in each of the years presented.

### *Cost of Revenues*

Cost of revenues consists primarily of business taxes and surcharges, traffic acquisition costs, bandwidth costs, depreciation, payroll and related costs of operations.

The Company incurs business taxes and surcharges in connection with the provision of online marketing services, technical and consultative service fees charged by its subsidiaries to VIEs and other taxable services in the PRC. According to ASC subtopic 605-45 ("ASC 605-45"), *Revenue Recognition: Principal Agent Considerations*, the Company includes the business tax and surcharges incurred on its online marketing revenues in cost of revenues. The business tax and surcharges in cost of revenues for the years ended December 31, 2009, 2010 and 2011 were RMB275.92 million, RMB504.85 million and RMB1.02 billion (US\$0.16 billion), respectively. Traffic acquisition costs represent the amounts paid or payable to Baidu Union members who direct search queries to the Company's websites or distribute the Company's customers' paid links through their properties. These payments are primarily based on revenue sharing arrangements under which the Company pays its Baidu Union members a percentage of the fees it earns from its online marketing customers.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Advertising Expenses***

Advertising expenses, primarily advertisements through various forms of media, are included in “Selling, general and administrative expense” in the consolidated statements of comprehensive income and are expensed when incurred. Advertising expenses for the years ended December 31, 2009, 2010 and 2011 were RMB77.80 million, RMB74.76 million and RMB157.10 million (US\$24.96 million), respectively.

***Other Income, net***

Other income, net consists primarily of government subsidies, the gain from a spin-off of certain business to Youa.com Inc. (Note 4), offset by impairment of long-term investments (Note 4) and impairment loss from certain business (Note 8). Government subsidies primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. During the years ended December 31, 2009, 2010 and 2011, the Group recognized RMB42.50 million, RMB49.14 million and RMB74.76 million (US\$11.88 million) of financial subsidies as other income, respectively, which were from various local PRC government authorities. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. For the government subsidies that with no further conditions to be met, the amounts are recorded as other income when received; for the amounts with certain operating conditions, the government subsidies are recorded as liabilities when received and will be released to other operating income when the conditions are met.

***Leases***

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for capital leases as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

***Income Taxes***

The Company recognizes income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. The Company records a valuation allowance against the amount of deferred tax assets that it determines is not more likely than not 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.

The Company adopted the provisions of ASC subtopic 740-10 (“ASC 740-10”), *Income Taxes: Overall*, on January 1, 2007. ASC 740-10 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2009, 2010 and 2011, no unrecognized tax benefits or interest and penalties associated with uncertainty in income taxes have been recognized.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Share-based Compensation***

The Company accounts for share-based compensation in accordance with ASC subtopic 718-10 (“ASC 718-10”), *Compensation-Stock Compensation: Overall*. The Company has elected to recognize share-based compensation using the straight-line method for all share-based awards issued. Forfeitures have been estimated based on historical experience and periodically reviewed. Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award (“modification awards”). The compensation costs associated with the modification awards are recognized if either the original vesting condition or the new vesting condition has been achieved. Such compensation costs cannot be less than the grant-date fair value of the original award. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modification awards, the Company recognizes share-based compensation over the vesting periods of the new options, which comprises, (1) the amortization of the incremental portion of share-based compensation over the remaining vesting term and (2) any unrecognized compensation cost of original award, using either the original term or the new term, whichever is higher for each reporting period.

The Company accounts for share awards issued to non-employees in accordance with the provisions of ASC subtopic 505-50 (“ASC 505-50”), *Equity: Equity-based Payments to Non-Employees*. Under ASC 505-50, the Company uses the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. ASC 718-10 also requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item.

***Earnings Per Share (“EPS”)***

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC subtopic 260-10 (“ASC 260-10”), *Earnings Per Share: Overall*, using the two class method. Under the provisions of ASC 260-10, basic net income per share is computed using the weighted average number of ordinary shares outstanding during the period except that it does not include unvested ordinary shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options, restricted shares subject to forfeiture, and contracts that may be settled in the Company’s stock or cash. The dilutive effect of outstanding stock options and restricted shares is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A ordinary shares assumes the conversion of Class B ordinary shares, while the diluted net income per share of Class B ordinary shares does not assume the conversion of those shares.

The liquidation and dividend rights of the holders of the Company’s Class A and Class B ordinary shares are identical, except with respect to voting. As a result, and in accordance with ASC 260-10, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B ordinary shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B ordinary shares is assumed in the computation of the diluted net income per share of Class A ordinary shares, the undistributed earnings are equal to net income for that computation.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Earnings Per Share (“EPS”) (continued)***

For the purposes of calculating the Company’s basic and diluted earnings per Class A and Class B ordinary shares, the ordinary shares relating to the options that were exercised are assumed to have been outstanding from the date of exercise of such options.

***Contingencies***

The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

When a loss contingency is not both probable and estimable, the Company does not record an accrued liability but discloses the nature and the amount of the claim, if material. However, if the loss (or an additional loss in excess of the accrual) is at least reasonably possible, then the Company discloses an estimate of the loss or range of loss, if such estimate can be made and material, or states that such estimate is immaterial if it can be estimated but immaterial, or discloses that an estimate cannot be made. The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve complex judgments about future events. Management is often unable to estimate the loss or a range of loss, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including eventual loss, fine, penalty or business impact, if any.

***Concentration of Risks***

**Concentration of credit risk**

Financial instruments that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and amounts due from related parties. The Company has RMB14.66 billion (US\$2.33 billion) in cash and cash equivalents, restricted cash and short-term investments. The Company has approximately RMB14.07 billion (US\$2.24 billion) in cash, bank deposits and money market funds in the PRC, which constitute about 99.22% of total cash and cash equivalents and short-term investments. The Company’s cash and cash equivalents held at Bank of China represented 42% of the Company’s total cash and cash equivalents as of December 31, 2011, the largest percentage of cash and cash equivalents held at one single financial institution. PRC state-owned banks, like Bank of China, are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those faces a material credit crisis. The Company does not foresee substantial credit risk with respect to cash and cash equivalents held at the PRC state-owned banks. China does not have an official deposit insurance program, nor does it have an agency similar to what was The Federal Deposit Insurance Corporation (FDIC) in the U.S. In the event of bankruptcy of one of the financial institutions in which the Company has deposits or investments, it may be unlikely to claim its deposits or investments back in full.

Accounts receivable are typically unsecured and derived from revenue earned from customers and agents in China, which are exposed to credit risk. The risk is mitigated by credit evaluations the Company performs

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Concentration of Risks (continued)***

on its customers and its ongoing monitoring process of outstanding balances. The Company maintains reserves for estimated credit losses and these losses have generally been within its expectations.

Business and economic risks

The Company participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations or cash flows: changes in the overall demand for services and products; changes in business offerings; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; and risks associated with the Company's ability to attract and retain employees necessary to support its growth.

No customer or any Baidu Union member generated greater than 10% of total revenues in any of the periods presented.

The Company's operations could be adversely affected by significant political, economic and social uncertainties in the PRC.

Currency convertibility risk

Substantially all of the Company's businesses are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the 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 regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Foreign currency exchange rate risk

The Company's exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents and short-term investments denominated in the U.S. dollar. The functional currency of the Company is US\$, and the reporting currency is RMB. Since July 21, 2005, the RMB has been permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On June 19, 2010, the People's Bank of China announced the end of the RMB's de facto peg to US\$, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB's exchange rate flexibility. The exchange rate floating bands will remain the same as previously announced in the inter-bank foreign exchange market. The depreciation of the US\$ against RMB was approximately 4.64% in 2011. Any significant revaluation of RMB may materially and adversely affect the Company's cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, the ADS in U.S. dollars. As a result, an appreciation of RMB against the U.S. dollar would result in foreign currency translation losses when translating the net assets of the Company from the U.S. dollar into RMB.

The functional currency of the subsidiaries in Japan is Japanese Yen ("JPY"), and the reporting currency is RMB. During 2011, JPY appreciated by approximately 1.24% against RMB. The appreciation of JPY against RMB results in foreign currency translation gains when translating the net assets into RMB.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Concentration of Risks (continued)***

For the years ended December 31, 2009, 2010 and 2011, the net foreign currency translation gain or loss resulting from the translation from the respective functional currencies to the RMB reporting currency recorded in the Company's other comprehensive income was RMB3.96 million of loss, RMB3.87 million of loss and RMB32.93 million (US\$5.23 million) of gain, respectively.

***Recent Accounting Pronouncements***

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04"), *Fair Value Measurement* ("ASC 820") which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. The Company will adopt ASU 2011-04 beginning January 1, 2012 and does not expect the adoption to have a material impact on its consolidated financial statements and disclosures.

In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05"), *Comprehensive Income (Topic 220), Presentation of Comprehensive Income*, which eliminates the current option to report other comprehensive income ("OCI") and its components in the statements of shareholders' equity. Instead, an entity will be required to present items of net income and OCI in one continuous statement or in two separate, but consecutive, statements. In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12"), *Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This ASU defers the ASU 2011-05 requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements and the requirement to report reclassification adjustments in interim periods. The amendments in ASU 2011-05 and ASU 2011-12 should be applied retrospectively and are effective for fiscal years and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company early adopted ASU 2011-05 in the year ended December 31, 2011 by presenting items of net income and OCI in one continuous statement, Consolidated Statements of Comprehensive Income. Prior years' comparative information has been rearranged to conform to the presentation in accordance with ASU 2011-05.

In September 2011, the FASB issued ASU No. 2011-08 ("ASU 2011-08"), *Intangibles—Goodwill and Other* ("ASC 350"), which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company early adopted ASU 2011-08 in the fourth quarter of 2011 and elected to perform a qualitative assessment on one of the two reporting units to determine whether further impairment testing on goodwill was necessary.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 3. BUSINESS COMBINATION

The Company completed the following business combinations in 2011:

#### *Acquisition of Qunar*

On July 20, 2011, the Company acquired 62.01% of the equity interest of Qunar, a leading provider of travel search products in China, with which the Company expects to achieve significant synergies. The results of Qunar's operations have been included in the Company's consolidated financial statements since July 20, 2011.

The total purchase consideration of US\$300.28 million is payable in cash, of which US\$260.10 million was paid upon acquisition. The remaining US\$40.18 million was deposited in an escrow account to pay for liabilities resulting from any breach of the representations and warranties made upon the acquisition or indemnifiable loss incurred, if any, such as claims, damages or penalties. The escrowed amount was reserved and included in restricted cash and will be used to pay for the liabilities or the indemnifiable loss, if any, in 18 months from the acquisition date, after which period any remaining amount will be released and transferred to Qunar's original selling shareholders.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of noncontrolling interests, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The following table summarizes the estimated fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of July 20, 2011, the date of acquisition:

	RMB	US\$
	(In thousands)	
Purchase consideration	1,939,569	300,280
Cash and cash equivalents	83,784	13,312
Short-term investments	38,907	6,182
Accounts receivables	22,292	3,542
Other current assets	24,694	3,923
Property, plant and equipment, net	14,367	2,283
Intangible assets, net	711,570	113,057
Accounts payable and accrued liabilities	(68,529)	(10,888)
Deferred tax liabilities, noncurrent	(136,856)	(21,744)
Noncontrolling interests	(102,922)	(16,353)
Redeemable noncontrolling interests	(942,004)	(149,669)
Goodwill	2,294,266	356,635

The valuations used in the purchase price allocation described above were determined by the Company with the assistance of an independent third party valuation firm. The valuation report utilizes and considers generally accepted valuation methodologies such as the income, market and cost approach.

The redeemable noncontrolling interests were initially recorded at fair value on the acquisition date in accordance with ASC 805-20-30-7. The fair value of the redeemable noncontrolling interests is estimated using the income approach. As Qunar is a private company, the fair value measurement is based on significant inputs that are not observable in the market. The fair value estimates are based on significant inputs that market participants would consider when estimating equity fair value of the same industry, which include (a) a discount rate, (b) a projected terminal value based on EBITDA, (c) financial multiples of

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 3. BUSINESS COMBINATION (CONTINUED)

#### *Acquisition of Qunar (continued)*

companies in the same industry as Qunar and (d) adjustments for lack of control or lack of marketability.

The Company has evaluated the fair value of the acquired intangible assets and has assigned the following value and the estimated useful life to those intangible assets: trademarks of RMB317.60 million (US\$50.46 million) with a 10-year useful life, customer relationships of RMB221.7 million (US\$35.22 million) with a 10-year useful life, software of RMB14.2 million (US\$2.26 million) with a 5-year useful life, and a user list of RMB158.07 million (US\$25.11 million) with a 3-year useful life.

The goodwill which is not tax deductible is primarily attributable to synergies expected to be achieved from the acquisition. As of December 31, 2011, there was no impairment in the amount of goodwill resulting from the acquisition of Qunar.

The Company recognized RMB7.58 million (US\$1.21 million) of acquisition related costs which were included in general and administrative expenses in the year ended December 31, 2011.

The amount of revenue and net income of Qunar included in the Company's consolidated statements of comprehensive income from the acquisition date to December 31, 2011 is RMB147.08 million (US\$23.37 million) and RMB2.64 million (US\$0.42 million), respectively.

The following unaudited pro forma consolidated financial information for the years ended December 31, 2010 and 2011 are presented as if the acquisition had occurred at the beginning of the periods presented. These pro forma results have been prepared for comparative purpose only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place on the date indicated.

Pro forma consolidated statements of comprehensive income

	For the years ended December 31,		
	2010 RMB	2011 RMB	2011 US\$
		(In thousands)	
Revenue	8,039,726	14,766,530	2,346,165
Net income attributable to Baidu, Inc.	3,466,089	6,543,899	1,039,721

These amounts have been derived after applying the Company's accounting policies and adjusting the results of Qunar to reflect the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied on January 1, 2010.

#### Noncontrolling interests

The 34.25% equity interest held by the noncontrolling shareholders of Qunar are ordinary shares redeemable at a fixed price of \$1.4553 per share at the holders' option at any time from the acquisition date of July 20, 2011. The redemption feature is not separately exercisable from the underlying ordinary shares representing the noncontrolling interests as Qunar is not publicly traded and the exercise of the redemption feature results in the ordinary shares being surrendered. Therefore, the redemption feature is considered an embedded feature in the ordinary shares that does not require bifurcation. The redeemable noncontrolling interests are classified as mezzanine equity in the consolidated balance sheets as of December 31, 2011 in accordance with ASC 480-10-S99-1, *CFRR: Redeemable Preferred Stock*.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**3. BUSINESS COMBINATION (CONTINUED)**

*Acquisition of Qunar (continued)*

There were no shares redeemed in the year ended December 31, 2011.

As the noncontrolling interests are currently redeemable at any time after the acquisition date, the adjustments of adjusting the carrying amount of the noncontrolling interests to the fixed redemption amount would be recorded at each reporting date. For noncontrolling interests in the form of ordinary shares, adjustments for noncontrolling ordinary shares redeemable at other than fair value (e.g., a fixed amount or formulaic amount) would affect earnings per share calculation. The Company considered the impact of redemption feature only in the calculation of income available to ordinary shareholders of the Company used in the earnings per share calculation without adjusting net income attributable to the Company. The accretion adjustment impact to earnings per share in the current period was immaterial.

The remaining noncontrolling interests of 3.74% arise from share-based payments that were granted by Qunar prior to the acquisition to its board members and employees and attributable to pre-acquisition service. The underlying ordinary shares for the share-based payments are not redeemable and the share-based payments are classified as permanent equity. The portion of the acquisition-date measurement of the share-based payments that is attributable to pre-acquisition service is recognized as noncontrolling interests and the portion relating to any remaining post-acquisition service is recognized as compensation cost in the post-acquisition financial statements. The fair value of the share-based payments is estimated using the Black-Scholes-Merton valuation model by management, with the assistance of an independent third party valuation firm.

*Other acquisitions*

The Company also completed other acquisitions during 2011, including an acquisition of a subsidiary engaged in online reading services and subscriptions, and acquisitions of groups of operating assets, each of which met the definition of a business combination in accordance with ASC subtopic 805-10 ("ASC 805-10"), *Business Combinations: Overall*. The acquired groups of intangible assets included technology, mobile phone software, and trademarks. These acquisitions, which were insignificant individually and in aggregate, resulted of goodwill and intangible assets acquired by RMB174.61 million (US\$27.74 million) and RMB32.04 million (US\$5.09 million), respectively, and liabilities assumed by RMB37.72 million (US\$5.99 million).

**4. INVESTMENTS**

*Short-term investments*

As of December 31, 2011, all the fixed-rate and adjustable-rate investments were time deposits in commercial banks and financial institutions with an original maturity of less than one year. The available-for-sale securities are debt securities with guaranteed return rates.

During the years ended December 31, 2009, 2010 and 2011, the Company recorded interest income, including short-term investment gains, of RMB8.18 million, RMB37.21 million and RMB149.35 million (US\$ 23.73 million) in the consolidated statements of comprehensive income, respectively.

[Table of Contents](#)

BAIDU, INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**4. INVESTMENTS (CONTINUED)****Short-term investments (continued)**

Short-term investments as of December 31, 2010 and 2011 were as follows:

	As of December 31, 2010					
	Amortized cost RMB	Gross unrecognized holding gains RMB	Gross unrecognized holding losses RMB	Fair value RMB		
(In thousands)						
<b>Short-term investments:</b>						
Held-to-maturity securities						
Fixed-rate investments	376,492	5	(1,263)	375,234		
<b>As of December 31, 2011</b>						
	Amortized cost RMB	Gross un- recognized holding gains RMB	Gross unrecognized holding losses RMB	Gross unrealized gains RMB	Fair value RMB	Fair value US\$
(In thousands)						
<b>Short-term investments:</b>						
Held-to-maturity securities						
Fixed-rate investments	9,848,848	10,504	(25,077)	9,834,275	1,562,509	
Adjustable-rate investments	100,048	—	(21)	100,027	15,893	
Available-for-sale securities						
Adjustable-rate investments	102,637			45	102,682	16,314

The Company's held-to-maturity securities are stated at amortized cost. The fair values of the held-to-maturity securities and available-for-sale securities are determined based on a discounted cash flow model using the discount curve of market interest rates.

**Long-term investments**

The Company's long-term investments consist of cost method investments and equity method investments.

Cost method investments

The Company's carrying amount of cost method investments was RMB204.35 million and RMB389.63 million (US\$61.91 million) as of December 31, 2010 and 2011, respectively. The increase is primarily due to an investment of preferred shares of ANJUKE Inc., a private company leading online real estate market place, with a cash consideration of RMB144.76 million (US\$23.00 million).

Equity method investments

The Company established Qiyi.com, Inc. ("Qiyi") in Cayman Islands and held 100% of its ordinary shares. In March 2010, Providence Equity Partners ("Providence"), and Dragon Ventures Limited ("Dragon") subscribed with cash in Series A convertible redeemable preferred shares and in Series A-1 convertible

**4. INVESTMENTS (CONTINUED)**

*Long-term investments (continued)*

preferred shares, respectively, of Qiyi. After the preferred share subscription, the Company had two out of total five seats on board of directors of Qiyi and accounted for the investment under the equity method due to the lack of control of its board of directors and certain substantive participating rights provided to the convertible redeemable preferred shareholders.

In August and December of 2011, the Company subscribed 39.13% of the outstanding Series B convertible redeemable preferred shares of Qiyi (the “Series B preferred shares”) with cash consideration of RMB283.23 million (US\$45 million) and obtained additional ordinary shares with the consideration in the form of future online marketing services to be provided to Qiyi. The Company continues to hold 100% of Qiyi’s ordinary shares, or 53.05% equity interest in Qiyi on an as-converted basis and continues to account for the investment under the equity method due to the lack of control. By applying the equity method, the Company recognized the cumulative losses of Qiyi of RMB119.85 million (US\$19.04 million) and reduced its balances for the investments in ordinary shares and Series B preferred shares accordingly.

In November 2011, Baidu Holdings, IDG-Accel China Capital Fund (“IDG-Accel”), and Qiming Venture Partners (“Qiming”) signed an agreement, pursuant to which IDG-Accel and Qiming subscribed with cash consideration convertible redeemable preferred shares of Youa.com, Inc. (“Youa”), a Cayman Islands company established by Baidu Holdings. Meanwhile, Baidu Holdings spun off a group of assets supporting the operations of online community services, which constituted a business as defined in ASC 805-10, *Business Combinations: Overall*, to Youa and entities under its control. The Company has three out of the total seven seats on board of directors of Youa and accounted for the investment in Youa under the equity method despite holding 100% of its ordinary shares due to the lack of control of its board of directors and certain substantive participating rights provided to the convertible redeemable preferred shares holders. The Company recognized a gain of RMB157.78 million (US\$25.07 million) in the consolidated statements of comprehensive income arising from the difference between the fair value of its retained noncontrolling interests of 100% of ordinary shares in Youa and the carrying value of the assets spun off to Youa. The fair value of the retained investment was estimated using the income-approach based on significant inputs that market participants would consider when estimating fair value in the same industry.

As of December 31, 2011, the Company also holds 29% of the equity interest in Beijing Leftbrain Network Technology Co., Ltd. through Baidu Netcom, 42.12% of the equity interest in Beijing Paibo Times Technology Co., Ltd. through Beijing Perusal, 49% of the equity interest in RakuBai Limited through Baidu HK, 40% of the equity interest in Chongqing Rongdu Technology Co., Ltd. through Baidu Netcom and 40% of the equity interest in Henan Feidian Network Technology Co., Ltd. through Baidu Netcom, all of which were accounted for under the equity method.

The total impairment charges on long-term investments were nil, nil and RMB47.89 million (US\$7.61 million) for the years ended December 31, 2009, 2010 and 2011, respectively.



[Table of Contents](#)BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

## 5. ACCOUNTS RECEIVABLE

	December 31,		
	2010 RMB	2011 RMB	2011 US\$
		(In thousands)	
Accounts receivable	299,123	605,364	96,182
Allowance for doubtful accounts	(2,223)	(5,806)	(922)
	<u>296,900</u>	<u>599,558</u>	<u>95,260</u>

The movements in the allowance for doubtful accounts were as follows:

	2009	2010	2011	2011
	RMB	RMB	RMB	US\$
		(In thousands)		
Balance at the beginning of the year	8,561	9,015	2,223	353
Amounts charged to (credited against) costs and expenses	454	(6,792)	3,583	569
Balance at the end of the year	<u>9,015</u>	<u>2,223</u>	<u>5,806</u>	<u>922</u>

## 6. OTHER ASSETS, CURRENT

	December 31,		
	2010 RMB	2011 RMB	2011 US\$
		(In thousands)	
Deposits	22,832	17,837	2,834
Advances to suppliers	14,913	24,452	3,885
Prepaid expenses	33,275	31,838	5,059
Interest receivable	5,994	17,818	2,831
Receivables from employees	25,014	7,425	1,180
Receivables from service providers	682	5,114	812
Receivables from financial institutions	—	200,494	31,855
Other	944	10,034	1,594
	<u>103,654</u>	<u>315,012</u>	<u>50,050</u>

Receivables from financial institution represent entrusted loans to certain financial institutions, secured by bank notes endorsed to the trusted agency. In an entrusted loan arrangement, the lender makes deposits into a trust account of a bank and authorizes the bank to release the funds to the borrower. The bank collects interest and principal payments from the borrower and remits to the lender as they become due.

[Table of Contents](#)

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

7. FIXED ASSETS

	December 31,		
	2010 RMB	2011 RMB (In thousands)	2011 US\$
Computer equipment	1,956,642	3,450,160	548,175
Office building	391,895	393,865	62,579
Office building related facility, machinery and equipment	137,542	137,209	21,800
Internal-use software development costs	37,022	88,065	13,992
Vehicles	6,829	6,943	1,103
Office equipment	82,431	177,509	28,203
Leasehold improvements	74,793	178,932	28,430
	<u>2,687,154</u>	<u>4,432,683</u>	<u>704,282</u>
Accumulated depreciation	(1,079,539)	(1,691,424)	(268,740)
Construction in progress	14,797	2,982	474
	<u>1,622,412</u>	<u>2,744,241</u>	<u>436,016</u>

In 2011, the Company obtained computer servers by entering into capital leases. The gross amount and the accumulated depreciation of these servers are RMB47.89 million (US\$7.61 million) and RMB1.33 million (US\$0.21 million), respectively, as of December 31, 2011. Future minimum lease payments, including residual value guarantees of RMB3.71 million and interest of RMB5.27 million, are RMB49.03 million that are payable in the amount of RMB16.48 million, RMB16.48 million, RMB12.36 million, RMB3.71 million and nil in 2012, 2013, 2014, 2015 and 2016, respectively.

Depreciation expense was RMB285.20 million, RMB380.89 million and RMB747.74 million (US\$118.81 million) for the years ended December 31, 2009, 2010 and 2011, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

*Goodwill*

The changes in the carrying amount of goodwill are as follows:

	2010 RMB	2011 RMB (In thousands)	2011 US\$
	Balance as of January 1	63,691	63,686
Goodwill acquired	—	2,468,874	392,265
Impairment losses	—	(113,011)	(17,956)
Foreign currency translation adjustment	(5)	(7)	(1)
Balance as of December 31	<u>63,686</u>	<u>2,419,542</u>	<u>384,427</u>

The impairment loss was related to goodwill resulting from an insignificant business combination made in 2011, the underlying business of which was never integrated into the Company's business after its acquisition. Due to a significant decline in the popularity and performance of the acquired business and failure to achieve its expected market share, the Company plans to abandon this acquired business, although certain assets were still in limited use as at December 31, 2011. Hence, an impairment charge was made for the entire amount of goodwill relating to the business acquired.

[Table of Contents](#)

BAIDU, INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

8. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

*Intangible assets*

Finite-lived intangible assets

	As of December 31, 2010		
	Gross carrying value	Accumulated amortization	Net carrying value
	RMB	RMB (In thousands)	RMB
Land use right	97,611	(6,995)	90,616
Customer relationships	31,408	(26,870)	4,538
Software	12,131	(3,572)	8,559
Trademark	1,727	(248)	1,479
Others	16,313	(16,117)	196
	<u>159,190</u>	<u>(53,802)</u>	<u>105,388</u>

	As of December 31, 2011				
	Gross carrying value	Accumulated amortization	Impairment loss	Net carrying value	Net carrying value
	RMB	RMB	RMB (In thousands)	RMB	US\$
Land use right	223,309	(11,252)	—	212,057	33,692
Customer relationships	254,169	(40,168)	(1,031)	212,970	33,838
Software	44,350	(7,465)	(3,424)	33,461	5,316
Trademarks	320,527	(14,567)	—	305,960	48,612
User list	158,070	(23,418)	—	134,652	21,394
Others	37,183	(19,097)	(1,085)	17,001	2,702
	<u>1,037,608</u>	<u>(115,967)</u>	<u>(5,540)</u>	<u>916,101</u>	<u>145,554</u>

## [Table of Contents](#)

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 8. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

#### *Intangible assets (continued)*

Amortization expense for the years ended December 31, 2009, 2010 and 2011 was RMB10.73 million, RMB10.25 million and RMB65.67 million (US\$10.43 million), respectively. Estimated amortization expense relating to the existing intangible assets with finite lives for each of next five years is as follows:

	RMB	US\$
	(In thousands)	
For the years ending December 31,		
2012	126,945	20,170
2013	124,493	19,780
2014	97,352	15,468
2015	64,452	10,240
2016	62,463	9,924

The impairment losses are related to intangible assets acquired from an acquired business in 2011, which the Company plans to abandon as of December 31, 2011. Those impairment losses are included in the line item entitled “Other income, net”.

#### Indefinite-lived intangible assets

	December 31,		
	2010	2011	2011
	RMB	RMB	US\$
	(In thousands)		
Domain name	9,360	9,360	1,487
Trademarks	1,050	3,550	564
License	—	2,000	318
	10,410	14,910	2,369
Impairment loss	—	(2,500)	(397)
	<u>10,410</u>	<u>12,410</u>	<u>1,972</u>

The Company’s indefinite-lived intangible assets include the Company’s trademark of “BAIDU”, one domain name asset, an internet publishing license and other trademarks acquired from business combinations. The domain name asset was acquired in July 2006 and the useful life is indefinite; the Company’s trademark of “BAIDU” qualified as a China well-known trademark by the State Trademark Office in March 2008. The registration costs were recorded as an intangible asset with indefinite useful life.

The impairment loss is related to trademarks acquired from an acquired business in 2011 which the Company plans to abandon as of December 31, 2011. The impairment loss is included in the line item entitled “Other income, net”.

[Table of Contents](#)BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31,		
	2010 RMB	2011 RMB (In thousands)	2011 US\$
Accrued payroll and welfare	150,160	261,273	41,512
Accrued operating expenses	297,248	547,176	86,937
Tax payable	295,432	452,441	71,886
Distributors' and customers' deposits	14,953	61,589	9,785
Purchase of fixed assets	277,669	276,731	43,968
Traffic acquisition costs	133,864	208,980	33,204
Bandwidth costs	34,488	77,061	12,244
Professional expenses	25,937	39,803	6,324
Deposits on online payment platform	38,278	37,067	5,889
Payable for business acquisitions	1,000	439,488	69,828
Others	48,742	143,836	22,853
	<u>1,317,771</u>	<u>2,545,445</u>	<u>404,430</u>

Payable for business acquisitions mainly represents the amount to be paid to the original shareholders of Qunar at the end of the escrow period of eighteen months and considerations to be paid for other acquisitions based on their respective payment schedules.

**10. LOANS PAYABLE****Short-term loans**

On January 11, 2011, Baidu Holdings entered into a short-term loan arrangement with the Bank of China (Macau Branch) for the working capital of Baidu Japan and its subsidiaries in Japan and in the U.S.. The commitment of the loan amounts to RMB188.82 million (US\$30 million), with a floating interest rate of LIBOR plus 1.5% per annum and a maturity term of twelve months. As of December 31, 2011, Baidu Holdings has drawn down RMB125.88 million (US\$20 million), which is secured by the pledge of the Letter of Credit issued by Bank of China (Beijing Branch) to Baidu Online.

**Long-term loans**

On October 27, 2010, Baidu Netcom borrowed a loan from the Export-Import Bank of China to finance some of its government-sponsored research projects, at the annual interest rate of 5.60%, at the inception date and adjusted quarterly by referencing to the People's Bank of China ("PBOC")'s benchmark rate over the same period. The government would provide a cash subsidy at the amount that approximates the interest of the loan. The commitment of the unsecured bank loan amounts to RMB140.00 million (US\$22.24 million) and can be borrowed from time to time within 3 years. As of December 31, 2011, Baidu Netcom borrowed RMB140.00 million (US\$ 22.24 million) under the commitment.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

## 10. LOANS PAYABLE (CONTINUED)

### *Long-term loans (continued)*

The loan is due according to the following schedule from July 30, 2012 to October 30, 2013, with RMB46.0 million being due within one year. Baidu Netcom has the right to repay and may terminate the loan upon advanced notice.

Due date	Principal amount	
	RMB	US\$
	(In thousands)	
July 30, 2012	23,000	3,654
October 30, 2012	23,000	3,654
January 30, 2013	23,000	3,654
April 30, 2013	23,000	3,654
July 30, 2013	23,000	3,654
October 30, 2013	25,000	3,974
	<u>140,000</u>	<u>22,244</u>

On July 19, 2011, the Company borrowed a two-year unsecured loan from Goldman Sachs Lending Partners LLC of RMB2,202.87 million (US\$350 million), at an annual interest rate of 1.30%. The loan was used to finance the acquisition of Qunar and is due on July 14, 2013.

## 11. INCOME TAXES

The Company is incorporated in the Cayman Islands and conducts its primary business operations through the subsidiaries and VIEs in the PRC and Japan. It also has intermediate holding companies in the British Virgin Islands (“BVI”) and Hong Kong. Under the current laws of the Cayman Islands and BVI, the Company is not subject to tax on income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands and BVI withholding tax will be imposed. Under the Hong Kong tax laws, Baidu Hong Kong is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

### *China*

Under the EIT Law, domestic enterprises and Foreign Investment Enterprises (the “FIE”) are subject to a unified 25% enterprise income tax rate, except for certain entities that enjoyed the tax holidays.

An enterprise recognized as a qualified “High and New Technology Enterprise” (“HNTE”) after 2008 is granted the preferential EIT rate of 15%. If an enterprise, which was recognized as a “HNTE” before 2008, is also verified as a HNTE after 2008, it is entitled to its remaining tax holiday granted before 2008 and a preferential EIT rate of 15% upon expiration of the tax holiday thereafter.

A qualified “Software Enterprise” is entitled to 2-year exemption and subsequent 50% tax rate reduction for 3 years. If the applicable preferential EIT rate for a “Software Enterprise” before 2008 is 15%, it enjoys gradual increase in tax rate from 2008 to 2012, specifically, 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012 according to Guofa [2007] No. 39. Thus, if an enterprise was recognized as a qualified “Software Enterprise” before 2008 and still retains this qualification after 2008, the tax exemptions and deductions enjoyed by the qualified “Software Enterprise” are based on the applicable tax rates.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**11. INCOME TAXES (CONTINUED)**

***China (continued)***

Baidu Online, recognized as a qualified “HNTE” after 2008, has enjoyed the preferential EIT rate of 15% from 2008. In April 2011, Baidu Online obtained the certificate of “Key Software Enterprise” for the year of 2010, which enabled Baidu Online to enjoy the preferential tax rate of 10% solely for 2010. The Company recorded an income tax deduction in connection with the over-paid provisional tax for 2010 of RMB81.50 million (US\$12.95 million) in the second quarter of 2011, during which the certificate was granted.

Baidu Times, a qualified “HNTE” before 2008, was granted prior to the effectiveness of the current EIT Law, tax holidays for several years, that is, a 3-year tax exemption from 2006 to 2008, and a subsequent 50% reduction on the tax rate for 3 years from 2009 to 2011.

Baidu China, was recognized as a qualified “Software Enterprise” before 2008 and still retains this qualification after 2008, and thus is entitled to 2-year exemption from 2006 to 2007 and subsequent 50% tax rate reduction for 3 years from 2008 to 2010 at 9% in 2008, 10% in 2009, and 11% in 2010. Baidu China currently is subject to enterprise income tax at 24% in 2011.

Baidu Netcom was recognized as a HNTE after 2010 and is entitled to the preferential EIT rate of 15% for 2010, 2011 and 2012. The Company recorded an income tax deduction in connection with the over-accrued provisional tax for 2010 of RMB21.93 million (US\$3.48 million) in the second quarter of 2011, during which the certificate was granted.

Under the current EIT Law, dividends paid by a FIE to any of its foreign non-resident enterprise investors are subject to a 10% withholding tax. Thus, the dividends, if and when payable by Baidu Online to Baidu BVI, would be subject to 10% withholding tax. A lower tax rate will be applied if such foreign non-resident enterprise investor’s jurisdiction of incorporation has signed a tax treaty or arrangement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income with China. There is such a tax arrangement between PRC and Hong Kong. Thus, the dividends, if and when payable by Baidu Times and Baidu China to Baidu HK, would be subject to 5% withholding tax rather than statutory rate of 10% provided that Baidu HK meets the requirements stipulated by relevant PRC tax regulations. Furthermore, pursuant to the applicable circular and interpretations of the current EIT Law, dividends from earnings created prior to 2008 but distributed after 2008 are not subject to withholding income tax.

Moreover, the current EIT Law treats enterprises established outside of China with “effective management and control” located in China as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC Enterprise Income Tax at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2011, the Company has not accrued for PRC tax on such basis. The Company will continue to monitor its tax status.

***Japan***

Baidu Japan with a paid-in capital in excess of JPY100.00 million is subject to national income tax of 30%. Baidu Japan is also subject to inhabitant tax, assessed by both prefectures and municipalities. Inhabitant tax is computed as a percentage of national income tax. The per capita tax is based on the Company’s capitalization and the number of employees. In addition, Baidu Japan is subject to a corporate enterprise tax on a pro forma basis based on the amount of taxable profit subject to the corporate tax, added-value components, (e.g. labor costs, net interest and rental payments, income/loss for current year) and a capital component. Baidu Japan has been in a cumulative loss position since its inception.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**11. INCOME TAXES (CONTINUED)**

The Company had minimal operations in jurisdictions other than the PRC. Income (loss) before income taxes consists of:

	For the years ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US\$
	(In thousands)			
PRC	1,907,575	4,321,910	8,217,522	1,305,632
Non-PRC	(224,454)	(260,747)	(408,343)	(64,879)
	<u>1,683,121</u>	<u>4,061,163</u>	<u>7,809,179</u>	<u>1,240,753</u>

The pre-tax losses from non-PRC operations consists primarily of the operating costs, administration expenses, interest income and charges for share-based compensation. Income taxes consist of:

	For the years ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US\$
	(In thousands)			
Current income tax	222,778	616,994	1,328,970	211,152
Income tax refund due to reduced tax rate	(13,923)	(6,625)	(83,907)	(13,331)
Deferred income tax benefit	(62,308)	(129,415)	(131,146)	(20,837)
Valuation allowance	51,470	55,041	74,944	11,907
	<u>198,017</u>	<u>535,995</u>	<u>1,188,861</u>	<u>188,891</u>

The reconciliation of tax computed by applying respective statutory income tax rate to pre-tax income is as follows (amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except for per share data):

	For the years ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US\$
Expected taxation at PRC EIT statutory rate	420,780	1,015,329	1,952,295	310,188
Effect of differing tax rates in different jurisdictions	5,101	8,416	43,260	6,873
Permanent differences – non-taxable income	(6,640)	(733)	(2,804)	(445)
Permanent differences – non-deductible expenses	9,001	10,935	9,989	1,588
Tax incentives relating to R&D expenditures	(9,125)	(22,925)	(105,966)	(16,836)
Effect of tax exemption and reduction inside PRC	(258,647)	(533,802)	(650,206)	(103,307)
Income tax refund due to reduced tax rate	(13,923)	(6,625)	(83,907)	(13,331)
Under-provided (over-accrued) EIT for previous years	—	10,359	(66,960)	(10,639)
Effect of tax rate change on deferred taxes	—	—	18,216	2,893
Addition to valuation allowance	51,470	55,041	74,944	11,907
Taxation for the year	<u>198,017</u>	<u>535,995</u>	<u>1,188,861</u>	<u>188,891</u>
Effective tax rate	11.76%	13.20%	15.22%	15.22%
Basic earnings per share for Class A and Class B ordinary shares effect of tax exemptions and reductions inside the PRC	<u>7.48</u>	<u>15.34</u>	<u>18.64</u>	<u>2.96</u>



BAIDU, INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 11. INCOME TAXES (CONTINUED)

The Company's effective tax rate increased in fiscal year 2011 compared with 2010, primarily due to the increase of the EIT rates for Baidu China, which increased from 11% to 24%.

The tax effects of temporary differences that give rise to the deferred tax balances at December 31, 2010 and 2011 are as follows:

	December 31,		
	2010 RMB	2011 RMB	2011 US\$
	(In thousands)		
Provision for doubtful receivables	1,964	2,586	411
Fixed assets depreciation	41,089	36,274	5,763
Net operating loss carry-forward	173,644	248,790	39,529
Accrued expenses, payroll and others	80,592	140,805	22,372
Deferred tax assets	297,289	428,455	68,075
Valuation allowance	(179,959)	(254,919)	(40,503)
Deferred tax assets, net	<u>117,330</u>	<u>173,536</u>	<u>27,572</u>
	December 31,		
	2010 RMB	2011 RMB	2011 US\$
	(In thousands)		
Intangible assets arising from business combinations	—	131,629	20,914
Deferred tax liabilities	—	131,629	20,914

The Company does not believe that sufficient positive evidence exists to conclude that the recoverability of Baidu Japan's net deferred tax assets is more likely than not to be realized. Consequently, the Company has provided full valuation allowances of RMB226.45 million on the related net deferred tax assets.

As of December 31, 2011, the Company had net operating losses of approximately RMB734.10 million (US\$116.64 million) primarily from Baidu Japan, Baidu HK and Baidu HR, which can be carried forward after certain reconciliation per tax regulation to offset future net profit for income tax purposes. The Japan net operating loss will expire beginning 2015; the PRC net operating loss will expire beginning 2017; and the Hong Kong net operating loss can be carried forward without an expiration date.

The Company has evaluated its income tax uncertainty under ASC 740-10. ASC 740-10 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income. As of December 31, 2011, there is no significant tax uncertainty impact on the Company's financial position and result of operations.

The Company did not provide for deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2010 and 2011 on the basis of its intent to permanently reinvest foreign subsidiaries' earnings. If these foreign earnings were to be repatriated in the future, the

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 11. INCOME TAXES (CONTINUED)

related tax liability may be reduced by any foreign income taxes previously paid on these earnings. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. In the case of its VIEs, undistributed earnings were insignificant as of each of the balance sheet dates.

In general, the PRC and Japanese tax authorities have up to five and seven years respectively to conduct examinations of the Company's tax filings. Accordingly, the PRC subsidiaries' tax years 2007-2011 and the Japanese subsidiary's tax years 2007-2011 remain open to examination by the respective taxing jurisdictions.

### 12. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amounts for such employee benefits, which were expensed as incurred, were RMB141.84 million, RMB218.88 million and RMB381.74 million (US\$60.65 million) for the years ended December 31, 2009, 2010 and 2011, respectively.

### 13. COMMITMENTS AND CONTINGENCIES

#### *Capital commitments*

The Company's capital commitments relate primarily to commitments on land use rights for an Internet data center and computer equipment. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB324.10 million (US\$51.49 million) as of December 31, 2011. All of these capital commitments are to be fulfilled within the next year.

#### *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 RMB84.43 million, RMB76.87 million and RMB137.08 million (US\$21.78 million) for the years ended December 31, 2009, 2010 and 2011, respectively.

Future minimum payments under non-cancelable operating leases with initial terms of one-year or more consist of the following at December 31, 2011:

	RMB	US\$
	(In thousands)	
2012	498,853	79,260
2013	379,692	60,327
2014	242,967	38,603
2015	183,288	29,122
2016	145,527	23,122
Thereafter	47,635	7,568
	<u>1,497,962</u>	<u>238,002</u>

**13. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

***Guarantees***

The Company accounts for guarantees in accordance with ASC subtopic 460-10 (“ASC 460-10”), *Guarantees: Overall*. Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460-10, (b) the guarantee is subject to ASC 460-10 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value.

The corporate by-laws require that the Company indemnify its officers and directors, as well as those who act as directors and officers of other entities at the Company’s request, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to the Company. In addition, the Company has entered into separate indemnification agreements with each director and each executive officer of the Company that provide for indemnification of these directors and officers under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in the by-laws and the indemnification agreements. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company’s by-laws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated.

Historically, the Company has not been required to make payments related to these obligations, and the fair value for these obligations is zero in the consolidated balance sheets as of December 31, 2010 and 2011.

Baidu Online has unconditionally guaranteed the repayment of RMB-denominated bank loans from Export-Import Bank of China and related interest and fees of Baidu Netcom. The guarantees continue until the loans, including accrued interest and fees, have been repaid in full. These guarantees expire in 2012. The maximum exposure to the Company under this commitment is RMB140.00 million (US\$ 22.24 million) as of December 31, 2011 and is limited to the sum of unpaid principal and interest, as well as other related expenses.

***Litigation***

Baidu Netcom, Baidu China, Baidu Online and Baidu Times were involved in certain cases pending in various PRC courts and arbitration as of December 31, 2011. These cases include copyright infringement cases, unfair competition cases, and defamation cases, among others. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in the Company’s business practices, which could result in a loss of revenue or otherwise harm the business of the Company.

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

## [Table of Contents](#)

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

### 14. REDEEMABLE NONCONTROLLING INTERESTS

	<u>RMB</u>	<u>US\$</u>
	(In thousands)	
<b>Balance at December 31, 2010</b>	—	—
Acquisition of Qunar (Note 3)	942,004	149,669
Equity issuance of subsidiaries (1)	3,261	518
Current losses	(10,284)	(1,634)
Other comprehensive loss	(995)	(158)
Share-based compensation	1,992	317
<b>Balance at December 31, 2011</b>	<u><b>935,978</b></u>	<u><b>148,712</b></u>

- (1) In December 2011, NTT DOCOMO, Inc. (“DCM”) subscribed with cash new ordinary shares of B.D. Mobile representing 6.98% of its equity interest. The newly issued ordinary shares could be redeemed upon occurrence of certain events that are not solely within the control of B.D. Mobile and are accounted for as redeemable noncontrolling interests.

### 15. SHAREHOLDERS' EQUITY

#### *Ordinary shares*

Upon completion of the Company's initial public offering (“IPO”) in August 2005, 16,648,877 Class B Ordinary shares were issued upon conversion of all convertible preferred shares. In addition, immediately following the closing of the IPO, the Memorandum and Articles of Association were amended and restated such that the authorized share capital consisted of 870,400,000 ordinary shares at a par value of US\$0.00005 per share, of which 825,000,000 shares were designated as Class A ordinary shares, 35,400,000 as Class B ordinary shares, and 10,000,000 shares designated as preferred shares. The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by the holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares. There were 419,654, 650,000 and 1,332 Class B ordinary shares transferred to Class A ordinary shares in 2009, 2010 and 2011, respectively.

As of December 31, 2011 there were 27,111,117 and 7,803,000 Class A and Class B ordinary shares outstanding, respectively. As of December 31, 2010 and 2011, there were no preferred shares issued and outstanding.

#### *Retained earnings*

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's PRC subsidiaries, being foreign invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

15. SHAREHOLDERS' EQUITY (CONTINUED)

*Retained earnings (continued)*

reported in their PRC statutory accounts. Each of the Company's subsidiaries is required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the China Company Laws, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of the Company's VIEs is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of the after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the revised China Company Laws, appropriation to the statutory public welfare fund is no longer mandatory. Appropriations to the discretionary surplus fund are made at the discretion of the Company's VIEs.

General reserve and statutory surplus funds are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare funds are restricted to capital expenditures for the collective welfare of employees. The reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation.

	<u>2010</u>	<u>December 31,</u>	
	<u>RMB</u>	<u>2011</u>	<u>2011</u>
		<u>RMB</u>	<u>US\$</u>
		<u>(In thousands)</u>	
PRC statutory reserve funds	238,107	249,880	39,702
Unreserved retained earnings	6,727,590	13,354,454	2,121,809
	<u>6,965,697</u>	<u>13,604,334</u>	<u>2,161,511</u>

Under PRC laws and regulations, there are restrictions on the Company's PRC subsidiaries and VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts restricted include paid up capital and statutory reserve funds of the Company's PRC subsidiaries and the net assets of VIEs in which the Company has no legal ownership, totaling approximately RMB1.15 billion and RMB1.22 billion (US\$0.19 billion) as of December 31, 2010 and 2011, respectively.

Furthermore, cash transfers from the Company's PRC subsidiaries to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

BAIDU, INC.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**16. EARNINGS PER SHARE (“EPS”)**

On April 28, 2010, the Company announced a change in the ratio of its American depositary shares (“ADSs”) representing Class A ordinary shares from one ADS for one share to ten ADSs for one share, effective on May 12, 2010. For Baidu’s ADS holders, this ratio change has the same effect as ten-for-one ADS split.

The following table sets forth the computation of basic and diluted net income attributable to Baidu, Inc. per share for Class A and Class B ordinary shares.

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except for number of shares, per share and per ADS data)

	For the years ended December 31,							
	2009		2010		2011			
	Class A RMB	Class B RMB	Class A RMB	Class B RMB	Class A RMB	Class A US\$	Class B RMB	Class B US\$
<b>Earnings per share – basic:</b>								
<b>Numerator</b>								
Allocation of net income attributable to Baidu, Inc.	1,107,191	377,913	2,690,712	834,456	5,153,755	818,849	1,484,882	235,924
<b>Denominator</b>								
Weighted average ordinary shares outstanding	25,773,592	8,797,198	26,566,454	8,238,907	27,086,098	27,086,098	7,803,952	7,803,952
Denominator used for earnings per share	25,773,592	8,797,198	26,566,454	8,238,907	27,086,098	27,086,098	7,803,952	7,803,952
<b>Earnings per share - basic</b>	<u>42.96</u>	<u>42.96</u>	<u>101.28</u>	<u>101.28</u>	<u>190.27</u>	<u>30.23</u>	<u>190.27</u>	<u>30.23</u>
<b>Earnings per share – diluted:</b>								
<b>Numerator</b>								
Allocation of net income attributable to Baidu, Inc. for diluted computation	1,107,067	378,037	2,693,365	831,803	5,156,846	819,340	1,481,791	235,433
Reallocation of net income attributable to Baidu, Inc. as a result of conversion of Class B to Class A shares	378,037	—	831,803	—	1,481,791	235,433	—	—
Allocation of net income attributable to Baidu, Inc.	1,485,104	378,037	3,525,168	831,803	6,638,637	1,054,773	1,481,791	235,433
<b>Denominator</b>								
Weighted average ordinary shares outstanding	25,773,592	8,797,198	26,566,454	8,238,907	27,086,098	27,086,098	7,803,952	7,803,952
Conversion of Class B to Class A ordinary shares	8,797,198	—	8,238,907	—	7,803,952	7,803,952	—	—
Share-based awards	205,576	55,210	112,474	350	72,781	72,781	—	—
Denominator used for earnings per share	34,776,366	8,852,408	34,917,835	8,239,257	34,962,831	34,962,831	7,803,952	7,803,952
<b>Earnings per share - diluted</b>	<u>42.70</u>	<u>42.70</u>	<u>100.96</u>	<u>100.96</u>	<u>189.88</u>	<u>30.17</u>	<u>189.88</u>	<u>30.17</u>
<b>Earnings per ADS:</b>								
Denominator used for earnings per ADS - basic	257,735,920	—	265,664,540	—	270,860,980	270,860,980	—	—
Denominator used for earnings per ADS - diluted	347,763,660	—	349,178,350	—	349,628,310	349,628,310	—	—
<b>Earnings per ADS - basic</b>	<u>4.30</u>	<u>—</u>	<u>10.13</u>	<u>—</u>	<u>19.03</u>	<u>3.02</u>	<u>—</u>	<u>—</u>
<b>Earnings per ADS - diluted</b>	<u>4.27</u>	<u>—</u>	<u>10.10</u>	<u>—</u>	<u>18.99</u>	<u>3.02</u>	<u>—</u>	<u>—</u>

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**17. SHARE-BASED AWARDS PLAN**

***Baidu, Inc.***

Incentive compensation plans

In January 2000, the Company adopted the 2000 Option Plan (the “2000 Plan”). The 2000 Plan provided for the granting of share options and restricted ordinary shares to employees and consultants of the Company. All the options granted to Company employees and consultants under the 2000 Plan were nonqualified share options (“NSO”). The Company reserved 5,040,000 ordinary shares for issuance under the 2000 Plan. Under the 2000 Plan, which has expired during 2010, options granted generally vest 25% after the first year of service and ratably each month over the remaining 36-month period.

In December 2008, the Company amended the 2000 Plan by adding a new section regarding adjustment of exercise price. The exercise price per share subject to an option might be amended or adjusted in the absolute discretion of the 2000 Plan administrator, which was the Board of Directors, and the determination of which should be final, binding and conclusive. A downward adjustment of the exercise prices should be effective without the approval of the Company’s shareholders or the approval of the affected grantees.

In December 2008, the Company adopted a share incentive plan (the “2008 Plan”). The 2008 Plan provides for the granting of share incentives, which include incentive share option (“ISO”), restricted shares and any other form of award pursuant to the 2008 Plan, to members of the board, employees and consultants of the Company. However, the Company may grant ISOs only to its employees. The Company has reserved 3,428,777 ordinary shares for issuance under the 2008 Plan, which will expire in the year 2018. The vesting schedule, time and condition to exercise options will be determined by the compensation committee. The term of the options may not exceed ten years from the date of the grant, except that five years is the maximum term of an ISO granted to an employee who holds more than 10% of the voting power of the Company’s share capital.

Under the 2008 Plan, the exercise price per share subject to an option may be amended or adjusted at the discretion of the compensation committee, the determination of which would be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices would be effective without the approval of the Company’s shareholders or the approval of the affected grantees. If the Company grants an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of the Company’s share capital, the exercise price cannot be less than 110% of the fair market value of the Company’s ordinary shares on the date of that grant.

Starting from February 15, 2006, the Company has granted restricted Class A ordinary shares (“Restricted Shares”) of the Company. Terms for Restricted Shares are the same as share options except that Restricted Shares do not require exercise and have a two to four years vesting term.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

17. SHARE-BASED AWARDS PLAN (CONTINUED)

*Baidu, Inc. (continued)*

The following table summarizes the option activity for the year ended December 31, 2011:

	<u>Number of shares</u>	<u>Weighted average exercise price (US\$)</u>	<u>Weighted average remaining contractual life (Years)</u>	<u>Aggregate intrinsic value (US\$) (In thousands)</u>
<b>Share options</b>				
Outstanding, December 31, 2010	99,175	237.99	2.57	72,164
Granted	12,748	1,218.68		
Exercised	(37,330)	105.57		
Forfeited/Cancelled	(2,594)	511.19		
Expired	—	—		
Outstanding, December 31, 2011	<u>71,999</u>	470.45	2.62	51,539
Vested and expected to vest at December 31, 2011	<u>67,258</u>	460.47	2.59	48,782
Exercisable at December 31, 2011	<u>37,991</u>	254.67	2.06	34,573

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on the last trading day in 2011 and the exercise price.

Total intrinsic value of options exercised for the three years ended December 31, 2009, 2010 and 2011 was RMB340.13 million, RMB263.97 million and RMB275.86 million (US\$43.83 million), respectively.

As of December 31, 2011, there was RMB53.09 million (US\$8.43 million) unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of 2.53 years. To the extent the actual forfeiture rate is different from original estimate, actual share-based compensation costs related to these awards may be different from the expectation.

As of December 31, 2011, there was RMB328.42 million (US\$52.18 million) unrecognized share-based compensation cost related to restricted shares. That deferred cost will be recognized over a weighted-average vesting period of 2.89 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation costs related to these awards may be different from the expectation.

The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton valuation model. The volatility assumption was estimated based on implied volatility and historical volatility of the Company's share price applying the guidance provided by ASC subtopic 718-10 ("ASC 718-10"), *Compensation-Stock Compensation: Overall*. The Company considered the comparable data in 2008 because the Company had limited relevant historical information to support the expected volatility assumption as the Company has been a public company only since August 2005. The Company begins to estimate the volatility assumption solely based on its historical information since 2009. Assumptions about the expected term were based on the vesting and contractual terms and employee demographics. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.



BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

## 17. SHARE-BASED AWARDS PLAN (CONTINUED)

### *Baidu, Inc. (continued)*

The following table presents the assumptions used to estimate the fair values of the share options granted in the periods presented:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Risk-free interest rate	1.18%	0.61%~1.13%	0.31%~1.03%
Dividend yield	—	—	—
Expected volatility range	85.43%	64.76%~69.70%	48.20%~61.58%
Weighted average expected volatility	85.43%	68.12%	58.27%
Expected life (in years)	2.65	2.65~2.66	2.66~3.00

In addition, the Company recognizes share-based compensation expense net of an estimated forfeiture rate and therefore only recognizes compensation cost for those shares expected to vest over the service period of the award. The estimation of the forfeiture rate is based primarily upon historical experience of employee turnover. To the extent the Company revises this estimate in the future, the share-based payments could be materially impacted in the year of revision, as well as in following years. During the year ended December 31, 2011, the estimated forfeiture rate increased for the employee group in accordance with the changes in historical employee turnover rates.

The exercise price of options granted during the years 2009, 2010, and 2011 equaled the market price of the ordinary shares on the grant date. The weighted-average grant-date fair value of options granted during the years 2009, 2010, and 2011 was US\$94.10, US\$279.69, and US\$432.68, respectively.

### Restricted shares

Restricted shares activity for the year ended December 31, 2011 was as follows:

	<u>Number of shares</u>	<u>Weighted average grant date fair value(US\$)</u>
<b>Restricted shares</b>		
Unvested, December 31, 2010	49,617	643.22
Granted	40,558	1,372.90
Vested	(27,115)	535.64
Forfeited	(6,838)	972.08
Unvested, December 31, 2011	56,222	1,181.49

The total fair value of the restricted shares vested during the years ended December 31, 2009, 2010 and 2011 was RMB201.83 million, RMB237.71 million, RMB198.77 million (US\$31.58 million), respectively.

### *Qunar Cayman Islands Limited*

In November 2007, Qunar adopted an equity incentive plan (the "2007 Plan"). Under the 2007 plan, Qunar may grant options to its employees, directors and consultants to purchase an aggregate of no more than 9,600,140 ordinary shares of Qunar. Under the terms of the 2007 Plan, the exercise price of any option is at least 100% of the fair market value per share on the date of grant but in no circumstances less than the par value per share. These options generally vest over two to four years with a contractual life of 10 years from the date of grant.

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**17. SHARE-BASED AWARDS PLAN (CONTINUED)**

*Qunar Cayman Islands Limited (continued)*

In connection with the investment of Baidu, Inc., Qunar amended the 2007 Plan by 1) increasing the number of shares available for issuance to 26,060,000; and 2) allowing the Board of Directors of Qunar to determine the exercise price of any option at its sole discretion.

The above ordinary shares available for issuance account for an insignificant part of Qunar's total outstanding ordinary shares.

In addition, Qunar recognizes share-based compensation expense net of an estimated forfeiture rate and therefore only recognizes compensation cost for those shares expected to vest over the requisite service period of the award. The total fair value of shares vested from Baidu, Inc.'s acquisition on July 20, 2011 to December 31, 2011 was RMB5.02 million (US\$0.79 million). As of December 31, 2011, there was RMB37.91 million (US\$6.02 million) unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of 2.72 years. To the extent the actual forfeiture rate is different from original estimate, actual share-based compensation costs related to these awards may be different from the expectation. The impact of Qunar's option plan is not significant to the Company.

The following table summarizes total compensation cost recognized:

	For the years ended December 31,			
	2009	2010	2011	2011
	RMB	RMB	RMB	US\$
	(In thousands)			
Cost of revenues	6,374	6,302	7,527	1,196
Selling, general and administrative	38,681	36,811	50,012	7,946
Research and development	41,263	50,623	94,489	15,013
Recognized as part of internal-used software	1,217	226	1,700	270
	<u>87,535</u>	<u>93,962</u>	<u>153,728</u>	<u>24,425</u>

**18. RELATED PARTY TRANSACTIONS**

The amounts due from related parties mainly represent amounts in connection with advertising services provided and borrowings provided by the Company to its equity investees. The amounts due from the equity investees are unsecured and repayable on contract terms, which arose in the ordinary course of business.

The amounts due to related parties represent unsecured and interest free loans provided by the Company's equity investees, which arose in the ordinary course of business.

[Table of Contents](#)BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011**19. SEGMENT REPORTING**

The Company has only one single operating segment. The Company's revenue and long-lived assets are primarily derived from and located in the PRC. The Company has only minimal operations in Japan and other countries.

The following table sets forth revenues by geographic area:

	For the years ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US\$
(In thousands)				
Revenues:				
PRC	4,441,580	7,898,805	14,444,636	2,295,022
Non-PRC	6,196	16,269	56,150	8,921
	<u>4,447,776</u>	<u>7,915,074</u>	<u>14,500,786</u>	<u>2,303,943</u>

The following table sets forth long-lived assets by geographic area:

	December 31,		
	2010 RMB	2011 RMB	2011 US\$
(In thousands)			
Long-lived assets:			
PRC	1,785,511	5,497,068	873,396
Non-PRC	45,872	180,321	28,650
	<u>1,831,383</u>	<u>5,677,389</u>	<u>902,046</u>

**20. FAIR VALUE MEASUREMENT**

ASC subtopic 820-10 ("ASC 820-10"), *Fair Value Measurements and Disclosures: Overall*, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2—Include other inputs that are directly or indirectly observable in the marketplace

Level 3—Unobservable inputs which are supported by little or no market activity

ASC 820-10 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

[Table of Contents](#)

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**20. FAIR VALUE MEASUREMENT (CONTINUED)**

*Assets and liabilities measured at fair value on a recurring basis*

In accordance with ASC 820-10, the Company measures cash equivalents and debt and equity securities, including held-to-maturity and available-for-sale securities, at fair value. Cash equivalents are valued using quoted market prices. The fair values of the Company's held-to-maturity securities and available-for-sale securities are determined based on the discounted cash flow model using the discount curve of market interest rates.

Assets measured at fair value on a recurring basis are summarized below (in thousands):

	Fair value measurement at December 31, 2010 using			Total fair value at December 31, 2010 RMB
	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	
<b>Cash equivalents:</b>				
Time deposits	3,905,479	—	—	3,905,479
Money market fund	993,047	—	—	993,047
<b>Short-term investments:</b>				
Held-to-maturity securities				
Fixed-rate investments	—	375,234	—	375,234
<b>Long-term investments</b>				
Available-for-sale securities	—	—	24,814	24,814
	<u>4,898,526</u>	<u>375,234</u>	<u>24,814</u>	<u>5,298,574</u>

	Fair value measurement at December 31, 2011 using			Total fair value at December 31, 2011	
	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	RMB	US\$
<b>Cash equivalents:</b>					
Time deposits	2,419,726	—	—	2,419,726	384,456
Money market fund	192,324	—	—	192,324	30,557
<b>Short-term investments:</b>					
Held-to-maturity securities					
Fixed-rate investments	—	9,834,275	—	9,834,275	1,562,509
Adjustable-rate investments	—	100,027	—	100,027	15,893
Available-for-sale securities	—	102,682	—	102,682	16,314
	<u>2,612,050</u>	<u>10,036,984</u>	<u>—</u>	<u>12,649,034</u>	<u>2,009,729</u>

[Table of Contents](#)

BAIDU, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011

**20. FAIR VALUE MEASUREMENT (CONTINUED)**

*Assets and liabilities measured at fair value on a recurring basis (continued)*

The following table presents a reconciliation for the Company's assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) for the year ended December 31, 2011 (in thousands):

	Significant unobservable inputs (Level 3)	
	RMB	US\$
Balance at December 31, 2010	24,814	3,942
Settlements	(24,814)	(3,942)
Change in unrealized gain (loss) included in other comprehensive income	—	—
Balance at December 31, 2011	—	—

*Assets and liabilities measured at fair value on a nonrecurring basis*

The Company measures certain financial assets, including equity method investments and cost method investments, at fair value on a nonrecurring basis only if an impairment charge were to be recognized. The Company's non-financial assets, such as intangible assets, goodwill and fixed assets, would be measured at fair value only if they were determined to be other-than-temporarily impaired.

In the year ended December 31, 2011, certain cost and equity method investments (Note 4), goodwill (Note 8) and intangible assets (Note 8) were measured using significant unobservable inputs (Level 3) and written down from their carrying amounts to fair value of nil, with impairment charges incurred and included in earnings for the year.

**21. SUBSEQUENT EVENTS**

On February 8, 2012, the Company received a government subsidy for the cloud computing and open service platform project at the amount of RMB150 million (US\$23.83 million), part of the total amount to be granted at RMB400 million (US\$63.55 million). The subsidy is recognized as a liability when received and will be released to other operating income when certain conditions are met.

**Supplementary Agreement to Exclusive Technology Consulting and Services Agreement (No. 18)**

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu Netcom Science Technology Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS:**

Parties A and B entered into the Exclusive Technology Consulting and Services Agreement (the Original Agreement) on March 22, 2005;

Through friendly negotiation, the parties hereto agree to supplement the Original Agreement as follows on April 22, 2010:

1. The parties agree to amend Section 2.1 of the Original Agreement as follows:

“The parties agree to calculate and pay the consulting service fees in the matter specified in Appendix 2. Meanwhile, Party A shall have the right to decide the amount and/or the calculation of the service fees at its sole discretion.”

2. This Supplementary Agreement shall form an integral part of the Original Agreement. This Supplementary Agreement shall prevail should there be any inconsistency between the Original Agreement and this Supplementary Agreement. The Original Agreement shall be applied to the matters not provided in this Supplementary Agreement.

3. This Supplementary Agreement shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect. This Supplementary Agreement shall be effective upon the parties' signing.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized representative: Haoyu Shen

Signature: /s/ Haoyu Shen

Seal: (the seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Baidu Netcom Science Technology Co., Ltd.**

Authorized representative:

Signature: /s/ Authorized representative

Seal: (the seal of Baidu Netcom Science Technology Co., Ltd.)

**Supplementary Agreement to the Loan Agreement**

This Supplementary Agreement to the Loan Agreement (the "Agreement") is entered into as of January 11, 2011 in Beijing by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District,  
Beijing 100085, The People's Republic of China

**Party B:** **Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District,  
Beijing 100085, The People's Republic of China

**Party C:** **Robin Yanhong Li**  
**Party D:** **Eric Yong Xu**  
**Party E:** **Haoyu Shen**

**WHEREAS,**

1. Party A provided to Party C and Party D an interest-free loan of RMB2,000,000 in June 2001 for them to invest in Party B; Parties A, C and D executed the Confirmation of Loan (the "Original Agreement") on April 27, 2004 to confirm the interest-free loan of RMB1,500,000 and RMB500,000 provided by Party A to Parties C and D, respectively for them to invest in Party B (the "Original Loan").
2. Party D has transferred its investment of RMB500,000 in the registered capital of Party B to Party E (the "Share Transfer").
3. Upon the completion of the Share Transfer, Party E agrees to assume all the rights and obligations of Party D under the Original Agreement. All the parties to the Original Agreement accepted such an arrangement and agreed to restate the Original Agreement.

**NOW THEREFORE,** the parties agree as follows:

1. The parties hereto confirm that the Share Transfer has been registered with the industrial and commercial authorities on January 11, 2011. Party A hereby confirms that it has approved such Share Transfer.
2. The parties agree that, upon the effective date of the Share Transfer, (1) Party E shall automatically replace Party D to be a party to the Original Agreement, and assume all the rights and obligations of Party D under the Original Agreement according to the terms and conditions of the Original Agreement, including but not limited to the repayment of the Original Loan; (2) Accordingly, Party D shall not enjoy any right or undertake any obligation under the Original Agreement.
3. The parties agree and confirm that, this Agreement shall automatically constitute an amendment of the Original Agreement upon its effective date. Parties A, C and D may enter into a separate agreement pursuant to the amendment to the Original Agreement made hereunder so as to restate the rights and obligations of Party A (as the lender) and Parties C and E (as the borrowers) if they consider necessary.

- 
4. This Agreement shall become effective upon the execution of the parties.
  5. Section 16 of the Original Agreement shall apply to the dispute resolution of this Agreement.
  6. This Agreement shall be executed in five originals, each party holding one original. All the originals shall have the same legal effect.

[Signature page below]



[No text on the signature page]

<b>Party A:</b>	<b>Baidu Online Network Technology (Beijing) Co., Ltd.</b>
Authorized representative:	/s/ Haoyu Shen
Company seal:	(with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)
<b>Party B:</b>	<b>Baidu Netcom Science Technology Co., Ltd.</b>
Authorized representative:	/s/ Authorized Representative
Company seal:	(with the company seal of Baidu Netcom Science Technology Co., Ltd.)
<b>Party C:</b>	<b>Robin Yanhong Li</b>
Signature:	/s/ Robin Yanhong Li
<b>Party D:</b>	<b>Eric Yong Xu</b>
Signature:	/s/ Eric Yong Xu
<b>Party E:</b>	<b>Haoyu Shen</b>
Signature:	/s/ Haoyu Shen

**Supplementary Agreement to Exclusive Technology Consulting and Services Agreement (No. 18)**

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Beijing Perusal Technology Co., Ltd.  
Address: Room A2, 2/F, No.17 Building, Zhongguancun Software Park, No.8 Northeast Wangxi Road, Haidian District, Beijing

**WHEREAS:**

Parties A and B entered into the Exclusive Technology Consulting and Services Agreement (the Original Agreement) on June 23;

Through friendly negotiation, the parties hereto agree to supplement the Original Agreement as follows on April 22, 2010:

1. The parties agree to amend Section 2.1 of the Original Agreement as follows:

“The parties agree to calculate and pay the consulting service fees in the matter specified in Appendix 2. Meanwhile, Party A shall have the right to decide the amount and/or the calculation of the service fees at its sole discretion.”

2. This Supplementary Agreement shall form an integral part of the Original Agreement. This Supplementary Agreement shall prevail should there be any inconsistency between the Original Agreement and this Supplementary Agreement. The Original Agreement shall be applied to the matters not provided in this Supplementary Agreement.

3. This Supplementary Agreement shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect. This Supplementary Agreement shall be effective upon the parties' signing.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized representative: Haoyu Shen  
Signature: /s/ Haoyu Shen  
Seal: (the seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Beijing Perusal Technology Co., Ltd.**

Authorized representative:  
Signature:  
Seal: (the seal of Baidu Netcom Science Technology Co., Ltd.)

**Amended and Restated Equity Pledge Agreement**

This Amended and Restated Equity Pledge Agreement (this "Agreement"), dated January 16, 2012 is made in Beijing by and between:

**Pledgee:**

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

**Pledgor:**

**Party B: Yazhu Zhang**

Address:

**WHEREAS:**

1. Party A is a wholly foreign-owned enterprise registered in Beijing, the People's Republic of China (the "PRC").
2. Party B is a citizen of the PRC and owns 20% of the equity interest in Beijing Perusal Technology Co., Ltd., a limited liability company registered in Beijing, PRC ("Beijing Perusal").
3. Party A and Party B entered into the Amended and Restated Loan Agreement on \_\_\_\_\_, pursuant to which Party A made a loan in an amount of RMB2,000,000 (the "Loan") to Party B (the "Loan Arrangement").
4. Party A and \_\_\_\_\_ entered into the Exclusive Technology Consulting and Service Agreement (the "Service Agreement"). The term of the Service Agreement is 10 years. Pursuant to the Service Agreement, \_\_\_\_\_ shall pay Party A consulting and service fees (the "Fees") for the technology consulting and services provided by Party A.
5. In order to ensure that Party B will perform the obligations under the Loan Agreement and Party A can collect the Fees from Beijing Perusal which is held by Party B, Party B agrees to pledge all the equity interest in Beijing Perusal as security for the Loan and the Fees. Therefore, Party A (the "Pledgee") and Party B (the "Pledgor") intend to enter into this Agreement to specify their rights and obligations.

**NOW THEREFORE**, through friendly negotiation, the Pledgee and the Pledgor agree as follows:

1. Definitions:

Unless otherwise provided in this Agreement, the following terms shall have the following meanings:

- 1.1 "Pledge" shall have the meaning specified in Section 2 of this Agreement.

- 1.2 “Equity Interest”: refers to all of the equity interest in Beijing Perusal legally held by the Pledgor.
- 1.3 “Rate of Pledge”: refers to the ratio between the value of the Pledge under this Agreement and the total amount of the Loan and the Fees.
- 1.4 “Term of Pledge”: refers to the period specified in Section 3.2 of this Agreement.
- 1.5 “Principal Agreements”: refers to the Service Agreement and the agreements under the Loan Arrangement.
- 1.6 “Event of Default”: refers to any event listed in Section 7.1 of this Agreement.
- 1.7 “Notice of Default”: refers to the notice of default issued by the Pledgee in accordance with this Agreement.

2. Pledge

The Pledgor agrees to pledge the Equity Interest in Beijing Perusal to the Pledgee as security for (i) the obligations under the Loan Arrangement; and (ii) the obligations of Beijing Perusal under the Service Agreement. “Pledge” refers to the right of the Pledgee to be entitled to priority in receiving payment in the form of the Equity Interest based on the conversion value thereof, or from the proceeds from the auction or sale of the Equity Interest pledged by the Pledgor to the Pledgee.

3. Rate of Pledge and Term of Pledge

3.1 Rate of Pledge

The rate of the Pledge shall be approximately 100%.

3.2 Term of Pledge

3.2.1 The Pledge shall take effect as of the date when the pledge of the Equity Interest is recorded in the register of shareholders of Beijing Perusal and registered with the competent industrial and commercial authorities, and shall remain in effect until two (2) years after the obligations under the Principal Agreements have been fulfilled.

3.2.2 During the Term of Pledge, the Pledgee shall be entitled to dispose of the pledged assets in accordance with this Agreement in the event that Pledgor do not perform the obligation under the Loan Arrangement or Beijing Perusal fails to pay the Fees under the Service Agreement.

4. Physical Possession Of Pledge Documents
  - 4.1 During the Term of Pledge under this Agreement, the Pledgor shall deliver the physical possession of the certificate of capital contribution and the register of shareholders of Beijing Perusal to the Pledgee within one (1) week after the date 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 shareholders of Beijing Perusal (see Appendix I).
5. Representation and Warranty of the Pledgor
  - 5.1 The Pledgor is the legal owner of the Equity Interest pledged. The Pledge has been duly approved by the shareholders' resolutions (see Appendix II).
  - 5.2 The Pledgor did not pledge the Equity Interest or the Equity Interest is not encumbered to any other person except for the Pledgee.
6. Undertaking of the Pledgor
  - 6.1 During the effective term of this Agreement, the Pledgor undertakes to the Pledgee for its benefit that the Pledgor shall:
    - 6.1.1 Not transfer 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 the Pledgor's 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 the obligations under this Agreement.
  - 6.2 The Pledgor agrees that the Pledgee's right to the Pledge under 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 Pledgor undertakes to the Pledgee that in order to protect or perfect the security for the payment of the Loan and the Fees, the Pledgor 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 facilitate the Pledgee to exercise its rights under this Agreement.

- 6.4 The Pledgor undertakes to the Pledgee to execute all amendment documents (if applicable and necessary) in connection to the certificate of the 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 within reasonable time if the Pledgee considers necessary.
- 6.5 The Pledgor undertakes to the Pledgee to comply with and perform all the guarantees, covenants, warranties, representations and conditions for the benefits of the Pledgee. The Pledgor shall compensate all the losses suffered by the Pledgee for the reasons that the Pledgor does not perform or fully perform such guarantees, covenants, warranties, representations and conditions.

7. Event Of Default

- 7.1 The following events shall be regarded as events of default:
  - 7.1.1 The Pledgor fails to perform the obligations under the Loan Arrangement and its supplementary agreements;
  - 7.1.2 Beijing Perusal fails to make full payment of the Fees as scheduled under the Service Agreement;
  - 7.1.3 The Pledgor makes any material misleading or mistaken representations or warranties under Section 5, and/or the Pledgor breaches any warranties under Section 5;
  - 7.1.4 The Pledgor breaches the covenants under Section 6;
  - 7.1.5 The Pledgor breaches other terms or conditions herein;
  - 7.1.6 The Pledgor waives the pledged Equity Interest or transfers or assigns the pledged Equity Interest without prior written consent of 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 Beijing Perusal 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 Beijing Perusal 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 omission 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 realize any event under Section 7.1 or any event that may result in the foregoing events.
- 7.3 Unless the event of default under Section 7.1 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 Fees under the Service Agreement and other payables or exercise the Pledge right in accordance with Section 8.

8. Exercise of the Pledge

- 8.1 The Pledgor shall not transfer the Equity Interest without prior written consent of the Pledgee prior to the full repayment of the Loan or the Fees 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 Section 7.3, the Pledgee may exercise the right of pledge at any time when the Pledgee gives a Notice of Default in accordance with Section 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 Fees under the Service Agreement, the outstanding debt and all other payables of Pledgor under Loan Arrangement 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 can realize the Pledge.

9. Assignment

- 9.1 The Pledgor shall not donate or transfer there rights and obligations herein without prior consent of the Pledgee.

- 9.2 This Agreement shall be binding upon the Pledgor and the successors of the Pledgor, and be binding on the Pledgee and its each successor and assignee.
- 9.3 The Pledgee may transfer or assign its all or any rights and obligations under the Service Agreement, the Loan Arrangement and its supplementary agreements to any individual it specifies (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, the Loan Arrangement and its supplementary agreements, and such transfer shall only be subject to a written notice serviced to the Pledgor, and at the request of the Pledgee, the Pledgor 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 executed as of the date first set forth above and effective from the date when the pledge is recorded on the register of shareholders of Beijing Perusal.

11. Termination

This Agreement shall not be terminated until the Loan under the Loan Arrangement and the Fees under the Service Agreement are paid off and the Pledgor does not undertake any obligations under the Loan Arrangement and Beijing Perusal does 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 Pledgor 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 Pledgor 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 Pledgor fails 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 affected 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 in person, 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 a 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.

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing  
Telephone: 010-59928888

Party B: Yazhu Zhang  
Address:  
Telephone:

17. Entire Agreement

Notwithstanding Section 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 relating to this Agreement.

18. Severability

Any provision of this Agreement which is invalid or unenforceable because of inconsistency 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 integral parts of this Agreement.

20. Amendment or Supplement

20.1 The 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 in Chinese in two originals, each party holding an original. All the originals shall have the same legal effect.

[No text below]

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative or authorized representative on its behalf as of the date first set forth above.

**Pledgee: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal representative/authorized representative:

Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Pledgor: Yazhu Zhang**

Signature: /s/ Yazhu Zhang

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Appendix:

1. Register of shareholders of Beijing Perusal.
2. Resolutions of the General Shareholders' Meeting of Beijing Perusal.

Register of shareholders of Beijing Perusal

Name of the shareholder: Jiping Liu  
Residential address:  
Capital contribution: RMB8,000,000  
Percentage of capital contribution: 80%  
No. of the certificate of capital contribution:

Name of the shareholder: Yazhu Zhang  
Residential address:  
Capital contribution: RMB2,000,000  
Percentage of capital contribution: 20%  
No. of the certificate of capital contribution:

Jiping Liu holds 80% of the shares of Beijing Perusal Technology Co., Ltd. which have been pledged to Baidu Online Network Technology (Beijing) Co., Ltd.

Yazhu Zhang holds 20% of the shares of Beijing Perusal Technology Co., Ltd. which have been pledged to Baidu Online Network Technology (Beijing) Co., Ltd.

Baidu Online Network Technology (Beijing) Co., Ltd. is the pledgee of 100% of the shares in Beijing Perusal Technology Co., Ltd.

**Beijing Perusal Technology Co., Ltd.**

Signature:  
Name:  
Title: :Legal representative (with the company seal of Beijing Perusal Technology Co., Ltd.)  
Date:

Appendix II

Resolutions of the General Shareholders' Meeting of Beijing Perusal

As for the Amended and Restated Equity Pledge Agreement executed on \_\_\_\_\_ between the shareholders of Beijing Perusal 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 \_\_\_\_\_ by the following shareholders:

Shareholder: Jiping Liu

Signature:

Shareholder: Yazhu Zhang

Signature:

## Amended and Restated Equity Pledge Agreement

This Amended and Restated Equity Pledge Agreement (this "Agreement"), dated January 16, 2012 is made in Beijing by and between:

### Pledgee:

#### Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

### Pledgor:

#### Party B: Jiping Liu

Address:

### WHEREAS:

1. Party A is a wholly foreign-owned enterprise registered in Beijing, the People's Republic of China (the "PRC").
2. Party B is a citizen of the PRC and owns 80% of the equity interest in Beijing Perusal Technology Co., Ltd., a limited liability company registered in Beijing, PRC ("Beijing Perusal").
3. Party A and Party B entered into the Amended and Restated Loan Agreement on \_\_\_\_\_, pursuant to which Party A made a loan in an amount of RMB8,000,000 (the "Loan") to Party B (the "Loan Arrangement").
4. Party A and \_\_\_\_\_ entered into the Exclusive Technology Consulting and Service Agreement (the "Service Agreement"). The term of the Service Agreement is 10 years. Pursuant to the Service Agreement, \_\_\_\_\_ shall pay Party A consulting and service fees (the "Fees") for the technology consulting and services provided by Party A.
5. In order to ensure that Party B will perform the obligations under the Loan Agreement and Party A can collect the Fees from Beijing Perusal which is held by Party B, Party B agrees to pledge all the equity interest in Beijing Perusal as security for the Loan and the Fees. Therefore, Party A (the "Pledgee") and Party B (the "Pledgor") intend to enter into this Agreement to specify their rights and obligations.

**NOW THEREFORE**, through friendly negotiation, the Pledgee and the Pledgor agree as follows:

### 1. Definitions:

Unless otherwise provided in this Agreement, the following terms shall have the following meanings:

- 1.1 "Pledge" shall have the meaning specified in Section 2 of this Agreement.

- 1.2 “Equity Interest”: refers to all of the equity interest in Beijing Perusal legally held by the Pledgor.
- 1.3 “Rate of Pledge”: refers to the ratio between the value of the Pledge under this Agreement and the total amount of the Loan and the Fees.
- 1.4 “Term of Pledge”: refers to the period specified in Section 3.2 of this Agreement.
- 1.5 “Principal Agreements”: refers to the Service Agreement and the agreements under the Loan Arrangement.
- 1.6 “Event of Default”: refers to any event listed in Section 7.1 of this Agreement.
- 1.7 “Notice of Default”: refers to the notice of default issued by the Pledgee in accordance with this Agreement.

## 2. Pledge

The Pledgor agrees to pledge the Equity Interest in Beijing Perusal to the Pledgee as security for (i) the obligations under the Loan Arrangement; and (ii) the obligations of Beijing Perusal under the Service Agreement. “Pledge” refers to the right of the Pledgee to be entitled to priority in receiving payment in the form of the Equity Interest based on the conversion value thereof, or from the proceeds from the auction or sale of the Equity Interest pledged by the Pledgor to the Pledgee.

## 3. Rate of Pledge and Term of Pledge

### 3.1 Rate of Pledge

The rate of the Pledge shall be approximately 100%.

### 3.2 Term of Pledge

3.2.1 The Pledge shall take effect as of the date when the pledge of the Equity Interest is recorded in the register of shareholders of Beijing Perusal and registered with the competent industrial and commercial authorities, and shall remain in effect until two (2) years after the obligations under the Principal Agreements have been fulfilled.

3.2.2 During the Term of Pledge, the Pledgee shall be entitled to dispose of the pledged assets in accordance with this Agreement in the event that Pledgor do not perform the obligation under the Loan Arrangement or Beijing Perusal fails to pay the Fees under the Service Agreement.



4. Physical Possession Of Pledge Documents
  - 4.1 During the Term of Pledge under this Agreement, the Pledgor shall deliver the physical possession of the certificate of capital contribution and the register of shareholders of Beijing Perusal to the Pledgee within one (1) week after the date 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 shareholders of Beijing Perusal (see Appendix I).
5. Representation and Warranty of the Pledgor
  - 5.1 The Pledgor is the legal owner of the Equity Interest pledged. The Pledge has been duly approved by the shareholders' resolutions (see Appendix II).
  - 5.2 The Pledgor did not pledge the Equity Interest or the Equity Interest is not encumbered to any other person except for the Pledgee.
6. Undertaking of the Pledgor
  - 6.1 During the effective term of this Agreement, the Pledgor undertakes to the Pledgee for its benefit that the Pledgor shall:
    - 6.1.1 Not transfer 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 the Pledgor's 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 the obligations under this Agreement.
  - 6.2 The Pledgor agrees that the Pledgee's right to the Pledge under 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 Pledgor undertakes to the Pledgee that in order to protect or perfect the security for the payment of the Loan and the Fees, the Pledgor 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 facilitate the Pledgee to exercise its rights under this Agreement.

- 6.4 The Pledgor undertakes to the Pledgee to execute all amendment documents (if applicable and necessary) in connection to the certificate of the 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 within reasonable time if the Pledgee considers necessary.
- 6.5 The Pledgor undertakes to the Pledgee to comply with and perform all the guarantees, covenants, warranties, representations and conditions for the benefits of the Pledgee. The Pledgor shall compensate all the losses suffered by the Pledgee for the reasons that the Pledgor does not perform or fully perform such guarantees, covenants, warranties, representations and conditions.

7. Event Of Default

- 7.1 The following events shall be regarded as events of default:
  - 7.1.1 The Pledgor fails to perform the obligations under the Loan Arrangement and its supplementary agreements;
  - 7.1.2 Beijing Perusal fails to make full payment of the Fees as scheduled under the Service Agreement;
  - 7.1.3 The Pledgor makes any material misleading or mistaken representations or warranties under Section 5, and/or the Pledgor breaches any warranties under Section 5;
  - 7.1.4 The Pledgor breaches the covenants under Section 6;
  - 7.1.5 The Pledgor breaches other terms or conditions herein;
  - 7.1.6 The Pledgor waives the pledged Equity Interest or transfers or assigns the pledged Equity Interest without prior written consent of 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 Beijing Perusal 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 Beijing Perusal 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 omission 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 realize any event under Section 7.1 or any event that may result in the foregoing events.
- 7.3 Unless the event of default under Section 7.1 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 Fees under the Service Agreement and other payables or exercise the Pledge right in accordance with Section 8.

8. Exercise of the Pledge

- 8.1 The Pledgor shall not transfer the Equity Interest without prior written consent of the Pledgee prior to the full repayment of the Loan or the Fees 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 Section 7.3, the Pledgee may exercise the right of pledge at any time when the Pledgee gives a Notice of Default in accordance with Section 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 Fees under the Service Agreement, the outstanding debt and all other payables of Pledgor under Loan Arrangement 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 can realize the Pledge.

9. Assignment

- 9.1 The Pledgor shall not donate or transfer there rights and obligations herein without prior consent of the Pledgee.

- 9.2 This Agreement shall be binding upon the Pledgor and the successors of the Pledgor, and be binding on the Pledgee and its each successor and assignee.
- 9.3 The Pledgee may transfer or assign its all or any rights and obligations under the Service Agreement, the Loan Arrangement and its supplementary agreements to any individual it specifies (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, the Loan Arrangement and its supplementary agreements, and such transfer shall only be subject to a written notice serviced to the Pledgor, and at the request of the Pledgee, the Pledgor 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 executed as of the date first set forth above and effective from the date when the pledge is recorded on the register of shareholders of Beijing Perusal.

11. Termination

This Agreement shall not be terminated until the Loan under the Loan Arrangement and the Fees under the Service Agreement are paid off and the Pledgor does not undertake any obligations under the Loan Arrangement and Beijing Perusal does 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 Pledgor 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 Pledgor 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 Pledgor fails 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 affected 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 in person, 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 a 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.

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing  
Telephone: 010-59928888

Party B: Jiping Liu  
Address:  
Telephone:

17. Entire Agreement

Notwithstanding Section 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 relating to this Agreement.

18. Severability

Any provision of this Agreement which is invalid or unenforceable because of inconsistency 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 integral parts of this Agreement.

20. Amendment or Supplement

20.1 The 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 in Chinese in two originals, each party holding an original. All the originals shall have the same legal effect.

[No text below]

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative or authorized representative on its behalf as of the date first set forth above.

**Pledgee: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal representative/authorized representative:

Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Pledgor: Jiping Liu**

Signature: /s/ Jiping Liu

Appendix:

1. Register of shareholders of Beijing Perusal.
2. Resolutions of the General Shareholders' Meeting of Beijing Perusal.



Register of shareholders of Beijing Perusal

Name of the shareholder: Jiping Liu  
Residential address:  
Capital contribution: RMB8,000,000  
Percentage of capital contribution: 80%  
No. of the certificate of capital contribution:

Name of the shareholder: Yazhu Zhang  
Residential address:  
Capital contribution: RMB2,000,000  
Percentage of capital contribution: 20%  
No. of the certificate of capital contribution:

Jiping Liu holds 80% of the shares of Beijing Perusal Technology Co., Ltd. which have been pledged to Baidu Online Network Technology (Beijing) Co., Ltd.

Yazhu Zhang holds 20% of the shares of Beijing Perusal Technology Co., Ltd. which have been pledged to Baidu Online Network Technology (Beijing) Co., Ltd.

Baidu Online Network Technology (Beijing) Co., Ltd. is the pledgee of 100% of the shares in Beijing Perusal Technology Co., Ltd.

**Beijing Perusal Technology Co., Ltd.**

Signature:  
Name:  
Title: :Legal representative (with the company seal of Beijing Perusal Technology Co., Ltd.)  
Date:

Appendix II

Resolutions of the General Shareholders' Meeting of Beijing Perusal

As for the Amended and Restated Equity Pledge Agreement executed on \_\_\_\_\_ between the shareholders of Beijing Perusal 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 \_\_\_\_\_ by the following shareholders:

Shareholder: Jiping Liu

Signature:

Shareholder: Yazhu Zhang

Signature:

### Amended and Restated Equity Purchase Option Agreement

This Amended and Restated Equity Purchase Option Agreement (this "Agreement") is entered into by and among the following parties as of January 16, 2012 in Beijing:

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

**Party B: Jiping Liu**

**Party C: Beijing Perusal Technology Co., Ltd.**

Address: Room A2, 2/F, No.17 Building, Zhongguancun Software Park, No.8  
Northeast Wangxi Road, Haidian District, Beijing

Parties A, B and C are referred to as a "Party" individually and "Parties" collectively hereinafter.

**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 C is a limited liability company incorporated in the PRC and engages in value-added telecommunication services, including internet information services.
3. Party B is a shareholder of Party C, holding 80% of the shares in Party C.
4. Parties A and B entered into the Amended and Restated Loan Agreement on \_\_\_\_\_, pursuant to which Party B obtained an interest-free loan of RMB8,000,000 from Party A (the "Loan Arrangement") for Party B to invest in Party C.
5. Parties A and C entered into a series of agreements, including Exclusive Technology Consulting and Service Agreement (the "Service Agreement"), on \_\_\_\_\_.
6. Parties A and B entered into the Amended and Restated Equity Pledge Agreement (the "Equity Pledge Agreement") on \_\_\_\_\_.

**NOWHEREFORE**, the parties agree as follows:

1. Purchase and Sale of Equity Interest

1.1 Grant of Rights

Party B (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 C (the "Option"). No Option shall be granted to any third party other than Party A and/or the Designated Persons. Party C hereby agrees to the granting of the Option by Party B 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

Upon the exercise of the Option:

1.4.1 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);

1.4.2 The Transferor 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 Arrangement allowed by the laws.

2. Undertakings related to the Equity Interest

2.1 Undertakings related to Party C

- 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 C, 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 C, 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 C, 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 agreements in the process of normal business (as in this paragraph, the amount in the Agreement that exceeds five hundred thousand Yuan (RMB 500,000) 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 of Party C;
- 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 C;

- 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 C;
- 2.1.12 In order to keep the ownership of Party C 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 C.

2.2 Undertakings related to the Transferor

Party B hereby undertakes:

- 2.2.1 Without prior written consent by Party A, not, upon the execution of this Agreement, to sell, 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 the 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 C'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, not to agree or support or execute any shareholders resolution on the Party C's shareholders' meeting that approves Party C 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 Party B;
- 2.2.5 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 defence against claims of compensation;

- 2.2.6 Upon the request of Party A, to appoint any person designated by Party A to be the directors of Party C;
  - 2.2.7 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 current shareholder;
  - 2.2.8 To prudently comply with the provisions of this Agreement and other agreements entered into collectively or respectively by the Transferor, Party C 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;
  - 2.2.9 To transfer all the dividends and profits in any other forms distributed by Party C to Party A.
- 2.3 Undertakings related to Party A
- Party A undertakes:
- 2.3.1 Party A shall provide unlimited financial support to Party C unconditionally within an acceptable and reasonable scope when Party C needs any loan or financial support in any other form during its course of business;
  - 2.3.2 Party A agrees to waive its right to Party C's repayment to the loans provided by Party A when Party C incurs losses during its operation and is unable to repay. Such inability of repayment shall be supported by sufficient evidence.

3. Representations and Warranties

As of the execution date of this Agreement and every transferring date, the Transferor and Party C 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 (a "Transferring Agreement", respectively) to which it is 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 to which it is 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 does 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 C bears the kind and sellable ownership of all assets. Party C does not set any security interest on the said assets;
- 3.4 Party C 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 No litigation, arbitration or administrative procedure relevant to the equity interest and assets of Party C or the corporation is in the process, to be settled or potentially take place;
- 3.6 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 and Party C 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 and Party C hereby agree 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 and Party C by Party A, and no any further consent from Party B and Party C will be required.

5. Effective Date and Term

- 5.1 This Agreement shall be effective as of the date first set forth above.
- 5.2 This Agreement shall be terminated upon the legal transfer of all the shares held by Party B to Party A and/or its Designated Person pursuant to this Agreement.
- 5.3 If Party A or Party C is 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.**

Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing  
Telephone: 010-59928888  
Fax: 010-59928888

**Party B: Jiping Liu**

Address:  
Telephone:  
Fax:

**Party C: Beijing Perusal Technology Co., Ltd.**

Address: Room A2, 2/F, No.17 Building, Zhongguancun Software Park, No.8  
Northeast Wangxi Road, Haidian District, Beijing  
Fax:  
Telephone:

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.

The disclosure of information by the staff of consultants of any party shall be deemed as the disclosure by the party itself. This Section 9 shall survive any invalidity, termination, expiration or unenforceability of this Agreement.

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 Section 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 orally or/and in writing.

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 three (3) 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. Sections 6, 8, 9 and 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.

[No text below]

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.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal representative/Authorized representative: \_\_\_\_\_

Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Jiping Liu**

Signature: /s/ Jiping Liu

Company seal:

**Party C: Beijing Perusal Technology Co., Ltd.**

Legal representative/Authorized representative: \_\_\_\_\_

Company seal: (with the company seal of Beijing Perusal Technology Co., Ltd.)

## Amended and Restated Equity Purchase Option Agreement

This Amended and Restated Equity Purchase Option Agreement (this “Agreement”) is entered into by and among the following parties as of January 16, 2012 in Beijing:

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

**Party B: Yazhu Zhang**

**Party C: Beijing Perusal Technology Co., Ltd.**

Address: Room A2, 2/F, No.17 Building, Zhongguancun Software Park, No.8  
Northeast Wangxi Road, Haidian District, Beijing

Parties A, B and C are referred to as a “Party” individually and “Parties” collectively hereinafter.

**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 C is a limited liability company incorporated in the PRC and engages in value-added telecommunication services, including internet information services.
3. Party B is a shareholder of Party C, holding 20% of the shares in Party C.
4. Parties A and B entered into the Amended and Restated Loan Agreement on \_\_\_\_\_, pursuant to which Party B obtained an interest-free loan of RMB2,000,000 from Party A (the “Loan Arrangement”) for Party B to invest in Party C.
5. Parties A and C entered into a series of agreements, including Exclusive Technology Consulting and Service Agreement (the “Service Agreement”), on \_\_\_\_\_.
6. Parties A and B entered into the Amended and Restated Equity Pledge Agreement (the “Equity Pledge Agreement) on \_\_\_\_\_.

**NOWHEREFORE**, the parties agree as follows:

1. Purchase and Sale of Equity Interest
- 1.1 Grant of Rights

Party B (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 C (the “Option”). No Option shall be granted to any third party other than Party A and/or the Designated Persons. Party C hereby agrees to the granting of the Option by Party B 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

Upon the exercise of the Option:

1.4.1 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);

1.4.2 The Transferor 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 Arrangement allowed by the laws.

2. Undertakings related to the Equity Interest

2.1 Undertakings related to Party C

- 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 C, 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 C, 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 C, 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 agreements in the process of normal business (as in this paragraph, the amount in the Agreement that exceeds five hundred thousand Yuan (RMB 500,000) 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 of Party C;
- 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 C;

- 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 C;
- 2.1.12 In order to keep the ownership of Party C 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 C.

2.2 Undertakings related to the Transferor

Party B hereby undertakes:

- 2.2.1 Without prior written consent by Party A, not, upon the execution of this Agreement, to sell, 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 the 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 C'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, not to agree or support or execute any shareholders resolution on the Party C's shareholders' meeting that approves Party C 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 Party B;
- 2.2.5 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 defence against claims of compensation;



- 2.2.6 Upon the request of Party A, to appoint any person designated by Party A to be the directors of Party C;
- 2.2.7 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 current shareholder;
- 2.2.8 To prudently comply with the provisions of this Agreement and other agreements entered into collectively or respectively by the Transferor, Party C 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;
- 2.2.9 To transfer all the dividends and profits in any other forms distributed by Party C to Party A.

2.3 Undertakings related to Party A

Party A undertakes:

- 2.3.1 Party A shall provide unlimited financial support to Party C unconditionally within an acceptable and reasonable scope when Party C needs any loan or financial support in any other form during its course of business;
- 2.3.2 Party A agrees to waive its right to Party C's repayment to the loans provided by Party A when Party C incurs losses during its operation and is unable to repay. Such inability of repayment shall be supported by sufficient evidence.

3. Representations and Warranties

As of the execution date of this Agreement and every transferring date, the Transferor and Party C 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 (a "Transferring Agreement", respectively) to which it is 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 to which it is 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 does 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 C bears the kind and sellable ownership of all assets. Party C does not set any security interest on the said assets;
- 3.4 Party C 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 No litigation, arbitration or administrative procedure relevant to the equity interest and assets of Party C or the corporation is in the process, to be settled or potentially take place;
- 3.6 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 and Party C 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 and Party C hereby agree 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 and Party C by Party A, and no any further consent from Party B and Party C will be required.

5. Effective Date and Term

- 5.1 This Agreement shall be effective as of the date first set forth above.
- 5.2 This Agreement shall be terminated upon the legal transfer of all the shares held by Party B to Party A and/or its Designated Person pursuant to this Agreement.
- 5.3 If Party A or Party C is 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.**

Address: Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

Telephone: 010-59928888

Fax: 010-59928888

**Party B: Yazhu Zhang**

Address:

Telephone:

Fax:

**Party C: Beijing Perusal Technology Co., Ltd.**

Address: Room A2, 2/F, No.17 Building, Zhongguancun Software Park, No.8

Northeast Wangxi Road, Haidian District, Beijing

Fax:

Telephone:

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.

The disclosure of information by the staff of consultants of any party shall be deemed as the disclosure by the party itself. This Section 9 shall survive any invalidity, termination, expiration or unenforceability of this Agreement.

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 Section 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 orally or/and in writing.

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 three (3) 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. Sections 6, 8, 9 and 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.

[No text below]

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.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal representative/Authorized representative: \_\_\_\_\_

Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Yazhu Zhang**

Signature: /s/ Yazhu Zhang

Company seal:

**Party C: Beijing Perusal Technology Co., Ltd.**

Legal representative/Authorized representative: \_\_\_\_\_

Company seal: (with the company seal of Beijing Perusal Technology Co., Ltd.)

### Amended and Restated Loan Agreement

This Amended and Restated Loan Agreement (the "Agreement") is entered into in Beijing as of January 16, 2012 by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Registration Address: 3/F, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085,  
The People's Republic of China  
**Party B:** **Jiping Liu**

#### WHEREAS,

1. Party A is a wholly-owned foreign enterprise incorporated in the People's Republic of China (the "PRC");
2. Party B is a citizen of the PRC and a 80% shareholder of Beijing Perusal Technology Co., Ltd. ("Beijing Perusal").
3. Party A provided to Party B an interest-free loan of RMB800,000 on May 19, 2006 for Party B to invest in Beijing Perusal. Party A and Party B entered into the Loan Agreement on May 19, 2006 in connection with the loan (the "Original Loan Agreement").
4. The parties intend to amend and restate the Original Loan Agreement.

**NOW THEREFORE**, through friendly negotiation, Party A and Party B agree as follows:

1. Party A agrees to provide an interest-free loan to Party B with the principal as RMB 8,000,000 in accordance with the terms and conditions set forth in this Agreement. Party B agrees to accept the loan above.
2. Party B confirms that he has obtained the total amount of the loan and has invested it into Beijing Perusal as capital contribution.
3. The Term of such loan starts from the date that Party B received the loan until ten (10) years after signing this Agreement and could be extended upon the written agreement of the parties. 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) Party B quits or is dismissed by Party A or its affiliates;
  - (2) Party B dies or becomes a person without capacity or with limited capacity for civil acts;
  - (3) Party B commits a crime or is involved in a crime;
  - (4) Any other third party claims more than RMB100,000 against Party B; 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 Beijing Perusal runs, and also Party A will have given a written notice to Beijing Perusal and exercised its right of purchase in accordance with the terms under the exclusive equity purchase option agreement speculated in Section 4 of this Agreement.
4. The 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 in Beijing Perusal (the "Option Right") at anytime, however, Party A shall notify Party B 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 shall sell their equity interests of Beijing Perusal 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 or its designated person shall purchase the equity interests at the lowest price in accordance with the applicable law. The parties agree to execute an exclusive equity purchase option agreement in connection with above matters.
5. The parties herein agree and confirm that Party B may repay the loan only by the following methods: the borrower (or his successors or assignees) shall transfer the equity interest in Beijing Perusal to Party A or its designated person and use the proceeds to repay the loan when the loan is due and Party A gives a written notice.
6. The 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 Party B has to transfer his equity interests in Beijing Perusal 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. The parties agree and confirm that Party B shall be deemed the completion of performing his obligations under this Agreement only if the following requirements are met:
- (a) Party B has transferred all his equity interests of Beijing Perusal to Party A and/its designated person; and
  - (b) Party B has 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, Party B agrees to pledge all his own equity interest of Beijing Perusal to Party A (the "Equity Pledge"). The parties agree to execute an equity pledge agreement for the additional shares issued for the capital increase regarding the above matters.



9. Party A hereby represents and warrants to Party B 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 Party B 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 Party A signed with a third party or any promise Party A issued to a third party; and
  - (e) This Agreement shall constitute the legal, valid and binding obligations of Party A upon its execution.
10. Party B hereby represents and warrants to Party A that, from the execution date of this Agreement until this Agreement terminates:
- (a) Beijing Perusal is a limited liability company incorporated and validly existing under the laws of PRC and Party B is the legal holder of the equity interest of Beijing Perusal newly issued for the capital increase;
  - (b) Party B has the right to execute and perform this Agreement. Party B, 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 Party B does not violate any laws, regulations, approvals, authorizations, notices, other governmental documents, any agreement Party B signed with a third party or any promise Party B issued to a third party;
  - (d) This Agreement shall constitute the legal, valid and binding obligations of Party B upon its execution;
  - (e) Party B has paid contribution in full for the additional equity interests he obtained in Beijing Perusal in accordance with applicable laws and regulations;
  - (f) Except the provisions stipulated in the equity pledge agreement and exclusive equity purchase option agreement for the additional shares issued for the capital increase, Party B did not create any pledge or other security, make third party any offer to transfer his equity, make acceptance for the offer of any third party to purchase his equity, or execute any agreement with a third party to transfer his equity;

- (g) There are no pending or potential disputes, litigation, arbitration, administrative proceedings or other legal proceedings in connection with the additional equity interests of Beijing Perusal after the capital increase held by Party B;
- (h) Beijing Perusal has completed all governmental approval, license, registration and filing necessary for the capital increase.

11. Party B covenants that he shall, during the term of this Agreement:

- (a) Not sell, transfer, pledge, dispose in any other manners of his additional equity interests of Beijing Perusal after the capital increase or other interests, or not allow to create other security interests on them without Party A's prior written consent, except pledges or other rights created in the interest of Party A;
- (b) Not cause shareholder's meetings to make resolutions to sell, transfer, pledge, dispose of in any other manners, or not allow to create other security interest on, any of his legal and beneficiary equity interest without Party A's prior written consent, except transferring his equity interest to Party A;
- (c) Not vote for any merger or combination with, or acquire or invest in, any person at shareholder's meetings of Beijing Perusal without Party A's prior consent;
- (d) Promptly inform Party A of the pending or threatened litigation, arbitration or regulatory procedure concerning the additional equity interests of the Beijing Perusal after the capital increase held by Party B;
- (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 the additional equity interest of the Beijing Perusal after the capital increase held by Party B;
- (f) Refrain from any act or omission that may materially affect the assets, business and liabilities of Beijing Perusal without Party A's prior written consent;
- (g) Appoint any person to be the director of Beijing Perusal subject to Party A's request;
- (h) Transfer promptly and unconditionally, at any time, all the additional equity interest in the Beijing Perusal after the capital increase held by Party B 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 request Beijing Perusal to distribute dividends or profits;
- (j) Once Party B transfers the additional equity interest of Beijing Perusal after the capital increase he holds Party A or its designated person, he shall repay the consideration he receives as the principal and the interests or capital use cost to Party A if such repayment is permitted under the laws of PRC;

- (k) Strictly comply with the terms of this Agreement, perform the obligations under this Agreement and refrain from any act or omission that affects the validity and enforceability of this Agreement.
12. Party B, as the shareholder of Beijing Perusal, covenants that he shall cause Beijing Perusal, during the term of this Agreement:
- (a) Not to supplement, amend or modify its articles of association, or to increase or decrease its registered capital, or to change its capital structure in any form without Party A's prior written consent;
  - (b) To operate its business and deal with matters prudently and effectively according 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 interests on, any of its assets, business or legal or beneficial rights to its income without Party A's prior written consent since the date of this Agreement;
  - (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 (for the purpose of this Section 12, a contract will be deemed material if its value exceeds RMB ¥ 100,000), without Party A's prior written consent, other than those executed during the ordinary course of business;
  - (g) To provide information concerning all of its operation and financial affairs per Party A's request;
  - (h) Not to merger or combine with, acquire or invest in, any other person without Party A's prior written consent;
  - (i) Not to distribute dividends to its shareholder in any form without Party A's prior written consent. However, Beijing Perusal shall promptly distribute all its distributable profits to its shareholder upon the Party A's request;
  - (j) To promptly inform Party A of any pending or threatened suit, arbitration or administrative procedure concerning the assets, business or income of the Beijing Perusal;
  - (k) To execute all necessary or appropriate documents, take all necessary or appropriate actions, bring all necessary or appropriate lawsuits and make all necessary and appropriate defendings against all claims in order to maintain the ownership of all the assets of Beijing Perusal;

- (l) To strictly comply with the terms of Service Agreement and other agreements with Party A, perform its obligations under the aforesaid agreements, and not to conduct any action or nonfeasance that affects the validity and enforceability of such agreements.
13. This agreement shall be binding to, and only in the interest of, all the parties hereto and their respective successors and assignees. Without prior written consent of Party A, Party B shall not transfer, pledge or assign any right, benefit or obligation hereunder.
14. Party B agrees that Party A can assign its rights and obligations hereunder to a third party with a written notice to Party B when it considers necessary. No further consent of Party B is required upon such a transfer.
15. The execution, validity, interpretation, performance, amendment, termination and the dispute resolution of this Agreement are governed by the laws of PRC.
16. Arbitration.
- (a) 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) of 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.
- (b) The arbitration should take place in Beijing.
- (c) The arbitration language is Chinese.
17. This Agreement shall be concluded on the date of execution. Both Parties agree that the terms and conditions of this Agreement shall be effective as of the date on which Party B receives the loan and expire when both Parties complete their obligations hereunder.
18. Party B shall terminate or revoke this Agreement unless (a) Party A commits a material defect, fraud or other material illegal action; (b) upon Party A's bankruptcy.
19. This Agreement shall not be amended or modified without the written consent of the Parties hereto. The Parties may amend and modify this Agreement with a written agreement. The amendments, modifications, supplements and attachments shall be integral parts of this Agreement.
20. This Agreement constitutes the entire agreement of the Parties with respect to the subject matters herein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.

21. This Agreement is severable. The invalidity or enforceability of any clause shall not affect the validity or enforceability of other parts hereof.
22. Each Party shall 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 that is due before the expiration or early termination this Agreement shall survive such expiration or early termination. Sections 15, 16 and 22 shall survive the termination of this Agreement.
24. This Agreement shall be executed in two originals, each Party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

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**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal representative/authorized representative:

Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:** **Jiping Liu**

Signature: /s/ Jiping Liu

## Amended and Restated Loan Agreement

This Amended and Restated Loan Agreement (the "Agreement") is entered into in Beijing as of January 16, 2012 by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Registration Address: 3/F, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085,  
The People's Republic of China

**Party B:** **Yazhu Zhang**

### WHEREAS,

1. Party A is a wholly-owned foreign enterprise incorporated in the People's Republic of China (the "PRC");
2. Party B is a citizen of the PRC and a 20% shareholder of Beijing Perusal Technology Co., Ltd. ("Beijing Perusal").
3. Party A provided to Party B an interest-free loan of RMB200,000 on May 19, 2006 for Party B to invest in Beijing Perusal. Party A and Party B entered into the Loan Agreement on May 19, 2006 in connection with the loan (the "Original Loan Agreement").
4. The parties intend to amend and restate the Original Loan Agreement.

**NOW THEREFORE**, through friendly negotiation, Party A and Party B agree as follows:

1. Party A agrees to provide an interest-free loan to Party B with the principal as RMB 2,000,000 in accordance with the terms and conditions set forth in this Agreement. Party B agrees to accept the loan above.
2. Party B confirms that he has obtained the total amount of the loan and has invested it into Beijing Perusal as capital contribution.
3. The Term of such loan starts from the date that Party B received the loan until ten (10) years after signing this Agreement and could be extended upon the written agreement of the parties. 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) Party B quits or is dismissed by Party A or its affiliates;
  - (2) Party B dies or becomes a person without capacity or with limited capacity for civil acts;
  - (3) Party B commits a crime or is involved in a crime;
  - (4) Any other third party claims more than RMB100,000 against Party B; 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 Beijing Perusal runs, and also Party A will have given a written notice to Beijing Perusal and exercised its right of purchase in accordance with the terms under the exclusive equity purchase option agreement speculated in Section 4 of this Agreement.
4. The 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 in Beijing Perusal (the "Option Right") at anytime, however, Party A shall notify Party B 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 shall sell their equity interests of Beijing Perusal 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 or its designated person shall purchase the equity interests at the lowest price in accordance with the applicable law. The parties agree to execute an exclusive equity purchase option agreement in connection with above matters.
5. The parties herein agree and confirm that Party B may repay the loan only by the following methods: the borrower (or his successors or assignees) shall transfer the equity interest in Beijing Perusal to Party A or its designated person and use the proceeds to repay the loan when the loan is due and Party A gives a written notice.
6. The 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 Party B has to transfer his equity interests in Beijing Perusal 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. The parties agree and confirm that Party B shall be deemed the completion of performing his obligations under this Agreement only if the following requirements are met:
- (a) Party B has transferred all his equity interests of Beijing Perusal to Party A and/its designated person; and
  - (b) Party B has 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, Party B agrees to pledge all his own equity interest of Beijing Perusal to Party A (the "Equity Pledge"). The parties agree to execute an equity pledge agreement for the additional shares issued for the capital increase regarding the above matters.



9. Party A hereby represents and warrants to Party B 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 Party B 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 Party A signed with a third party or any promise Party A issued to a third party; and
  - (e) This Agreement shall constitute the legal, valid and binding obligations of Party A upon its execution.
10. Party B hereby represents and warrants to Party A that, from the execution date of this Agreement until this Agreement terminates:
- (a) Beijing Perusal is a limited liability company incorporated and validly existing under the laws of PRC and Party B is the legal holder of the equity interest of Beijing Perusal newly issued for the capital increase;
  - (b) Party B has the right to execute and perform this Agreement. Party B, 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 Party B does not violate any laws, regulations, approvals, authorizations, notices, other governmental documents, any agreement Party B signed with a third party or any promise Party B issued to a third party;
  - (d) This Agreement shall constitute the legal, valid and binding obligations of Party B upon its execution;
  - (e) Party B has paid contribution in full for the additional equity interests he obtained in Beijing Perusal in accordance with applicable laws and regulations;
  - (f) Except the provisions stipulated in the equity pledge agreement and exclusive equity purchase option agreement for the additional shares issued for the capital increase, Party B did not create any pledge or other security, make third party any offer to transfer his equity, make acceptance for the offer of any third party to purchase his equity, or execute any agreement with a third party to transfer his equity;

- (g) There are no pending or potential disputes, litigation, arbitration, administrative proceedings or other legal proceedings in connection with the additional equity interests of Beijing Perusal after the capital increase held by Party B;
- (h) Beijing Perusal has completed all governmental approval, license, registration and filing necessary for the capital increase.

11. Party B covenants that he shall, during the term of this Agreement:

- (a) Not sell, transfer, pledge, dispose in any other manners of his additional equity interests of Beijing Perusal after the capital increase or other interests, or not allow to create other security interests on them without Party A's prior written consent, except pledges or other rights created in the interest of Party A;
- (b) Not cause shareholder's meetings to make resolutions to sell, transfer, pledge, dispose of in any other manners, or not allow to create other security interest on, any of his legal and beneficiary equity interest without Party A's prior written consent, except transferring his equity interest to Party A;
- (c) Not vote for any merger or combination with, or acquire or invest in, any person at shareholder's meetings of Beijing Perusal without Party A's prior consent;
- (d) Promptly inform Party A of the pending or threatened litigation, arbitration or regulatory procedure concerning the additional equity interests of the Beijing Perusal after the capital increase held by Party B;
- (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 the additional equity interest of the Beijing Perusal after the capital increase held by Party B;
- (f) Refrain from any act or omission that may materially affect the assets, business and liabilities of Beijing Perusal without Party A's prior written consent;
- (g) Appoint any person to be the director of Beijing Perusal subject to Party A's request;
- (h) Transfer promptly and unconditionally, at any time, all the additional equity interest in the Beijing Perusal after the capital increase held by Party B 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 request Beijing Perusal to distribute dividends or profits;
- (j) Once Party B transfers the additional equity interest of Beijing Perusal after the capital increase he holds Party A or its designated person, he shall repay the consideration he receives as the principal and the interests or capital use cost to Party A if such repayment is permitted under the laws of PRC;

- (k) Strictly comply with the terms of this Agreement, perform the obligations under this Agreement and refrain from any act or omission that affects the validity and enforceability of this Agreement.
12. Party B, as the shareholder of Beijing Perusal, covenants that he shall cause Beijing Perusal, during the term of this Agreement:
- (a) Not to supplement, amend or modify its articles of association, or to increase or decrease its registered capital, or to change its capital structure in any form without Party A's prior written consent;
  - (b) To operate its business and deal with matters prudently and effectively according 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 interests on, any of its assets, business or legal or beneficial rights to its income without Party A's prior written consent since the date of this Agreement;
  - (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 (for the purpose of this Section 12, a contract will be deemed material if its value exceeds RMB ¥ 100,000), without Party A's prior written consent, other than those executed during the ordinary course of business;
  - (g) To provide information concerning all of its operation and financial affairs per Party A's request;
  - (h) Not to merger or combine with, acquire or invest in, any other person without Party A's prior written consent;
  - (i) Not to distribute dividends to its shareholder in any form without Party A's prior written consent. However, Beijing Perusal shall promptly distribute all its distributable profits to its shareholder upon the Party A's request;
  - (j) To promptly inform Party A of any pending or threatened suit, arbitration or administrative procedure concerning the assets, business or income of the Beijing Perusal;
  - (k) To execute all necessary or appropriate documents, take all necessary or appropriate actions, bring all necessary or appropriate lawsuits and make all necessary and appropriate defendings against all claims in order to maintain the ownership of all the assets of Beijing Perusal;

- (l) To strictly comply with the terms of Service Agreement and other agreements with Party A, perform its obligations under the aforesaid agreements, and not to conduct any action or nonfeasance that affects the validity and enforceability of such agreements.
13. This agreement shall be binding to, and only in the interest of, all the parties hereto and their respective successors and assignees. Without prior written consent of Party A, Party B shall not transfer, pledge or assign any right, benefit or obligation hereunder.
14. Party B agrees that Party A can assign its rights and obligations hereunder to a third party with a written notice to Party B when it considers necessary. No further consent of Party B is required upon such a transfer.
15. The execution, validity, interpretation, performance, amendment, termination and the dispute resolution of this Agreement are governed by the laws of PRC.
16. Arbitration.
- (a) 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) of 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.
- (b) The arbitration should take place in Beijing.
- (c) The arbitration language is Chinese.
17. This Agreement shall be concluded on the date of execution. Both Parties agree that the terms and conditions of this Agreement shall be effective as of the date on which Party B receives the loan and expire when both Parties complete their obligations hereunder.
18. Party B shall terminate or revoke this Agreement unless (a) Party A commits a material defect, fraud or other material illegal action; (b) upon Party A's bankruptcy.
19. This Agreement shall not be amended or modified without the written consent of the Parties hereto. The Parties may amend and modify this Agreement with a written agreement. The amendments, modifications, supplements and attachments shall be integral parts of this Agreement.
20. This Agreement constitutes the entire agreement of the Parties with respect to the subject matters herein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.

21. This Agreement is severable. The invalidity or enforceability of any clause shall not affect the validity or enforceability of other parts hereof.
22. Each Party shall 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 that is due before the expiration or early termination this Agreement shall survive such expiration or early termination. Sections 15, 16 and 22 shall survive the termination of this Agreement.
24. This Agreement shall be executed in two originals, each Party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

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**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal representative/authorized representative:

Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:** **Yazhu Zhang**

Signature: /s/ Yazhu Zhang

### Supplementary Agreement

This Supplementary Agreement (the "Agreement") is entered into by and among the following parties in Beijing on September 6, 2011:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd. ("Baidu Online")  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Beijing Perusal Technology Co., Ltd. ("Beijing Perusal")  
Address: 2/F, No.17 Building, Zhongguancun Software Park, No.8 Northeast Wangxi Road, Haidian District, Beijing  
Party C: Jiping Liu  
Party D: Yazhu Zhang

In this Agreement, the parties are referred to as a "Party" individually and "Parties" collectively.

Whereas:

1. The Parties to the Agreement individually or jointly signed the following agreements/contracts or powers of attorney:

No.	Document Names	Signing Parties	Signing Dates
1	Technology Consulting and Services Agreement	Baidu Online, Beijing Perusal	June 23, 2006
2	Operating Agreement	Baidu Online, Beijing Perusal, Jiping Liu, Yazhu Zhang	June 23, 2006
3	Exclusive Equity Purchase Option Agreement	Baidu Online, Jiping Liu	May 19, 2006
4	Exclusive Equity Purchase Option Agreement	Baidu Online, Yazhu Zhang	May 19, 2006
5	Proxy Agreement	Jiping Liu, Yazhu Zhang, Baidu Online	May 17, 2008
6	Irrevocable Power of Attorney	Jiping Liu	June 23, 2006
7	Irrevocable Power of Attorney	Yazhu Zhang	June 23, 2006

2. The Parties agree to enter into this Agreement to amend certain sections in the agreements/contracts or powers of attorney set out above.

**NOW THEREFORE**, The Parties hereby agree as follows:

1. The amended sections:

1.1 Technology Consulting and Services Agreement:

1.1.1 Section 7.2 is amended as: “7.2 The term of this Agreement shall be permanent, unless otherwise provided herein.”

1.1.2 Section 7.3 is amended as: “7.3 If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.1.3 Section 7.4 is deleted.

1.1.4 Section 8.1 is amended as: “8.1 [Blank]”.

1.2 Operating Agreement:

1.2.1 Section 15 is amended as: “15 The term of this Agreement shall be permanent, unless otherwise provided herein. If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.2.2 Section 16 is amended as: “16 During the term of this Agreement, Party B shall not terminate this Agreement, unless Party A has a gross negligence or fraud towards Party B. 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.”

1.3 Exclusive Equity Purchase Option Agreement with Jiping Liu

1.3.1 Section 5.2 is amended as: “Section 5.2 This Agreement shall be effective as of the date first set forth above, and terminated when all the shares held by Party B have been transferred to Party A and/or the Designated Persons pursuant to this Agreement.”

1.4 Exclusive Equity Purchase Option Agreement with Yazhu Zhang

1.4.1 Section 5.2 is amended as: “Section 5.2 This Agreement shall be effective as of the date first set forth above, and terminated when all the shares held by Party B have been transferred to Party A and/or the Designated Persons pursuant to this Agreement.”

1.5 Proxy Agreement

1.5.1 Section 9 is amended as: “9. The term of this Agreement shall be permanent, unless the Company terminates this Agreement in writing.”

1.6 Irrevocable Power of Attorney issued by Jiping Liu

1.6.1 The last paragraph is amended as: “During the period that I am a shareholder of Beijing Perusal, this Power of Attorney is irrevocable and permanently effective from the date of this Power of Attorney, unless otherwise provided herein.”



1.7 Irrevocable Power of Attorney issued by Yazhu Zhang

1.7.1 The last paragraph is amended as: "During the period that I am a shareholder of Beijing Perusal, this Power of Attorney is irrevocable and permanently effective from the date of this Power of Attorney, unless otherwise provided herein."

2. Miscellaneous

2.1 The Effective Date

This Agreement shall be effective as of the date first set forth above.

2.2 The Applicable Laws

The conclusion, effectiveness, interpretation, performance, amendment, termination and dispute settlement shall be governed by PRC laws officially published and publicly available.

2.3 Language

This Agreement is executed in Chinese in four originals, each Party holding an original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal Representative: /s/ Zhan Wang (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party C: Jiping Liu**

Signature: /s/ Jiping Liu

**Party B: Beijing Perusal Technology Co., Ltd.**

Legal Representative: /s/ Zhan Wang (with the company seal of Beijing Perusal Technology Co., Ltd.)

**Party D: Yazhu Zhang**

/s/ Yazhu Zhang

**Supplementary Agreement to Exclusive Technology Consulting and Services Agreement (No.1)**

This Supplementary Agreement to Exclusive Technology Consulting and Services Agreement (No.1) (the "Supplementary Agreement No. 1") is entered into by and among the following parties on September 6, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu HR Consulting (Shanghai) Co., Ltd.  
Address: No. 713-1, No. 200 Huiyuan Road, Jiading District, Shanghai, PRC

**WHEREAS:**

A. Based on the Exclusive Technology Consulting and Services Agreement (the "Original Agreement") and the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement (the "Supplementary Agreement"), through friendly negotiation, the parties hereto agree to supplement the Original Agreement and the Supplementary Agreement as follows on September 6, 2011:

1. Both parties agree to add Section 2.3: "Party A shall have the right to decide or adjust the service fees or the calculation at its sole discretion, regardless any different provisions herein."

2. This Supplementary Agreement No. 1 shall form an integral part of the Original Agreement. This Supplementary Agreement No. 1 shall prevail should there be any inconsistency between the Original Agreement and this Supplementary Agreement No. 1. The Original Agreement shall be applied to the matters not provided in this Supplementary Agreement No. 1.

B. This Supplementary Agreement No. 1 shall be effective upon the parties' signing.

C. This Supplementary Agreement No. 1 shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect.

[Signature Page Follows]

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**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized representative: Zhan Wang

Signature: /s/ Zhan Wang

Seal: (the seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Baidu HR Consulting (Shanghai) Co., Ltd.**

Authorized representative:

Signature: /s/ Authorized representative

Seal: (the seal of Baidu HR Consulting (Shanghai) Co., Ltd.)

### Supplementary Agreement to Operating Agreement

This Supplementary Agreement to Operating Agreement (the "Agreement") is entered into by and among the following parties on September 6, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu HR Consulting (Shanghai) Co., Ltd.  
Address: Rooms 202 and 204, No. 248 Fuyun Road, Jiading Industrial Zone, Shanghai, PRC  
Party C: Robin Yanhong Li  
Party D: Baidu Netcom Science Technology Co., Ltd.  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

#### WHEREAS:

- (1) Based on the Operating Agreement entered into Parties A, B and C (the "Original Agreement"), the parties hereto agreed on the business operation matters of Parties A and B, and the rights and obligations of Parties C and D as shareholders of Parties B;
- (2) With Party A's consent, Party C intends to transfer his shares in Party B (the "Shares") to Party D (the "Share Transfer");
- (3) Based on the assumption that the Share Transfer will be legally completed, Party D agrees to assume all the rights and obligations of Party C under the Original Agreement; the parties to the Original Agreement accept such arrangement and agree to amend the Original Agreement accordingly.

**NOW THEREFORE**, to clarify the rights and obligations of the parties hereto, the parties agree as follows:

1. The parties hereto agree: From the date on which Party B completes the registration of the Share Transfer with the industrial and commercial authorities (which is the date when Party D is officially registered as a shareholder of Party B with the industrial and commercial authorities) (the "Transfer Effective Date"),  
(1) Party D shall replace Party C as a contract party to the Original Agreement, and assume all the rights and obligations of Party C under the Original Agreement and continue to perform the Original Agreement; (2) Accordingly, Party C shall not be entitled to any right or obligation under the Original Agreement.
2. The parties hereto agree and confirm: The Original Agreement shall be renewed by this Agreement automatically upon the Transfer Effective Date; Parties A, B and D may enter into a separate agreement to restate their respective rights and obligations upon the Transfer Effective Date if they consider necessary.
3. This Agreement shall be effective as of the date first set forth above.

4. The provisions about dispute resolution in Section 12 of the Original Agreement shall be applied to the dispute resolution of this Agreement.

5. This Agreement is executed in four originals, each party holding an original. All the originals shall have the same legal effect.

[Signature Page Follows]

[No Text on this Page]

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized representative: Zhan Wang

Signature: /s/ Zhan Wang

Seal: (the seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Baidu HR Consulting (Shanghai) Co., Ltd.**

Authorized representative:

Signature: /s/ Authorized representative

Seal:

**Party C: Robin Yanhong Li**

Signature: /s/ Robin Yanhong Li

**Party D: Baidu Netcom Science Technology Co., Ltd.**

Authorized representative:

Signature: /s/ Authorized representative

Seal:

**Termination Agreement**

This Agreement is entered into by and among the following parties on September 6, 2011 in Beijing:

**Robin Yanhong Li:** a PRC citizen.

**Baidu Online Network Technology (Beijing) Co., Ltd.:** a foreign-owned limited liability company duly incorporated and validly existing under the laws of the People's Republic of China ("Baidu Online").

**WHEREAS,** (1) Robin Yanhong Li signed the proxy agreement (the "Original Agreement") as a shareholder of Baidu HR Consulting (Shanghai) Co., Ltd. ("Baidu HR") with Baidu Online on December 28, 2010 in Beijing; (2) Robin Yanhong has transferred all the shares he held in Baidu HR to Baidu Online (the "Transferee"); (3) The Transferee has entered into a separate proxy agreement on the same date as this agreement in the capacity of a current shareholder of Baidu HR.

**NOW THEREFORE,** the parties agree as follows:

The Original Agreement shall be automatically terminated upon the date of this termination agreement.

[Signature Page Follows]

[No Text on this Page]

**Robin Yanhong Li**

/s/ Robin Yanhong Li

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized representative: Zhan Wang

Signature: /s/ Zhan Wang

Seal: (the seal of Baidu Online Network Technology (Beijing) Co., Ltd.)



### Proxy Agreement

This Proxy Agreement (this "Agreement") is entered into as of September 6, 2011 between the following two parties in Beijing, PRC.

**Party A: Baidu Netcom Science Technology Co., Ltd.**, a domestic company (the "Party A") registered under the laws of the People's Republic of China (the "PRC")

**Party B: Baidu Online Network Technology (Beijing) Co., Ltd.**, a wholly foreign-owned enterprise (the "Party B") registered in Beijing, PRC under the laws of the PRC

#### WHEREAS

1. Party A established Baidu HR Consulting (Shanghai) Co., Ltd. (the "Company") on December 28, 2010, in which Party A owns 100% of the equity interests.
2. Party A is willing to entrust the person designated by Party B with full authority to exercise its shareholder's voting right at the Company's shareholders' meetings.

**NOW THEREFORE**, the parties agree as follows:

1. Party A hereby agrees to irrevocably entrust the person designated by Party B to exercise on its behalf of all shareholder's voting rights and other shareholder's rights at the shareholders' meeting of the Company in accordance with PRC law and the Company's articles of association, including, but not limited to, with respect to the sale or transfer of all or part of Party A's equity interests in the Company and the appointment and election of the executive directors and chairman of the Company.
2. Party B agrees to designate a person to accept the entrustment by Party A pursuant to Article 1 of this Agreement, and such person shall represent Party A in the exercise of Party A's shareholder's voting rights and other shareholder's rights pursuant to this Agreement.
3. Party A hereby acknowledges that, regardless how its equity interests in the Company will change, it shall entrust the person designated by Party B with all of his shareholder's voting rights and other shareholder's rights. If Party A transfers its equity interests in the Company to Party B, parent company of Party B, Baidu, Inc. or persons or any persons out of the entities designated by Party B (the "transferee"), it should ensure that the transferee shall sign an agreement with identical contents with this Agreement beside any equity transfer document, which in the purpose of entrust the person designated by Party B to exercise on its behalf of all shareholder's voting rights and other shareholder's rights.
4. Party A hereby acknowledges that if Party B withdraws the appointment of the relevant person to whom Party A has entrusted its shareholder's voting rights and other shareholder's rights, it will withdraw its authorization for this person and authorize other persons designated by Party B to exercise its shareholder's voting rights and other shareholder's rights at the shareholders' meeting of the Company.
5. This Agreement shall become effective as of the date it is duly executed by the parties' authorized representatives.
6. The term of this Agreement shall be ten (10) years and may be extended by agreement between the parties upon the expiration hereof.
7. Any amendment to, and/or cancellation of, this Agreement shall be agreed by the parties in writing.

[Signature page will follow]

**Baidu Netcom Science Technology Co., Ltd.**

Authorized Representative:

Signature: \_\_\_\_\_/s/Authorized Representative \_\_\_\_\_

Seal: (Seal) Baidu Netcom Science Technology Co., Ltd.

**Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized Representative:

Signature: \_\_\_\_\_/s/Authorized Representative \_\_\_\_\_

Seal: (Seal) Baidu Online Network Technology (Beijing) Co., Ltd.

This Agreement is agreed and accepted by:

**Baidu HR Consulting (Shanghai) Co., Ltd.**

Authorized Representative:

Signature: \_\_\_\_\_/s/Authorized Representative \_\_\_\_\_

Seal: (Seal) Baidu HR Consulting (Shanghai) Co., Ltd.

**Supplementary Agreement to the  
Equity Pledge Agreement**

This Supplementary Agreement to the Equity Pledge Agreement (this "Agreement"), dated September 6, 2011, is made in Beijing by and between:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

**Party B:** **Yanhong Li**  
ID No.: 110108196811171874

**Party C:** **Beijing Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

(Collectively, the "Parties")

**WHEREAS:**

- (1) Pursuant to the Equity Pledge Agreement ("Original Pledge Agreement") by and between Party A (as the "Pledgee") and Party B (as the "Pledgor"), Party B pledges all his equity interest in Baidu HR Consulting (Shanghai) Co., Ltd. ("Baidu HR Consulting") to Party A as security for the performance of his obligations under the Loan Agreement between Party B (as the "Borrower") and Party A ("Original Loan Agreement"), as well as the Exclusive Technology Consulting and Service Agreement between Party A and Baidu HR Consulting;
- (2) With consent of Party A, Party B intends to transfer the equity interest in Baidu HR Consulting which has been pledged to Party A under the original Equity Pledge Agreement (the "Equity Interest") to Party C (the "Equity Transfer");
- (3) The Parties have entered into a Supplemental Agreement to the Loan Agreement, according to which the Parties agree that Party C will assume all rights and obligations of Party B under the original Loan Agreement on and from the date on which Baidu HR Consulting completes the procedures necessary to change industrial and commercial registration of the Equity Interest (i.e., Party C is officially registered as a shareholder of Baidu HR Consulting with the competent industrial and commercial authority) (the "Transfer Effective Date");
- (4) Based on the above, the Parties to the Original Pledge Agreement agree to make corresponding amendments to the Original Pledge Agreement, and Party C will assume all rights and obligations of Party B under the Original Pledge Agreement; Party C agrees to accept such arrangement.

**NOW, THEREFORE,** the Parties agree as follows to define their respective rights and obligations hereunder:

1. Party C hereby warrants and covenants to Party A that upon due completion of Equity Transfer, Party C will continue to pledge the Equity Interest to Party A. Party A agrees to the Equity Transfer contemplated hereunder on reliance of such warranties and covenants of Party C.

2. It is acknowledged that the Equity Transfer will not release the pledge of the Equity Interest contemplated under the Original Equity Pledge Agreement. It is agreed that all of the rights and obligations of Party B under the Original Equity Pledge Agreement will be deemed to have been transferred to Party C along with the Equity Interest as of the Transfer Effective Date.
3. As the transferee of the Equity Interest, Party C agrees to assume all rights and obligations of Party B under the Original Equity Pledge Agreement (including without limitation its agreement to pledge the Equity Interest under its name to Party A) and continue to perform the Original Equity Pledge Agreement pursuant to its terms and conditions.
4. The Parties agree to cooperate and take all actions (including without limitation signing any relevant document) necessary and advisable to update and/or improve the legal procedures regarding pledge of the equity interest contemplated under the Original Equity Pledge Agreement and this Agreement, including without limitation after the duly completion of transfer of the Equity Interest, (1) immediately cause any update of the pledge of Equity Interest under this Agreement to be recorded in the register of members of Baidu HR Consulting; and (2) promptly effect the procedures necessary to register the pledge of the Equity Interest contemplated under the Original Equity Pledge Agreement and this Agreement with competent industrial and commercial authority.
5. It is agreed and acknowledged by the Parties that once effective, this Agreement will constitute an update of the Original Equity Pledge Agreement and the Parties may, if necessary, enter into a separate equity pledge agreement based on the update of the Original Equity Pledge Agreement provided herein to reinstate the respective rights and obligations of Party A (as the Pledgee) and Party C (as the Pledgor) as of the Transfer Effective Date.
6. This Agreement is effective upon signature of all Parties.
7. Any dispute in connection with this Agreement will be resolved by arbitration according to Clause 15 of the Original Equity Pledge Agreement.
8. This Agreement is in three (3) counterparts with each Party holding one copy. Each copy has the same legal effect.

(signatures on following page)

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

By: /s/ Zhan Wang

Title: authorized representative

Seal: Baidu Online Network Technology (Beijing) Co., Ltd.

**Party B: Yanhong Li**

By: /s/ Yanhong Li

**Party C: Beijing Baidu Netcom Science Technology Co., Ltd.**

By: /s/ Zhixiang Liang

Title: authorized representative

Seal: Beijing Baidu Netcom Science Technology Co., Ltd.

Appendix I

Register of Shareholders of Baidu HR Consulting (Shanghai) Co., Ltd.

Name of shareholders: Beijing Baidu Netcom Science Technology Co., Ltd.  
Address: [2/F, Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing]  
Capital contribution: RMB 50 million  
Percentage of capital contribution: 98%  
Capital contribution certificate No.:

Beijing Baidu Netcom Science Technology Co., Ltd. held 98% equity interest of Baidu HR Consulting (Shanghai) Co., Ltd., all of which has been pledged to Baidu Online Network Technology (Beijing) Co., Ltd.

Baidu Online Network Technology (Beijing) Co., Ltd. holds a pledge of 98% equity interest of Baidu HR Consulting (Shanghai) Co., Ltd.

Baidu HR Consulting (Shanghai) Co., Ltd.

By: /s/

Name:

Title: Legal Representative

Date: September 6, 2011

Shareholders' Meeting Resolutions of Baidu HR Consulting (Shanghai) Co., Ltd.

Shareholders' Meeting of Baidu HR Consulting (Shanghai) Co., Ltd. (the "Company") has reached the resolutions as follows regarding the execution of the Supplementary Agreement to the Equity Pledge Agreement dated September 6, 2011 between Beijing Baidu Netcom Science Technology Co., Ltd. and Baidu Online Network Technology (Beijing) Co., Ltd.:

Hereby agree that Beijing Baidu Netcom Science Technology Co., Ltd., shareholder of the Company, to pledge the equity interest held by it in the Company, to Baidu Online Network Technology (Beijing) Co., Ltd.

These resolutions are signed and delivered by all shareholders of the Company on September 6, 2011.

Shareholder: Beijing Baidu Netcom Science Technology Co., Ltd.

By: /s/ Zhixiang Liang

Title: Authorized representative

**Supplementary Agreement to the  
Equity Pledge Agreement**

This Supplementary Agreement to the Equity Pledge Agreement (this "Agreement"), dated September 6, 2011, is made in Beijing by and between:

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

**Party B: Beijing Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

(Collectively, the "Parties")

**WHEREAS:**

- (1) With consent of Party A, Yanhong Li, the original Pledgor (the "Original Pledgor") has transferred the equity interest in Baidu HR Consulting which has been pledged to Party A under the original Equity Pledge Agreement (the "Equity Interest") to Party B (the "Equity Transfer").
- (2) The Parties have entered into a Supplemental Agreement to the Loan Agreement, according to which Party B agrees to assume all rights and obligations of the Original Pledgor under the original Equity Pledge Agreement on and from the date on which Baidu HR Consulting completes the procedures necessary to change industrial and commercial registration of the Equity Interest (i.e., Party B is officially registered as a shareholder of Baidu HR Consulting with the competent industrial and commercial authority) (the "Transfer Effective Date").

**NOW, THEREFORE,** the Parties agree as follows to define their respective rights and obligations hereunder:

1. Party B hereby warrants and covenants to Party A that upon due completion of Equity Transfer, Party B will continue to pledge the Equity Interest to Party A. Party A agrees to the Equity Transfer contemplated hereunder on reliance of such warranties and covenants of Party B.
2. It is acknowledged that the Equity Transfer will not release the pledge of the Equity Interest contemplated under the original Equity Pledge Agreement. It is agreed that all of the rights and obligations of the Original Pledgor under the original Equity Pledge Agreement will be deemed to have been transferred to Party B along with the Equity Interest as of the Transfer Effective Date.
3. As the transferee of the Equity Interest, Party B agrees to assume all rights and obligations of the Original Pledgor under the original Equity Pledge Agreement (including without limitation its agreement to pledge the Equity Interest under its name to Party A) and continue to perform the original Equity Pledge Agreement pursuant to its terms and conditions.



4. The Parties agree to cooperate and take all actions (including without limitation signing any relevant document) necessary and advisable to update and/or improve the legal procedures regarding pledge of the equity interest contemplated under the original Equity Pledge Agreement and this Agreement, including without limitation after effectiveness of this Agreement, (1) immediately cause any update of the pledge of Equity Interest under this Agreement to be recorded in the register of members of Baidu HR Consulting; and (2) promptly effect the procedures necessary to register the pledge of the Equity Interest contemplated under the original Equity Pledge Agreement and this Agreement with competent industrial and commercial authority.
5. It is agreed and acknowledged by the Parties that once effective, this Agreement will constitute an update of the original Equity Pledge Agreement and the Parties may, if necessary, enter into a separate equity pledge agreement based on the update of the original Equity Pledge Agreement provided herein to reinstate the respective rights and obligations as pledgor and pledgee as of the Transfer Effective Date.
6. This Agreement is effective upon signature of both Parties.
7. Any dispute in connection with this Agreement will be resolved by arbitration according to Clause 15 of the original Equity Pledge Agreement.
8. This Agreement is in two counterparts with each Party holding one copy. Each copy has the same legal effect.

(signatures on following page)

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

By: /s/ Zhan Wang

Title: authorized representative

Seal: Baidu Online Network Technology (Beijing) Co., Ltd.

**Party B: Beijing Baidu Netcom Science Technology Co., Ltd.**

By: /s/ Zhixiang Liang

Title: authorized representative

Seal: Beijing Baidu Netcom Science Technology Co., Ltd.

**Supplementary Agreement to the Equity Purchase Option Agreement**

This Supplementary Agreement to the Equity Purchase Option Agreement (the "Agreement") is entered into as of September 6, 2011 in Beijing by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**Party B:** **Robin Yanhong Li**

**Party C:** **Baidu HR Consulting (Shanghai) Co., Ltd.**  
Address: Rooms 202 and 204, No. 248 Fuyun Road, Jiading Industrial Zone, Shanghai, The People's Republic of China

**Party D:** **Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS,**

1. Pursuant to the Equity Purchase Option Agreement among Parties A, B and C (the "Original Agreement"), the parties have agreed on Party B's grant of the equity purchase option in connection of his equity interest in Party C to Party A.
2. With Party A's consent, Party B intends to transfer his equity interest in Party C to Party D (the "Share Transfer").
3. Upon the completion of the Share Transfer, Party D agrees to assume all the rights and obligations of Party B under the Original Agreement. All the parties to the Original Agreement accepted such an arrangement and agreed to restate the Original Agreement.

**NOW THEREFORE,** the parties agree as follows:

1. The parties agree that, upon Party C's completion of the amendment registration of the Share Transfer with the industrial and commercial authorities, which is the date when Party D is officially registered with the industrial and commercial authorities as a shareholder of Party C (the "Transfer Effective Date"), (1) Party D shall automatically replace Party B to be a party to the Original Agreement, and assume all the rights and obligations of Party B under the Original Agreement according to the terms and conditions of the Original Agreement, including but not limited to continue to grant the equity purchase option to Party A (please refer to the definition in the Original Agreement); (2) Accordingly, Party B shall not enjoy any right or undertake any obligation under the Original Agreement.
2. The parties agree and confirm that, this Agreement shall automatically constitute an amendment of the Original Agreement upon the Transfer Effective Date. Parties A, C and D may enter into a separate agreement pursuant to the amendment to the Original Agreement made hereunder so as to restate the rights and obligations of Parties A, C and D (as the borrowers) if they consider necessary.

- 
3. This Agreement shall become effective upon the execution of the parties.
  4. Section 6.2 of the Original Agreement shall apply to the dispute resolution of this Agreement.
  5. This Agreement shall be executed in four originals, each party holding one original. All the originals shall have the same legal effect.

[Signature page below]

[No text on the signature page]

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Authorized representative: /s/ Zhan Wang  
Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:** **Robin Yanhong Li**  
Signature: /s/ Robin Yanhong Li

**Party C:** **Baidu HR Consulting (Shanghai) Co., Ltd.**  
Authorized representative: /s/ Authorized representative  
Company seal: (with the company seal of Baidu HR Consulting (Shanghai) Co., Ltd.)

**Party D:** **Baidu Netcom Science Technology Co., Ltd.**  
Authorized representative: /s/ Authorized representative  
Company seal: (with the company seal of Baidu Netcom Science Technology Co., Ltd.)

### Loan Agreement

This Loan Agreement (the "Agreement") is entered into in Beijing as of February 10, 2006 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:** **Robin Yanhong Li**

#### WHEREAS,

1. Party A is a wholly-owned foreign enterprise incorporated in the People's Republic of China (the "PRC");
2. Party B is a citizen of the PRC and a shareholder of Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom").

**NOW THEREFORE**, through friendly negotiation, Party A and Party B agree as follows:

1. Party A agrees to provide an interest-free loan to Party B with the principal as RMB 8,000,000 in accordance with the terms and conditions set forth in this Agreement. Party B agrees to accept the loan above.
2. Party B confirms that he has obtained the total amount of the loan and has invested it into Baidu Netcom as capital contribution.
3. The Term of such loan starts from the date that Party B received the loan until ten (10) years after signing this Agreement and could be extended upon the written agreement of the parties. 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) Party B quits or is dismissed by Party A or its affiliates;
  - (2) Party B dies or becomes a person without capacity or with limited capacity for civil acts;
  - (3) Party B commits a crime or is involved in a crime;
  - (4) Any other third party claims more than RMB100,000 against Party B; 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 equity purchase option agreement speculated in Section 4 of this Agreement.

4. The 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 in Baidu Netcom (the "Option Right") at anytime, however, Party A shall notify Party B 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 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 or its designated person shall purchase the equity interests at the lowest price in accordance with the applicable law. The parties agree to execute an exclusive equity purchase option agreement in connection with above matters.
5. The parties herein agree and confirm that Party B may repay the loan only by the following methods: the borrower (or his successors or assignees) shall transfer the equity interest in Baidu Netcom to Party A or its designated person and use the proceeds to repay the loan when the loan is due and Party A gives a written notice.
6. The 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 Party B has to transfer his 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. The parties agree and confirm that Party B shall be deemed the completion of performing his obligations under this Agreement only if the following requirements are met:
  - (a) Party B has transferred all his equity interests of Baidu Netcom to Party A and/its designated person; and
  - (b) Party B has 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, Party B agrees to pledge all his own equity interest of Baidu Netcom to Party A (the "Equity Pledge"). The parties agree to execute an equity pledge agreement for the additional shares issued for the capital increase regarding the above matters.
9. Party A hereby represents and warrants to Party B 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 Party B 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 Party A signed with a third party or any promise Party A issued to a third party; and
  - (e) This Agreement shall constitute the legal, valid and binding obligations of Party A upon its execution.
10. Party B hereby represents and warrants 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 Party B is the legal holder of the equity interest of Baidu Netcom newly issued for the capital increase;
  - (b) Party B has the right to execute and perform this Agreement. Party B, 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 Party B does not violate any laws, regulations, approvals, authorizations, notices, other governmental documents, any agreement Party B signed with a third party or any promise Party B issued to a third party;
  - (d) This Agreement shall constitute the legal, valid and binding obligations of Party B upon its execution;
  - (e) Party B has paid contribution in full for the additional equity interests he obtained in Baidu Netcom in accordance with applicable laws and regulations;
  - (f) Except the provisions stipulated in the equity pledge agreement and exclusive equity purchase option agreement for the additional shares issued for the capital increase, Party B did not create any pledge or other security, make third party any offer to transfer his equity, make acceptance for the offer of any third party to purchase his equity, or execute any agreement with a third party to transfer his equity;
  - (g) There are no pending or potential disputes, litigation, arbitration, administrative proceedings or other legal proceedings in connection with the additional equity interests of Baidu Netcom after the capital increase held by Party B;
  - (h) Baidu Netcom has completed all governmental approval, license, registration and filing necessary for the capital increase.



11. Party B covenants that he shall, during the term of this Agreement:
- (a) Not sell, transfer, pledge, dispose in any other manners of his additional equity interests of Baidu Netcom after the capital increase or other interests, or not allow to create other security interests on them without Party A's prior written consent, except pledges or other rights created in the interest of Party A;
  - (b) Not cause shareholder's meetings to make resolutions to sell, transfer, pledge, dispose of in any other manners, or not allow to create other security interest on, any of his legal and beneficiary equity interest without Party A's prior written consent, except transferring his equity interest to Party A;
  - (c) Not vote for any merger or combination with, or acquire or invest in, any person at shareholder's meetings of Baidu Netcom without Party A's prior consent;
  - (d) Promptly inform Party A of the pending or threatened litigation, arbitration or regulatory procedure concerning the additional equity interests of the Baidu Netcom after the capital increase held by Party B;
  - (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 the additional equity interest of the Baidu Netcom after the capital increase held by Party B;
  - (f) Refrain from any act or omission 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 the additional equity interest in the Baidu Netcom after the capital increase held by Party B 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 request Baidu Netcom to distribute dividends or profits;
  - (j) Once Party B transfers the additional equity interest of Baidu Netcom after the capital increase he holds Party A or its designated person, he shall repay the consideration he receives as the principal and the interests or capital use cost to Party A if such repayment is permitted under the laws of PRC;
  - (k) Strictly comply with the terms of this Agreement, perform the obligations under this Agreement and refrain from any act or omission that affects the validity and enforceability of this Agreement.

12. Party B, as the shareholder of Baidu Netcom, covenants that he shall cause Baidu Netcom, during the term of this Agreement:
- (a) Not to supplement, amend or modify its articles of association, or to increase or decrease its registered capital, or to change its capital structure in any form without Party A's prior written consent;
  - (b) To operate its business and deal with matters prudently and effectively according 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 interests on, any of its assets, business or legal or beneficial rights to its income without Party A's prior written consent since the date of this Agreement;
  - (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 (for the purpose of this Section 12, a contract will be deemed material if its value exceeds RMB ¥ 100,000), without Party A's prior written consent, other than those executed during the ordinary course of business;
  - (g) To provide information concerning all of its operation and financial affairs per Party A's request;
  - (h) Not to merger or combine with, acquire or invest in, any other person without Party A's prior written consent;
  - (i) Not to distribute dividends to its shareholder in any form without Party A's prior written consent. However, Baidu Netcom shall promptly distribute all its distributable profits to its shareholder upon the Party A's request;
  - (j) To promptly inform Party A of any pending or threatened suit, arbitration or administrative procedure concerning the assets, business or income of the Baidu Netcom;
  - (k) To execute all necessary or appropriate documents, take all necessary or appropriate actions, bring all necessary or appropriate lawsuits and make all necessary and appropriate defencings against all claims in order to maintain the ownership of all the assets of Baidu Netcom;
  - (l) To strictly comply with the terms of Service Agreement and other agreements with Party A, perform its obligations under the aforesaid agreements, and not to conduct any action or nonfeasance that affects the validity and enforceability of such agreements.

13. This agreement shall be binding to, and only in the interest of, all the parties hereto and their respective successors and assignees. Without prior written consent of Party A, Party B shall not transfer, pledge or assign any right, benefit or obligation hereunder.
14. Party B agrees that Party A can assign its rights and obligations hereunder to a third party with a written notice to Party B when it considers necessary. No further consent of Party B is required upon such a transfer.
15. The execution, validity, interpretation, performance, amendment, termination and the dispute resolution of this Agreement are governed by the laws of PRC.
16. Arbitration.
  - (a) 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) of 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.
  - (b) The arbitration should take place in Beijing.
  - (c) The arbitration language is Chinese.
17. This Agreement shall be concluded on the date of execution. Both Parties agree that the terms and conditions of this Agreement shall be effective as of the date on which Party B receives the loan and expire when both Parties complete their obligations hereunder.
18. Party B shall terminate or revoke this Agreement unless (a) Party A commits a material defect, fraud or other material illegal action; (b) upon Party A's bankruptcy.
19. This Agreement shall not be amended or modified without the written consent of the Parties hereto. The Parties may amend and modify this Agreement with a written agreement. The amendments, modifications, supplements and attachments shall be integral parts of this Agreement.
20. This Agreement constitutes the entire agreement of the Parties with respect to the subject matters herein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.
21. This Agreement is severable. The invalidity or enforceability of any clause shall not affect the validity or enforceability of other parts hereof.
22. Each Party shall 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 that is due before the expiration or early termination this Agreement shall survive such expiration or early termination. Sections 15, 16 and 22 shall survive the termination of this Agreement.
24. This Agreement shall be executed in two originals, each Party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

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**Party A:**  
Legal representative/authorized representative:  
Company seal:

**Baidu Online Network Technology (Beijing) Co., Ltd.**  
/s/ Legal representative  
(with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:**  
Signature:

**Robin Yanhong Li**  
/s/ Robin Yanhong Li

### Loan Agreement

This Loan Agreement (the "Agreement") is entered into in Beijing as of March 6, 2008 by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Registration Address: 12/F., Ideal International Plaza, No. 58 North-West 4<sup>th</sup> Ring,  
Haidian District, Beijing, PRC, 100080

**Party B:** **Robin Yanhong Li**  
Residential Address: Room 901, Unit 1, Building 1, Shanghecun, Haidian District, Beijing, PRC

#### WHEREAS,

1. Party A is a wholly-owned foreign enterprise incorporated in the People's Republic of China (the "PRC");
2. Party B is a citizen of the PRC and a shareholder of Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom").

**NOW THEREFORE**, through friendly negotiation, Party A and Party B agree as follows:

1. Party A agrees to provide an interest-free loan to Party B with the principal as RMB 90,000,000 in accordance with the terms and conditions set forth in this Agreement. Party B agrees to accept the loan above.
2. Party B confirms that he has obtained the total amount of the loan and has invested it into Baidu Netcom as capital contribution.
3. The Term of such loan starts from the date that Party B received the loan until ten (10) years after signing this Agreement and could be extended upon the written agreement of the parties. 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) Party B quits or is dismissed by Party A or its affiliates;
  - (2) Party B dies or becomes a person without capacity or with limited capacity for civil acts;
  - (3) Party B commits a crime or is involved in a crime;
  - (4) Any other third party claims more than RMB100,000 against Party B; 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 equity purchase option agreement speculated in Section 4 of this Agreement.

4. The 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 in Baidu Netcom (the "Option Right") at anytime, however, Party A shall notify Party B 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 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 or its designated person shall purchase the equity interests at the lowest price in accordance with the applicable law. The parties agree to execute an exclusive equity purchase option agreement in connection with above matters.
5. The parties herein agree and confirm that Party B may repay the loan only by the following methods: the borrower (or his successors or assignees) shall transfer the equity interest in Baidu Netcom to Party A or its designated person and use the proceeds to repay the loan when the loan is due and Party A gives a written notice.
6. The 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 Party B has to transfer his 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. The parties agree and confirm that Party B shall be deemed the completion of performing his obligations under this Agreement only if the following requirements are met:
  - (a) Party B has transferred all his equity interests of Baidu Netcom to Party A and/its designated person; and
  - (b) Party B has 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, Party B agrees to pledge all his own equity interest of Baidu Netcom to Party A (the "Equity Pledge"). The parties agree to execute an equity pledge agreement for the additional shares issued for the capital increase regarding the above matters.
9. Party A hereby represents and warrants to Party B 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 Party B 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 Party A signed with a third party or any promise Party A issued to a third party; and
  - (e) This Agreement shall constitute the legal, valid and binding obligations of Party A upon its execution.
10. Party B hereby represents and warrants 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 Party B is the legal holder of the equity interest of Baidu Netcom newly issued for the capital increase;
  - (b) Party B has the right to execute and perform this Agreement. Party B, 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 Party B does not violate any laws, regulations, approvals, authorizations, notices, other governmental documents, any agreement Party B signed with a third party or any promise Party B issued to a third party;
  - (d) This Agreement shall constitute the legal, valid and binding obligations of Party B upon its execution;
  - (e) Party B has paid contribution in full for the additional equity interests he obtained in Baidu Netcom in accordance with applicable laws and regulations;
  - (f) Except the provisions stipulated in the equity pledge agreement and exclusive equity purchase option agreement for the additional shares issued for the capital increase, Party B did not create any pledge or other security, make third party any offer to transfer his equity, make acceptance for the offer of any third party to purchase his equity, or execute any agreement with a third party to transfer his equity;
  - (g) There are no pending or potential disputes, litigation, arbitration, administrative proceedings or other legal proceedings in connection with the additional equity interests of Baidu Netcom after the capital increase held by Party B;



(h) Baidu Netcom has completed all governmental approval, license, registration and filing necessary for the capital increase.

11. Party B covenants that he shall, during the term of this Agreement:

- (a) Not sell, transfer, pledge, dispose in any other manners of his additional equity interests of Baidu Netcom after the capital increase or other interests, or not allow to create other security interests on them without Party A's prior written consent, except pledges or other rights created in the interest of Party A;
- (b) Not cause shareholder's meetings to make resolutions to sell, transfer, pledge, dispose of in any other manners, or not allow to create other security interest on, any of his legal and beneficiary equity interest without Party A's prior written consent, except transferring his equity interest to Party A;
- (c) Not vote for any merger or combination with, or acquire or invest in, any person at shareholder's meetings of Baidu Netcom without Party A's prior consent;
- (d) Promptly inform Party A of the pending or threatened litigation, arbitration or regulatory procedure concerning the additional equity interests of the Baidu Netcom after the capital increase held by Party B;
- (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 the additional equity interest of the Baidu Netcom after the capital increase held by Party B;
- (f) Refrain from any act or omission 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 the additional equity interest in the Baidu Netcom after the capital increase held by Party B 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 request Baidu Netcom to distribute dividends or profits;
- (j) Once Party B transfers the additional equity interest of Baidu Netcom after the capital increase he holds Party A or its designated person, he shall repay the consideration he receives as the principal and the interests or capital use cost to Party A if such repayment is permitted under the laws of PRC;
- (k) Strictly comply with the terms of this Agreement, perform the obligations under this Agreement and refrain from any act or omission that affects the validity and enforceability of this Agreement.

12. Party B, as the shareholder of Baidu Netcom, covenants that he shall cause Baidu Netcom, during the term of this Agreement:
- (a) Not to supplement, amend or modify its articles of association, or to increase or decrease its registered capital, or to change its capital structure in any form without Party A's prior written consent;
  - (b) To operate its business and deal with matters prudently and effectively according 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 interests on, any of its assets, business or legal or beneficial rights to its income without Party A's prior written consent since the date of this Agreement;
  - (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 (for the purpose of this Section 12, a contract will be deemed material if its value exceeds RMB ¥ 100,000), without Party A's prior written consent, other than those executed during the ordinary course of business;
  - (g) To provide information concerning all of its operation and financial affairs per Party A's request;
  - (h) Not to merger or combine with, acquire or invest in, any other person without Party A's prior written consent;
  - (i) Not to distribute dividends to its shareholder in any form without Party A's prior written consent. However, Baidu Netcom shall promptly distribute all its distributable profits to its shareholder upon the Party A's request;
  - (j) To promptly inform Party A of any pending or threatened suit, arbitration or administrative procedure concerning the assets, business or income of the Baidu Netcom;
  - (k) To execute all necessary or appropriate documents, take all necessary or appropriate actions, bring all necessary or appropriate lawsuits and make all necessary and appropriate defencings against all claims in order to maintain the ownership of all the assets of Baidu Netcom;
  - (l) To strictly comply with the terms of Service Agreement and other agreements with Party A, perform its obligations under the aforesaid agreements, and not to conduct any action or nonfeasance that affects the validity and enforceability of such agreements.

13. This agreement shall be binding to, and only in the interest of, all the parties hereto and their respective successors and assignees. Without prior written consent of Party A, Party B shall not transfer, pledge or assign any right, benefit or obligation hereunder.
14. Party B agrees that Party A can assign its rights and obligations hereunder to a third party with a written notice to Party B when it considers necessary. No further consent of Party B is required upon such a transfer.
15. The execution, validity, interpretation, performance, amendment, termination and the dispute resolution of this Agreement are governed by the laws of PRC.
16. Arbitration.
  - (a) 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) of 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.
  - (b) The arbitration should take place in Beijing.
  - (c) The arbitration language is Chinese.
17. This Agreement shall be concluded on the date of execution. Both Parties agree that the terms and conditions of this Agreement shall be effective as of the date on which Party B receives the loan and expire when both Parties complete their obligations hereunder.
18. Party B shall terminate or revoke this Agreement unless (a) Party A commits a material defect, fraud or other material illegal action; (b) upon Party A's bankruptcy.
19. This Agreement shall not be amended or modified without the written consent of the Parties hereto. The Parties may amend and modify this Agreement with a written agreement. The amendments, modifications, supplements and attachments shall be integral parts of this Agreement.
20. This Agreement constitutes the entire agreement of the Parties with respect to the subject matters herein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.
21. This Agreement is severable. The invalidity or enforceability of any clause shall not affect the validity or enforceability of other parts hereof.

22. Each Party shall 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 that is due before the expiration or early termination this Agreement shall survive such expiration or early termination. Sections 15, 16 and 22 shall survive the termination of this Agreement.
24. This Agreement shall be executed in two originals, each Party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

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**Party A:**  
Legal  
representative/authorized  
representative:  
Company seal:

**Baidu Online Network Technology (Beijing) Co., Ltd.**  
/s/ Legal representative

(with the company seal of Baidu Online Network  
Technology (Beijing) Co., Ltd.)

**Party B:**  
Signature:

**Robin Yanhong Li**  
/s/ Robin Yanhong Li

**Supplementary Agreement to the Loan Agreement**

This Supplementary Agreement to the Loan Agreement (the "Agreement") is entered into as of September 6, 2011 in Beijing by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
**Party B:** **Robin Yanhong Li**  
**Party C:** **Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS,**

1. Pursuant to the Loan Agreement between Parties A and B (the "Original Agreement"), Party A has provided an interest-free loan of RMB50,000,000 to Party B (the "Original Loan"). Party B has used the Original Loans to invest in Baidu HR Consulting (Shanghai) Co., Ltd. ("Baidu HR").
2. Party B intends to transfer its investment of RMB50,000,000 in the registered capital of Baidu Netcom to Party C (the "Share Transfer").
3. Upon the completion of the Share Transfer, Party C agrees to assume all the rights and obligations of Party B under the Original Agreement. All the parties to the Original Agreement accepted such an arrangement and agreed to restate the Original Agreement.

**NOW THEREFORE,** the parties agree as follows:

1. The parties agree that, upon Baidu HR's completion of the amendment registration of the Share Transfer with the industrial and commercial authorities, which is the date when Party D is officially registered with the industrial and commercial authorities as a shareholder of Baidu Netcom (the "Transfer Effective Date"), (1) Party C shall automatically replace Party B to be a party to the Original Agreement, and assume all the rights and obligations of Party B under the Original Agreement according to the terms and conditions of the Original Agreement, including but not limited to the repayment of the Original Loan; (2) Accordingly, Party B shall not enjoy any right or undertake any obligation under the Original Agreement.
2. The parties agree and confirm that, this Agreement shall automatically constitute an amendment of the Original Agreement upon the Transfer Effective Date. Parties A and C may enter into a separate agreement pursuant to the amendment to the Original Agreement made hereunder so as to restate the rights and obligations of Party A (as the lender) and Party C (as the borrower) if they consider necessary.
3. This Agreement shall become effective upon the execution of the parties.

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4. Section 16 of the Original Agreement shall apply to the dispute resolution of this Agreement.

5. This Agreement shall be executed in three originals, each party holding one original. All the originals shall have the same legal effect.

[Signature page below]

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**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Authorized representative: /s/ Zhan Wang  
Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:** **Robin Yanhong Li**  
Signature: /s/ Robin Yanhong Li

**Party C:** **Baidu Netcom Science Technology Co., Ltd.**  
Authorized representative: /s/ Authorized Representative  
Company seal: (with the company seal of Baidu Netcom Science Technology Co., Ltd.)



### Supplementary Agreement

This Supplementary Agreement (the "Agreement") is entered into by and among the following parties in Beijing on September 6, 2011:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd. ("Baidu Online")  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu HR Consulting (Shanghai) Co., Ltd. ("Baidu HR")  
Address: No. 713-1, No. 200 Huiyuan Road, Jiading District, Shanghai, PRC  
Party C: Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom")  
ID number: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

In this Agreement, the parties are referred to as a "Party" individually and "Parties" collectively.

Whereas:

1. The Parties to the Agreement individually or jointly signed the following agreements/contracts or powers of attorney:

No.	Document Names	Signing Parties	Signing Dates
1	Technology Consulting and Services Agreement	Baidu Online, Baidu HR	December 28, 2010
2	Operating Agreement	Baidu Online, Baidu HR, Robin Yanhong Li	December 28, 2010
3	Exclusive Equity Purchase Option Agreement	Baidu Online, Robin Yanhong Li, Baidu HR	December 28, 2010
4	Proxy Agreement	The issuers: Baidu Netcom and Baidu Online; The recipient: Baidu HR	December 28, 2010

2. The Parties agree to enter into this Agreement to amend certain sections in the agreements/contracts or powers of attorney set out above.

**NOW THEREFORE**, The Parties hereby agree as follows:

1. The amended sections:

1.1 Technology Consulting and Services Agreement:

1.1.1 Section 7.2 is amended as: "7.2 The term of this Agreement shall be permanent, unless otherwise provided herein."

1.1.2 Section 7.3 is amended as: "7.3 If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party's duration of operation."

1.1.3 Section 7.4 is deleted.

1.1.4 Section 8.1 is amended as: "8.1 [Blank]".

1.2 Operating Agreement:

1.2.1 Section 15 is amended as: "15 The term of this Agreement shall be permanent, unless otherwise provided herein. If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party's duration of operation."

1.2.2 Section 16 is amended as: "16 During the term of this Agreement, Party B shall not terminate this Agreement, unless Party A has a gross negligence or fraud towards Party B. 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.

1.3 Exclusive Equity Purchase Option Agreement

1.3.1 Section 5.2 is amended as: "Section 5.2 The term of this Agreement shall be permanent, unless otherwise provided herein. This Agreement shall be terminated when all the shares in Parcy C held by Party B have been transferred to Party A and/or the Designated Persons pursuant to this Agreement.

1.4 Proxy Agreement

1.4.1 Section 6 is amended as: "6. The term of this Agreement shall be permanent, unless Baidu Online terminates this Agreement in writing."

2. Miscellaneous

2.1 The Effective Date

This Agreement shall be effective as of the date first set forth above.

2.2 The Applicable Laws

The conclusion, effectiveness, interpretation, performance, amendment, termination and dispute settlement shall be governed by PRC laws officially published and publicly available.

2.3 Language

This Agreement is executed in Chinese in four originals, each Party holding an original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal Representative: /s/ Zhan Wang (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party C: Baidu Netcom Science Technology Co., Ltd.**

Legal Representative: /s/ Legal Representative (with the company seal of Party C: Baidu Netcom Science Technology Co., Ltd.)

**Party B: Baidu HR Consulting (Shanghai) Co., Ltd.**

Legal Representative: /s/ Legal Representative (with the company seal of Baidu HR Consulting (Shanghai) Co., Ltd.)

**Supplementary Agreement to Trademark License Agreement**

This Supplementary Agreement to Trademark License Agreement (the "Agreement") is entered into by and among the following parties on January 30, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu Netcom Science Technology Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS:**

1. The parties entered into the Trademark License Agreement on March 1, 2004. Pursuant to Section 2 of the Trademark License Agreement, the Licensee agreed to pay the Licensor licenses fees. The specified amount of the license fees and the form of payment were set forth in Appendix 2 to the Trademark License Agreement. Pursuant to Appendix 2 to the Trademark License Agreement, the 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.
2. The parties entered into the Supplementary Agreement No. 4 to the Trademark License Agreement on April 22, 2010. Pursuant to Section 1 of the Supplementary Agreement No. 4 to the Trademark License Agreement, the parties agreed to add the following as Section 2 of Appendix 2 to the Trademark License Agreement: "Party A shall have the right to determine the amount and calculation of the license fees at its sole discretion."

**NOW THEREFORE**, the parties agree to terminate the section above through friendly negotiation.

This Agreement shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)  
Party B: Baidu Netcom Science Technology Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Netcom Science Technology Co., Ltd.)

**Supplementary Agreement to Software License Agreement**

This Supplementary Agreement to Software License Agreement (the "Supplementary Agreement") is entered into by and among the following parties on January 30, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu Netcom Science Technology Co., Ltd.  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS:**

The parties entered into the Software License Agreement on March 22, 2005 in Beijing. Pursuant to Section 2 of the Software License Agreement, Party B agreed to pay Party A the software license fees (the "License Fees"). The specified amount of the License Fees and the form of payment are set forth in Appendix 2 to the Software License Agreement. 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.

Pursuant to Appendix 2 to the Software License Agreement, Party B should pay for each Software RMB 5,000,000 per year to Party A as License Fees. Party B shall pay the License Fees to the account designated by Party A before December 31 of each year. Party A has the right to determine whether or not to exempt the Party B's obligation to pay the License Fees at its discretion.

The parties agree to terminate the provisions above through friendly negotiation.

This Supplementary Agreement shall be executed in two originals and be effective as of the date when the parties sign this Supplementary Agreement and attach the company seals hereto.

**IN WITNESS WHEREOF**, each party hereto have caused this Supplementary Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)  
The Licensee: Baidu Netcom Science Technology Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Netcom Science Technology Co., Ltd.)

**Supplementary Agreement to Web Layout Copyright License Agreement**

This Supplementary Agreement to Web Layout Copyright License Agreement (the "Agreement") is entered into by and among the following parties on January 30, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu Netcom Science Technology Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS:**

The parties entered into the Web Layout Copyright License Agreement on March 1, 2004. Pursuant to Section 2 of the Web Layout Copyright License Agreement, the Licensee agreed to pay the Licensor license fees. The specified amount of the license fees and the form of payment are set forth in Appendix 2 to the Web Layout Copyright License Agreement. Pursuant to Appendix 2 to the Web Layout Copyright License Agreement, the Licensee should pay RMB10,000 per year to the Licensor as license fees. The Licensor has the right to determine whether or not to exempt the Licensee's obligation to pay license fees.

The parties agree to terminate the provisions above through friendly negotiation.

This agreement shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)  
The Licensee: Baidu Netcom Science Technology Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Netcom Science Technology Co., Ltd.)

**Supplementary Agreement to Business Cooperation Agreement**

This Supplementary Agreement to Business Cooperation Agreement (the "Agreement") is entered into by and among the following parties on January 30, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

Party B: Baidu Netcom Science Technology Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS:**

The parties entered into the Business Cooperation Agreement on March 22, 2005. Pursuant to Section 2.1 of the Business Cooperation Agreement, as the consideration to the internet information service and relevant services provided by Party B, Party A agreed 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 to the Business Cooperation Agreement which may be adjusted in accordance with the actual circumstances by both parties. Pursuant to Appendix 1 to the Business Cooperation Agreement, Party A shall pay RMB10,000 per month to Party B as the fee for 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.

**NOW THEREFORE**, the parties agree to terminate the provisions above through friendly negotiation.

This agreement shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

The Licensor:	Baidu Online Network Technology (Beijing) Co., Ltd.
Legal Representative:	/s/ Legal Representative
Company seal:	(The company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)
The Licensee:	Baidu Netcom Science Technology Co., Ltd.
Legal Representative:	/s/ Legal Representative
Company seal:	(The company seal of Baidu Netcom Science Technology Co., Ltd.)

**Supplementary Agreement to Domain Name License Agreement**

This Supplementary Agreement to Domain Name License Agreement (the "Supplementary Agreement") is entered into by and among the following parties on January 30, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu Netcom Science Technology Co., Ltd.  
Address: No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

**WHEREAS:**

The parties entered into the Domain Name License Agreement on March 1, 2004. Pursuant to Section 2 of the Software License Agreement, the Licensee agreed to pay the Licensor license fees. The specified amount of the license fees and the form of payment are set forth in Appendix 1 to the Domain Name License Agreement. Pursuant to Appendix 1 to the Domain Name License Agreement, the Licensee should pay RMB10,000 per year to the Licensor as the fees for using the domain names. The Licensor has the right to determine whether or not to exempt the Licensee's obligation to pay such fees.

**NOW THEREFOUR**, the parties agree to terminate the provisions above through friendly negotiation.

This Supplementary Agreement shall be executed in two originals, each party holding one original. All the originals have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Supplementary Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)  
The Licensee: Baidu Netcom Science Technology Co., Ltd.  
Legal Representative: /s/ Legal Representative  
Company seal: (The company seal of Baidu Netcom Science Technology Co., Ltd.)



**Supplementary Agreement to the Amended and Restated Loan Agreement**

This Supplementary Agreement to the Amended and Restated Loan Agreement (the "Agreement") is entered into as of August 26, 2011 by the following parties:

**Party A:** Baidu Online Network Technology (Beijing) Co., Ltd.  
**Address:** 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
**Party B:** Robin Yanhong Li  
**Party C:** Haoyu Shen  
**Party D:** Zhan Wang

**WHEREAS,**

1. Pursuant to the Amended and Restated Loan Agreement among Parties A, B and C (the "Original Agreement"), Party A has provided interest-free loans of RMB1,500,000 and RMB500,000 to Parties B and C, respectively (the "Original Loans"). Parties B and C have used the Original Loans to invest in Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom").
2. Party C intends to transfer its investment of RMB500,000 in the registered capital of Baidu Netcom to Party D (the "Share Transfer").
3. Upon the completion of the Share Transfer, Party D agrees to assume all the rights and obligations of Party C under the Original Agreement. All the parties to the Original Agreement accepted such an arrangement and agreed to restate the Original Agreement.

**NOW THEREFORE,** the parties agree as follows:

1. The parties agree that, upon Baidu Netcom's completion of the amendment registration of the Share Transfer with the industrial and commercial authorities, which is the date when Party D is officially registered with the industrial and commercial authorities as a shareholder of Baidu Netcom (the "Transfer Effective Date"), (1) Party D shall automatically replace Party C to be a party to the Original Agreement, and assume all the rights and obligations of Party C under the Original Agreement according to the terms and conditions of the Original Agreement, including but not limited to the repayment of the Original Loan; (2) Accordingly, Party C shall not enjoy any right or undertake any obligation under the Original Agreement.
2. The parties agree and confirm that, this Agreement shall automatically constitute an amendment to the Original Agreement upon the Transfer Effective Date. Parties A, B and D may enter into a separate agreement pursuant to the amendment to the Original Agreement made hereunder so as to restate the rights and obligations of Party A (as the lender) and Parties B and D (as the borrowers) if they consider necessary.

3. This Agreement shall become effective upon the execution of the parties.
4. Section 16 of the Original Agreement shall apply to the dispute resolution of this Agreement.
5. This Agreement shall be executed in four originals, each party holding one original. All the originals shall have the same legal effect.

[Signature page below]

[No text on the signature page]

<b>Party A:</b>	<b>Baidu Online Network Technology (Beijing) Co., Ltd.</b>
Authorized representative:	/s/ Authorized Representative
Company seal:	(with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)
<b>Party B:</b>	<b>Robin Yanhong Li</b>
Signature:	/s/ Robin Yanhong Li
<b>Party C:</b>	<b>Haoyu Shen</b>
Signature:	/s/ Haoyu Shen
<b>Party D:</b>	<b>Zhan Wang</b>
Signature:	/s/ Zhan Wang

**Supplementary Agreement to the  
Amended and Restated Equity Pledge Agreement**

This Supplementary Agreement to the Amended and Restated Equity Pledge Agreement (this "Agreement"), dated August 26, 2011 is made in Beijing by and between:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing

**Party B:** **Yanhong Li**

**Party C:** **Haoyu Shen**

**Party D:** **Zhan Wang**

**WHEREAS:**

- (1) Pursuant to the Amended and Restated Equity Pledge Agreement ("Original Pledge Agreement") by and between Party A (as the "Pledgee") and Parties B and C (as the "Pledgors"), Parties B and C pledge all their equity interests in Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom") to Party A as security for the performance of their obligations under the Amended and Restated Loan Agreement between Parties B and C (as the "Borrowers") and Party A ("Original Loan Agreement"), as well as the Amended and Restated Exclusive Technology Consulting and Service Agreement between Party A and Baidu Netcom;
- (2) With consent of Party A, Party C intends to transfer the equity interest in Baidu Netcom which has been pledged to Party A under the Original Pledge Agreement (the "Equity Interest") to Party D (the "Equity Transfer");
- (3) The Parties have entered into the Amendment Agreement to the Amended and Restated Loan Agreement, according to which the Parties agree that Party D will assume all rights and obligations of Party C under the Original Loan Agreement on and from the date on which Baidu Netcom completes the procedures necessary to change industrial and commercial registration of the Equity Interest (i.e., Party D is officially registered as a shareholder of Baidu Netcom with the competent industrial and commercial authority) (the "Transfer Effective Date");
- (4) Based on the above, the parties to the Original Pledge Agreement agree to make corresponding amendments to the Original Pledge Agreement, and Party D will assume all rights and obligations of Party C under the Original Pledge Agreement; Party D agrees to accept such arrangement.

**NOW, THEREFORE,** the Parties agree as follows to define their respective rights and obligations hereunder:

1. Parties C and D hereby warrants and covenants to Party A that upon due completion of Equity Transfer, Party D will continue to pledge the Equity Interest to Party A. Party A agrees to the Equity Transfer contemplated hereunder on reliance of such warranties and covenants of Parties C and D.
2. It is acknowledged that the Equity Transfer will not release the pledge of the Equity Interest contemplated under the Original Pledge Agreement. It is agreed that all of the rights and obligations of Party C under the Original Pledge Agreement will be deemed to have been transferred to Party D along with the Equity Interest as of the Transfer Effective Date.
3. As the transferee of the Equity Interest, Party D agrees to assume all rights and obligations of Party C under the Original Pledge Agreement (including without limitation its agreement to pledge the Equity Interest under its name to Party A) and continue to perform the Original Pledge Agreement pursuant to its terms and conditions.
4. The Parties agree to cooperate and take all actions (including without limitation signing any relevant document) necessary and advisable to update and/or improve the legal procedures regarding pledge of the equity interest contemplated under the Original Pledge Agreement and this Agreement, including without limitation after the duly completion of transfer of the Equity Interest, (1) immediately cause any update of the pledge of Equity Interest under this Agreement to be recorded in the register of members of Baidu Netcom; and (2) promptly effect the procedures necessary to register the pledge of the Equity Interest contemplated under the Original Pledge Agreement and this Agreement with competent industrial and commercial authority.
5. It is agreed and acknowledged by the Parties that once effective, this Agreement will constitute an update of the Original Pledge Agreement and the Parties may, if necessary, enter into a separate equity pledge agreement based on the update of the Original Pledge Agreement provided herein to reinstate the respective rights and obligations of Party A (as the Pledgee) and Parties B and D (as the Pledgors) as of the Transfer Effective Date.
6. This Agreement is effective upon signature of all Parties.
7. Any dispute in connection with this Agreement will be revolved by arbitration according to Clause 15 of the Original Pledge Agreement.
8. This Agreement is in three (3) counterparts with each Party holding one copy. Each copy has the same legal effect.

(signatures on following page)

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

By: /s/ Authorized representative

Title: Authorized representative

Seal: Baidu Online Network Technology (Beijing) Co., Ltd.

**Party B: Yanhong Li**

By: /s/ Yanhong Li

**Party C: Haoyu Shen**

By: /s/ Haoyu Shen

**Party D: Zhan Wang**

By: /s/ Zhan Wang

## EQUITY PLEDGE AGREEMENT

This Equity Pledge Agreement (this "Agreement") is entered into in Beijing, PRC on December 1, 2011 by the following parties:

### Pledgee:

#### Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Address: 3<sup>rd</sup> Floor, Baidu Campus, No. 10, Shangdi 10th Street,, Haidian District, Beijing, PRC

### Pledgor:

#### Party B: Yanhong Li

### WHEREAS,

1. Party A (the "Pledgee"), a wholly foreign-owned enterprise registered in Beijing, the People's Republic of China (the "PRC").
2. Party B (the "Pledgor"), is a citizen of the PRC. The Pledgor owns \_\_\_\_\_ 99.5 \_\_\_\_\_% of the equity interest in Beijing Baidu Netcom Science and Technology Co., Ltd., a limited liability company registered in Beijing, PRC (the "Company").
3. Party A and Party B signed a loan agreement on March 6, 2008, according to which Party B may get a loan in an amount of RMB \_\_\_\_\_ 99,500,000.00 \_\_\_\_\_ (hereinafter the "Loan") from Party A.
4. Party A and the Company signed an Exclusive Technology Consulting and Service Agreement (the "Service Agreement") on March 22, 2005, which has a term of ten (10) years. Pursuant to the Service Agreement, the Company shall pay Party A consulting and services fees (the "Fees") for the technology consulting and services provided by Party A.
5. In order to ensure that Party B will perform its obligations under the Loan Agreement and Party A will be able to receive the Fees from the Company, the Pledgor agrees to pledge all his equity interest in the Company as security for the performance of his obligations under the Loan Agreement. Party A and Party B plans to sign this contract to specify their rights and obligations.

**NOW THEREFORE**, the Pledgee and the Pledgor through friendly 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 of the equity interest in the Company legally held by the Pledgor.
- 1.3 "Rate of Pledge": refers to the ratio between the value of the Pledge and the services fees under this Agreement and the total amount of the Loan.
- 1.4 "Term of Pledge": refers to the period provided for under Article 3.2 hereunder.
- 1.5 "Master Agreement": refers to the Service Agreement and agreements under the Loan arrangement.
- 1.6 "Event of Default": refers to any event listed in 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 Pledgor agrees to pledge his Equity Interest in the Company to the Pledgee as security for (i) all his obligations under the Loan arrangement and (ii) all the liabilities of the Company under Service Agreement. The term "Pledge" under this Agreement refers to the right of the Pledgee to be entitled to priority in receiving payment in the form of the Equity Interest based on the conversion value thereof, or from the proceeds from the auction or sale of the Equity Interest pledged by the Pledgor to the Pledgee.

3. Rate of Pledge and Term of Pledge

3.1 The rate of the Pledge

The rate of the Pledge shall be approximately 100%.

3.2 The term of the Pledge

3.2.1 The Pledge shall take effect as of the date when the pledge of the Equity Interest is recorded in the Register of Shareholders of the Company and registered in authorized administration of industry and commerce, and shall remain in effect until two (2) years after the obligations under the Master Agreement will have been fulfilled.

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 the Pledgor does not perform his obligations under the Loan arrangement or the Company fails to pay services fees under the Service Agreement.

4. Physical Possession of Documents

4.1 During the term of the Pledge under this Agreement, the Pledgor shall deliver the physical possession of his/her Certificate of Capital Contribution and the Register of Shareholders of the Company to the Pledgee within one (1) week from the execution date 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 Shareholders of the Company within ten (10) days of the signing of this Agreement (See Appendix 1).

5. Representation and Warranty of the Pledgor

5.1 The Pledgor is the legal owner of the Equity Interest pledged and through resolutions of shareholders' meetings (see Appendix 2), get approval for the pledge under this agreement.

5.2 Except for the benefit of the Pledgee, the Pledgor has not pledged the Equity Interest or created other encumbrance on the Equity Interest.

6. Covenants of the Pledgor

6.1 During the effective term of this Agreement, the Pledgor covenants to the Pledgee for its benefit that the Pledgor shall:

6.1.1 Not transfer or assign the Equity Interest, create or permit the existence of any other pledges which may have an adverse effect on the rights or benefits of the Pledgee without prior written consent of the Pledgee;

6.1.2 Comply with 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 relevant government authorities within five (5) days upon receiving such notices, orders or suggestions; comply with such notices, orders or suggestions or, alternatively, at the reasonable request of the Pledgee or with consent from the Pledgee, raise objection to such notices, orders or suggestions;



- 6.1.3 Timely notify the Pledgee of any events or any notices received which may affect the Pledgor's right to all or any part of the Equity Interest, and any events or any received notices which may change the Pledgor's warranties and obligations under this Agreement or affect the Pledgor's performance of its obligations under this Agreement.
- 6.2 The Pledgor agrees that the Pledgee's right to the Pledge obtained from this Agreement shall not be suspended or inhibited by any legal procedure initiated by the Pledgor or any successors of the Pledgor or any person authorized by the Pledgor or any other person.
- 6.3 The Pledgor promises to the Pledgee that in order to protect or perfect the security for the payment of the Loan, the Pledgor shall execute in good faith and cause other parties who have interests in the Pledge to execute, all title certificates and contracts or to perform any other actions (and cause other parties who have interests to take action) as required by the Pledgee and provide facilities for exercise of the rights and authorization vested in the Pledgee under this Agreement.
- 6.4 The Pledgor promises to the Pledgee that he/she will execute all amendment documents (if applicable and necessary) in connection with the certificate of the Equity Interest with the Pledgee or its designated person (being a natural person or a legal entity) and, within a reasonable period, provide to the Pledgee all notices, orders and decisions about the Pledge as the Pledgee deems necessary.
- 6.5 The Pledgor promises to the Pledgee that he/she will comply with and perform all the guarantees, covenants, warranties, representations and conditions for the benefit of the Pledgee. The Pledgor shall compensate the Pledgee for all losses suffered by the Pledgee because of the Pledgor's failure to perform in whole or in part its guarantees, covenants, warranties, representations and conditions.
- 6.6 During the term of this Agreement, the Pledgor will not conduct any act and omission that may influence the value of the pledged shares for the purpose to keep or increase the value of the pledged shares. The Pledgor will notice the Pledgee immediately when there are issues that may decrease the value of the Pledged shares or influence the Pledgor's performance of any obligations under this Agreement and, as required by the Pledgee, provide guarantee for the difference of the decreased pledged shares to the Pledgee's satisfaction.
- 6.7 To the extent permitted by applicable laws and regulations, the Pledgor shall assist the Pledgee with the registration, filing or any other processes as required by the laws and regulations.

## 7. Event of Default

- 7.1 The following events shall be regarded as events of default:
  - 7.1.1 Pledgor fails to perform his obligations under the Loan arrangement and supplementary agreement;
  - 7.1.2 The Company fails to fully pay the fees on schedule under the Service Agreement;
  - 7.1.3 Any representation or warranty made by the Pledgor in Article 5 hereof contains material misleading statements or errors and/or the Pledgor breaches any warranty in Article 5 hereof;
  - 7.1.4 The Pledgor breaches the covenants under Article 6 hereof;
  - 7.1.5 The Pledgor breaches another provision of this Agreement;

- 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 Any of the Pledgor's external loans, guaranties, compensations, undertakings or other obligations (1) is required to be repaid or performed prior to the scheduled due date because of a default; or (2) is due but cannot be repaid or performed as scheduled, causing the Pledgee to believe that the Pledgor's ability to perform the obligations hereunder has been affected;
- 7.1.8 The Company is incapable of repaying its general debts or other debts;
- 7.1.9 This Agreement becomes illegal or the Pledgor is not capable of continuing to perform the obligations hereunder due to any reason other than force majeure;
- 7.1.10 There have been adverse changes to the properties owned by the Pledgor, causing the Pledgee to believe that the capability of the Pledgor to perform the obligations hereunder has been affected;
- 7.1.11 Successor or trustee of the Company can only perform part of, or refuses to perform, the payment obligations under the Service Agreement;
- 7.1.12 The breach of the other provisions of this Agreement by the Pledgor due to his/her act or omission.
- 7.2 The Pledgor shall immediately give a written notice to the Pledgee if the Pledgor knows or discovers that any event specified under Article 7.1 hereof or any event that may result in the foregoing events has occurred.
- 7.3 Unless an event of default under Article 7.1 hereof has been solved to the Pledgee's satisfaction, the Pledgee, at any time when the event of default occurs or at anytime thereafter, may give a written notice of default to the Pledgor, requiring the Pledgor to immediately make full payment of the outstanding amount under the Service Agreement and Loan arrangement or requesting to exercise the Pledge in accordance with Article 8 hereof.

## 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 Fees under the Service Agreement and the full performance of his/her obligations under the Loan Agreement (subject to the latter of these two issues).
- 8.2 The Pledgee shall give a notice of default to the Pledgor when the Pledgee exercises the Pledge.
- 8.3 Subject to Article 7.3, the Pledgee may exercise the Pledge when the Pledgee gives a notice of default in accordance with Article 7.3 or at anytime thereafter.
- 8.4 The Pledgee is entitled to priority in receiving payment in the form of all or part of the Equity Interest based on the conversion value thereof, or from the proceeds from the auction or sale of all or part of the Equity Interest in accordance with legal procedure, until the outstanding debt and all other payables of the Pledgor under Service Agreement are repaid.
- 8.5 The Pledgor shall not hinder the Pledgee from exercising the Pledge in accordance with this Agreement and shall give necessary assistance so that the Pledgee could fully exercise its Pledge.

## 9. Assignment

- 9.1 The Pledgor shall not assign or transfer its rights and obligations hereunder without prior consent from the Pledgee.

- 9.2 This Agreement shall be binding upon the Pledgor and his/her successors and be binding on the Pledgee and each of its successors and permitted assigns.
- 9.3 To the extent permitted by law, the Pledgee may transfer or assign any or all of its rights and obligations under the Service Agreement and Loan arrangement to any person (natural person or legal entity) designated by it at any time. In that case, the assignee shall have the same rights and obligations as those of the Pledgee as if the assignee was an original party hereto. When the Pledgee transfers or assigns the rights and obligations under the Service Agreement and Loan arrangement, it is only required to provide a written notice to the Pledgor, and at the request of the Pledgee, the Pledgor shall execute the relevant agreements and/or documents with respect to such transfer or assignment.
- 9.4 After the Pledgee has been changed as a result of a transfer or an assignment, the new parties to the Pledge shall execute a new pledge contract.

10. Effectiveness and Term

This Agreement is effective as of the date first set forth above and from the date when the pledge is recorded on the Company's Register of Shareholders.

11. Termination

This Agreement shall terminate when the Loan under the Loan arrangement the Fees under Service Agreement have been fully repaid, and the Pledgor no longer has any outstanding obligations under the Loan Agreement. Thereafter, the Pledgee shall cancel or terminate this Agreement as soon as reasonably practicable.

12. Fees and Other Charges

- 12.1 The Pledgor shall be responsible for all of the fees and actual expenses in relation to this Agreement including, but not limited to, legal fees, production costs, 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 for such taxes paid by the Pledgee.
- 12.2 In the event that the Pledgee has to make a claim against the Pledgor by any means as a result of the Pledgor's failure to pay any tax or expense payable by the Pledgor under this Agreement, the Pledgor shall be responsible for all the expenses arising from such claim (including but not limited to any taxes, handling fees, management fees, litigation fees, attorney's fees, and various insurance premiums in connection with the disposition of the Pledge).

13. Force Majeure

- 13.1 Force Majeure, which includes but is not limited to acts of governments, change of laws and regulations, acts of nature, fires, explosions, typhoons, floods, earthquake, tides, lightning or war, refers to any unforeseen event that is beyond a party's reasonable control and cannot be prevented with reasonable care. However, any insufficiency of creditworthiness, capital or financing shall not be regarded as an event beyond a party's reasonable control. The affected party by Force Majeure shall promptly notify the other party of such event resulting in exemption.
- 13.2 In the event that the affected party is delayed or prevented from performing its obligations under this Agreement by Force Majeure, and only to the extent of such delay and prevention, the affected party shall not be liable for obligations under this Agreement. The affected party shall take appropriate measures to minimize or remove the effects of Force Majeure and attempt to resume performance of the obligations that were 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 using their best efforts.

14. Confidentiality

The parties to this Agreement acknowledge and confirm that all the oral and written materials exchanged relating to this Agreement are confidential. Each party must keep such materials confidential and can not disclose such materials to any other third party without the other party's prior written approval, unless: (a) the public knows or will know the materials (not due of the disclosure by the receiving party); (b) the disclosed materials are required by law or stock exchange rules to be disclosed; or (c) materials relating to the transactions under this Agreement are disclosed to the parties' legal or financial advisors, who must keep them confidential as well. Disclosure of the confidential information by employees or institutions hired by the parties is deemed as an 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 PRC law.

15.2 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 the China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration. The arbitration shall follow the current rules of CIETAC, the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing, PRC. 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 to the bellowing address. 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 a business day or reaches the addressee after business hours, the next business day following such day is the date of notice. The delivery place is the address first written above for each of the parties hereto or the address advised by such party in writing, including facsimile and telex, from time to time.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal Address: 3<sup>rd</sup> Floor, Baidu Campus, No. 10, Shangdi 10th Street,, Haidian District, Beijing, PRC

Fax: 5992-7435

Tel: 5992-8888

**Party B: Yanhong Li**

Address: Room 901, Unit 1, Tower 1, Zone 2, Shanghaicun, Haidian District, Beijing, PRC

Fax: 5992-7435

Tel: 5992-8888

17. Entire Contract

Notwithstanding Article 10, the Parties agree that this Agreement constitutes the entire agreement of the parties hereto with respect to the subject matters herein upon its effectiveness and supersedes and replaces all prior oral and/or written agreements and understandings relating to the subject matters of this Agreement.

18. Severability

Should any provision of this Agreement be held invalid or unenforceable because of inconsistency with applicable laws, such provision shall be invalid or unenforceable only to the extent of such applicable laws without affecting the validity or enforceability of the remainder of this Agreement.

19. Appendices

The appendices to this Agreement shall constitute an integral part of this Agreement.

20. Amendment or Supplement

- 20.1 The Parties may amend or supplement this Agreement by written agreement. The amendments or supplements to this Agreement duly executed by both parties shall form an integral part of this Agreement and shall have the same legal effect as this Agreement.
- 20.2 This Agreement and any amendments, modifications, supplements, additions or changes hereto shall be in writing and shall be effective upon being executed and sealed by the parties hereto.

21. Counterparts

This Agreement is executed in Chinese in duplicate, with each party hereto holding one copy. Both originals have the same legal effect.

[Signature Page]

**Pledgee: Baidu Online Network Technology (Beijing) Co., Ltd.**

Seal: [Baidu Online Network Technology (Beijing) Co., Ltd. seal]

**Pledgor: Yanhong Li**

Signature: \_\_\_\_\_ /s/ \_\_\_\_\_ Yanhong Li \_\_\_\_\_

### Supplementary Agreement

This Supplementary Agreement (the "Agreement") is entered into by and among the following parties in Beijing on September 6, 2011:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd. ("Baidu Online")  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party B: Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom")  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China  
Party C: Robin Yanhong Li  
Party D: Zhan Wang

In this Agreement, the parties are referred to as a "Party" individually and "Parties" collectively.

Whereas:

1. The Parties to the Agreement individually or jointly signed the following agreements/contracts or powers of attorney:

No.	Document Names	Signing Parties	Signing Dates
1	Technology Consulting and Services Agreement	Baidu Online, Baidu Netcom	March 22, 2005
2	Business Cooperation Agreement	Baidu Online, Baidu Netcom	March 22, 2005
3	Operating Agreement	Baidu Online, Baidu Netcom	March 22, 2005
4	Amended and Restated Exclusive Equity Purchase Option Agreement	Baidu Online, Robin Yanhong Li, Zhan Wang, Baidu Netcom	August 26, 2011
5	Equity Purchase Option Agreement for the Additional Shares after the Capital Increase	Baidu Online, Robin Yanhong Li, Baidu Netcom	February 10, 2006
6	Equity Purchase Option Agreement	Baidu Online, Robin Yanhong Li, Baidu Netcom	March 6, 2008
7	Proxy Agreement	Robin Yanhong Li, Zhan Wang, Baidu Online	August 26, 2011
8	Irrevocable Power of Attorney	Robin Yanhong Li	December 28, 2007

2. The Parties agree to enter into this Agreement to amend certain sections in the agreements/contracts or powers of attorney set out above.

**NOW THEREFORE**, The Parties hereby agree as follows:

1. The amended sections:

1.1 Technology Consulting and Services Agreement:

1.1.1 Section 7.2 is amended as: “7.2 The term of this Agreement shall be permanent, unless otherwise provided herein.”

1.1.2 Section 7.3 is amended as: “7.3 If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.1.3 Section 7.4 is deleted.

1.1.4 Section 8.1 is amended as: “8.1 [Blank]”.

1.2 Business Cooperation Agreement:

1.2.1 Section 4.2 is amended as: “4.2 The term of this Agreement shall be permanent, unless otherwise provided herein. If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.2.2 Section 4.3 is amended as: “4.3 During the term of this Agreement, Party B shall not terminate this Agreement, unless Party A has a gross negligence or fraud towards Party B. 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.”

1.3 Operating Agreement:

1.3.1 Section 15 is amended as: “15 The term of this Agreement shall be permanent, unless otherwise provided herein. If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.3.2 Section 16 is amended as: “16 During the term of this Agreement, Party B shall not terminate this Agreement, unless Party A has a gross negligence or fraud towards Party B. 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.”

1.4 Amended and Restated Exclusive Equity Purchase Option Agreement

1.4.1 Section 5.2 is amended as: “Section 5.2 This Agreement shall be effective as of the date first set forth above, and terminated when all the shares held by Party B and Party C in Party D have been transferred to Party A and/or the Designated Persons pursuant to this Agreement.

## 1.5 Equity Purchase Option Agreement for the Additional Shares after the Capital Increase

1.5.1 Section 5.2 is amended as: "Section 5.2 This Agreement shall be effective as of the date first set forth above, and terminated when all the newly issued shares held by Party B have been transferred to Party A and/or the Designated Persons pursuant to this Agreement."

## 1.6 Equity Purchase Option Agreement

1.6.1 Section 5.2 is amended as: "Section 5.2 This Agreement shall be effective as of the date first set forth above, and terminated when all the newly issued shares held by Party B have been transferred to Party A and/or the Designated Persons pursuant to this Agreement."

## 1.7 Proxy Agreement

1.7.1 Section 9 is amended as: "9. The term of this Agreement shall be permanent, unless the Company terminates this Agreement in writing."

## 1.8 Irrevocable Power of Attorney issued by Robin Yanhong Li

1.8.1 The last paragraph is amended as: "During the period that I am a shareholder of Baidu Netcom, this Power of Attorney is irrevocable and permanently effective from the date of this Power of Attorney, unless otherwise provided herein."

## 2. Miscellaneous

### 2.1 The Effective Date

This Agreement shall be effective as of the date first set forth above.

### 2.2 The Applicable Laws

The conclusion, effectiveness, interpretation, performance, amendment, termination and dispute settlement shall be governed by PRC laws officially published and publicly available.

### 2.3 Language

This Agreement is executed in Chinese in four originals, each Party holding an original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

**Party B: Baidu Netcom Science Technology Co., Ltd.**



Legal Representative: /s/ Zhan Wang (with the company seal of Baidu Online  
Network Technology (Beijing) Co., Ltd.)

**Party C: Robin Yanhong Li**

Signature: /s/ Robin Yanhong Li

Legal Representative: /s/ Legal Representative (with the company seal of  
Baidu Netcom Science Technology Co., Ltd.)

**Party D: Zhan Wang**

/s/ Zhan Wang

**Supplementary Agreement to the Amended and Restated Equity Purchase Option Agreement and its Supplementary Agreement**

This Supplementary Agreement to the Amended and Restated Equity Purchase Option Agreement and its Supplementary Agreement (the "Agreement") is entered into as of August 26, 2011 in Beijing by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District,  
Beijing 100085, The People's Republic of China

**Party B:** **Robin Yanhong Li**

**Party C:** **Haoyu Shen**

**Party D:** **Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District,  
Beijing 100085, The People's Republic of China

**Party E:** **Zhan Wang**

**WHEREAS,**

1. Pursuant to the Amended and Restated Equity Purchase Option Agreement and its Supplementary Agreement among Parties A, B, C and D (collectively referred to as the "Original Agreement"), the parties have agreed on Parties B and C's grant of the equity purchase option in connection of their equity interests in Party D to Party A.
2. With Party A's consent, Party C intends to transfer her equity interest in Party D to Party E (the "Share Transfer").
3. Upon the completion of the Share Transfer, Party E agrees to assume all the rights and obligations of Party C under the Original Agreement. All the parties to the Original Agreement accepted such an arrangement and agreed to restate the Original Agreement.

**NOW THEREFORE,** the parties agree as follows:

1. The parties agree that, upon Party D's completion of the amendment registration of the Share Transfer with the industrial and commercial authorities, which is the date when Party E is officially registered with the industrial and commercial authorities as a shareholder of Party D (the "Transfer Effective Date"), (1) Party E shall automatically replace Party C to be a party to the Original Agreement, and assume all the rights and obligations of Party C under the Original Agreement according to the terms and conditions of the Original Agreement, including but not limited to continue to grant the equity purchase option to Party A (please refer to the definition in the Original Agreement); (2) Accordingly, Party C shall not enjoy any right or undertake any obligation under the Original Agreement.

2. The parties agree and confirm that, this Agreement shall automatically constitute an amendment of the Original Agreement upon the Transfer Effective Date. Parties A, B, C and E may enter into a separate agreement pursuant to the amendment to the Original Agreement made hereunder so as to restate the rights and obligations of Parties A, B, C and E if they consider necessary.
3. This Agreement shall become effective upon the execution of the parties.
4. Section 6.2 of the Original Agreement shall apply to the dispute resolution of this Agreement.
5. This Agreement shall be executed in five originals, each party holding one original. All the originals shall have the same legal effect.

[Signature page below]

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**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Authorized representative: /s/ Haoyu Shen  
Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:** **Robin Yanhong Li**  
Signature: /s/ Robin Yanhong Li

**Party C:** **Haoyu Shen**  
Signature: /s/ Haoyu Shen

**Party D:** **Baidu Netcom Science Technology Co., Ltd.**  
Authorized representative: /s/ Authorized representative  
Company seal: (with the company seal of Baidu Netcom Science Technology Co., Ltd.)

**Party E:** **Zhan Wang**  
Signature: /s/ Zhan Wang

**Supplementary Agreement to the Operating Agreement and its Supplementary Agreement**

This Supplementary Agreement to the Operating Agreement and its Supplementary Agreement (the "Agreement") is entered into as of August 26, 2011 in Beijing by the following parties:

**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District,  
Beijing 100085, The People's Republic of China

**Party B:** **Baidu Netcom Science Technology Co., Ltd.**  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District,  
Beijing 100085, The People's Republic of China

**Party C:** **Robin Yanhong Li**

**Party D:** **Haoyu Shen**

**Party E:** **Zhan Wang**

**WHEREAS,**

1. Pursuant to the Operating Agreement and its Supplementary Agreement among Parties A, B, C and D (collectively referred to as the "Original Agreement"), the parties have agreed on the operating matters of Parties A and B, and the respective rights and obligations of Parties C and D as the shareholders of Party B.
2. With Party A's consent, Party D intends to transfer her equity interest in Party B to Party E (the "Share Transfer").
3. Upon the completion of the Share Transfer, Party E agrees to assume all the rights and obligations of Party D under the Original Agreement. All the parties to the Original Agreement accepted such an arrangement and agreed to restate the Original Agreement.

**NOW THEREFORE,** the parties agree as follows:

1. The parties agree that, upon Party B's completion of the amendment registration of the Share Transfer with the industrial and commercial authorities, which is the date when Party E is officially registered with the industrial and commercial authorities as a shareholder of Party B (the "Transfer Effective Date"), (1) Party E shall automatically replace Party D to be a party to the Original Agreement, and assume all the rights and obligations of Party D under the Original Agreement according to the terms and conditions of the Original Agreement; (2) Accordingly, Party D shall not enjoy any right or undertake any obligation under the Original Agreement.

2. The parties agree and confirm that, this Agreement shall automatically constitute an amendment of the Original Agreement upon the Transfer Effective Date. Parties A, B, C and E may enter into a separate agreement pursuant to the amendment to the Original Agreement made hereunder so as to restate the rights and obligations of Parties A, B, C and E if they consider necessary.
3. This Agreement shall become effective upon the execution of the parties.
4. Section 12 of the Original Agreement shall apply to the dispute resolution of this Agreement.
5. This Agreement shall be executed in five originals, each party holding one original. All the originals shall have the same legal effect.

[Signature page below]

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**Party A:** **Baidu Online Network Technology (Beijing) Co., Ltd.**  
Authorized representative: /s/ Haoyu Shen  
Company seal: (with the company seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B:** **Baidu Netcom Science Technology Co., Ltd.**  
Authorized representative: /s/ Authorized representative  
Company seal: (with the company seal of Baidu Netcom Science Technology Co., Ltd.)

**Party C:** **Robin Yanhong Li**  
Signature: /s/ Robin Yanhong Li

**Party D:** **Haoyu Shen**  
Signature: /s/ Haoyu Shen

**Party E:** **Zhan Wang**  
Signature: /s/ Zhan Wang

### Proxy Agreement

This Proxy Agreement (this "Agreement") is entered into as of August 26, 2011 **between** the following three parties in Beijing, PRC.

**Party A: Robin Yanhong Li, a PRC citizen, with the ID number**

**Party B: Zhan Wang, a PRC citizen, with the ID number**

**Party C: Baidu Online Network Technology (Beijing) Co., Ltd.**, a foreign-owned limited liability company incorporated and validly existing under the laws of the PRC ("Baidu Online")

#### WHEREAS

1. Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom") was incorporated on June 5, 2011. Robin Yanhong Li and Zhan Wang hold 99.5% and 0.5% of the shares in Baidu Netcom, respectively.
2. Robin Yanhong Li is willing to entrust the person designated by Baidu Online with full authority to exercise its shareholder's voting right at Baidu Netcom's shareholders' meetings.
3. Zhan Wang is willing to entrust the person designated by Baidu Online with full authority to exercise its shareholder's voting right at Baidu Netcom's shareholders' meetings.

**NOW THEREFORE**, the parties agree as follows:

1. Robin Yanhong Li hereby agrees to irrevocably entrust the person designated by Baidu Online to exercise on his behalf of all shareholder's voting rights and other shareholder's rights at the shareholders' meeting of Baidu Netcom in accordance with PRC law and Baidu Netcom's articles of association, including, but not limited to, with respect to the sale or transfer of all or part of his equity interests in Baidu Netcom and the appointment and election of the executive directors and chairman of Baidu Netcom.
2. Baidu Online agrees to designate a person to accept the entrustment by Robin Yanhong Li pursuant to Article 1 of this Agreement, and such person shall represent Robin Yanhong Li in the exercise of his shareholders' voting rights and other shareholders' rights pursuant to this Agreement.
3. Zhan Wang hereby agrees to irrevocably entrust the person designated by Baidu Online to exercise on his behalf of all shareholder's voting rights and other shareholder's rights at the shareholders' meeting of Baidu Netcom in accordance with PRC law and Baidu Netcom's articles of association, including, but not limited to, with respect to the sale or transfer of all or part of his equity interests in Baidu Netcom and the appointment and election of the executive directors and chairman of Baidu Netcom.
4. Baidu Online agrees to designate a person to accept the entrustment by Zhan Wang pursuant to Article 3 of this Agreement, and such person shall represent Zhan Wang in the exercise of his shareholder's voting rights and other shareholder's rights pursuant to this Agreement.
5. Robin Yanhong Li and Zhan Wang hereby acknowledge that, regardless how their equity interests in Baidu Netcom will change, they shall entrust the person designated by Baidu Online with all of their shareholders' voting rights and other shareholders' rights. If Robin Yanhong Li or Zhan Wang transfers his equity interests in Baidu Netcom to Baidu Online, parent company of Baidu Online, Baidu, Inc. or persons or any persons out of the entities designated by Baidu Online (the "transferee"), he should ensure that the transferee shall sign an agreement with identical contents with this Agreement beside any equity transfer document, which in the purpose of entrust the person designated by Baidu Online to exercise on his behalf of all shareholders' voting rights and other shareholders' rights.
6. Robin Yanhong Li and Zhan Wang hereby acknowledge that, if one of them ceases to be a shareholder of Baidu Netcom, the other person shall continue to perform this Agreement.
7. Robin Yanhong Li and Zhan Wang hereby acknowledge that, if Baidu Online withdraws the appointment of the relevant person to whom they have entrusted their shareholders' voting rights and other shareholders' rights, they will withdraw their authorization for this person and authorize other persons designated by Baidu Online to exercise their shareholders' voting rights and other shareholders' rights at the shareholders' meeting of Baidu Netcom.



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**Robin Yanhong Li**

Signature: /s/ Robin Yanhong Li

---

**Zhan Wang**

Signature: /s/ Zhan Wang

---

**Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized Representative:

Signature: /s/ Haoyu Shen

---

Seal: (Seal) Baidu Online Network Technology (Beijing) Co., Ltd.

This Agreement is agreed and accepted by:

**Agreed and accepted by:**

**Baidu Netcom Science Technology Co., Ltd.**

Authorized Representative:

Signature: /s/Authorized Representative

---

Seal: (Seal) Baidu Netcom Science Technology Co., Ltd.

### Supplementary Agreement

This Supplementary Agreement (the "Agreement") is entered into by and among the following parties in People's Republic of China (the "PRC") on September 6, 2011:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd. ("Baidu Online")  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

Party B: Beijing BaiduPay Science and Technology Co., Ltd. ("BaiduPay")  
Address: Room 301, 3/F, Block D, Jia No. 18 Zhongguancun South Street, Haidian District, Beijing, PRC, 100081

Party C: Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom")  
Address: 2/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

Party D: Hu Cai

In this Agreement, the parties are referred to as a "Party" individually and "Parties" collectively.

Whereas:

1. The Parties to the Agreement individually or jointly signed the following agreements/contracts or powers of attorney:

No.	Document Names	Signing Parties	Signing Dates
1	Technology Consulting and Services Agreement	Baidu Online, BaiduPay	February 28, 2008
2	Operating Agreement	Baidu Online, BaiduPay	February 28, 2008
3	Exclusive Equity Purchase Option Agreement	Baidu Online, Hu Cai	April 27, 2010
4	Proxy Agreement	Hu Cai, Baidu Online, BaiduPay	April 27, 2010
5	Irrevocable Power of Attorney	Hu Cai	April 27, 2010

2. The Parties agree to enter into this Agreement to amend certain sections in the agreements/contracts or powers of attorney set out above.

**NOW THEREFORE**, The Parties hereby agree as follows:

1. The amended sections:

1.1 Technology Consulting and Services Agreement:

1.1.1 Section 7.1 is amended as: "7.1 The term of this Agreement shall be permanent, unless otherwise provided herein."

1.1.2 Section 7.2 is deleted.

1.1.3 Section 7.3 is amended as: “7.2 If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.1.4 Section 8.1 is amended as: “8.1 [Blank]”.

## 1.2 Operating Agreement:

1.2.1 Section 15 is amended as: “15 The term of this Agreement shall be permanent, unless otherwise provided herein. If the duration of operation of either party is expired within the term of this Agreement, such party shall renew the duration of operation in time so as to ensure the effectiveness and performance of this Agreement. If the renewal of the duration of operation is not approved or agreed by the competent authorities, the Agreement shall be terminated upon the expiration of such party’s duration of operation.”

1.2.2 Section 16 is amended as: “16 During the term of this Agreement, Party B shall not terminate this Agreement, unless Party A has a gross negligence or fraud towards Party B. 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.”

## 1.3 Exclusive Equity Purchase Option Agreement

1.3.1 Section 5.2 is amended as: “Section 5.2 This Agreement shall be effective as of the date first set forth above, and terminated when all the shares held by Party B have been transferred to Party A and/or the Designated Persons pursuant to this Agreement.”

## 1.4 Proxy Agreement

1.5.1 Section 9 is amended as: “9. The term of this Agreement shall be permanent, unless the Company terminates this Agreement in writing.”

## 1.5 Irrevocable Power of Attorney issued by Hu Cai

1.6.1 The last paragraph is amended as: “During the period that I am a shareholder of BaiduPay, this Power of Attorney is irrevocable and permanently effective from the date of this Power of Attorney, unless otherwise provided herein.”

## 2. Miscellaneous

### 2.1 The Effective Date

This Agreement shall be effective as of the date first set forth above.

### 2.2 The Applicable Laws

The conclusion, effectiveness, interpretation, performance, amendment, termination and dispute settlement shall be governed by PRC laws officially published and publicly available.

## 2.3 Language

This Agreement is executed in Chinese in four originals, each Party holding an original. All the originals shall have the same legal effect.

**IN WITNESS WHEREOF**, each party hereto have caused this Agreement to be duly executed by its legal representative on its behalf as of the date first set forth above.

**Party A: Baidu Online Network  
Technology (Beijing) Co., Ltd.**

Legal Representative: /s/ Zhan Wang (with the company seal of Baidu Online  
Network Technology (Beijing) Co., Ltd.)

**Party C: Baidu Netcom Science  
Technology Co., Ltd.**

Legal Representative: /s/ Legal Representative (with the company seal of Baidu  
Netcom Science Technology Co., Ltd.)

**Party B: Beijing BaiduPay Science and  
Technology Co., Ltd.**

Legal Representative: /s/ Hu Cai (with the company seal of Beijing BaiduPay  
Science and Technology Co., Ltd.)

**Party D: Hu Cai**

/s/ Hu Cai

**Supplementary Agreement to Exclusive Technology Consulting and Services Agreement  
(No.2)**

This Supplementary Agreement to Exclusive Technology Consulting and Services Agreement (No.2) (the "Supplementary Agreement ") is entered into by and among the following parties on September 6, 2011 in Beijing:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.  
Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People's Republic of China

Party B: Beijing BaiduPay Science and Technology Co., Ltd.  
Address: Room 301, 3/F, Block D, Jia No. 18 Zhongguancun South Street, Haidian District, Beijing, PRC, 100081

**WHEREAS:**

A. Based on the Exclusive Technology Consulting and Services Agreement (the "Original Agreement") between Party A and Party B, through friendly negotiation, they agree to supplement the Original Agreement as follows on September 6, 2011:

1. Both parties agree to add Section 3 of Appendix 2: "Party A shall have the right to decide or adjust the service fees or the calculation at its sole discretion, regardless any different provisions herein."

2. The parties agree and confirm that this Supplementary Agreement shall form an integral part of the Original Agreement. This Supplementary Agreement shall prevail should there be any inconsistency between the Original Agreement and this Supplementary Agreement. The Original Agreement shall be applied to the matters not provided in this Supplementary Agreement.

B. This Supplementary Agreement shall be effective upon the parties' signing.

C. This Supplementary Agreement shall be executed in two originals, each party holding one original. All the originals shall have the same legal effect.

[Signature Page Follows]

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**Party A: Baidu Online Network Technology (Beijing) Co., Ltd.**

Authorized representative: Zhan Wang

Signature: /s/ Zhan Wang

Seal: (the seal of Baidu Online Network Technology (Beijing) Co., Ltd.)

**Party B: Beijing BaiduPay Science and Technology Co., Ltd.**

Authorized representative:

Signature: /s/ Hu Cai

Seal: (the seal of Beijing BaiduPay Science and Technology Co., Ltd.)

**ORDINARY SHARES PURCHASE AGREEMENT**

between

**QUNAR CAYMAN ISLANDS LIMITED**

and

**BAIDU HOLDINGS LIMITED**

dated as of

**June 24, 2011**

## TABLE OF CONTENTS

	<u>Page</u>
1. Purchase and Sale of Ordinary Shares	2
1.1 Sale and Issuance of Ordinary Shares	2
1.2 Closing; Delivery	2
1.3 Defined Terms Used in this Agreement	3
2. Representations and Warranties of the Company	8
2.1 Organization, Good Standing and Qualification	8
2.2 Capitalization	8
2.3 Subsidiaries	11
2.4 Authorization	11
2.5 Valid Issuance of Securities	11
2.6 Governmental Consents and Filings	11
2.7 Litigation	12
2.8 Intellectual Property	12
2.9 Compliance with Other Instruments	13
2.10 Agreements; Actions	15
2.11 Disclosure	17
2.12 No Conflict of Interest	17
2.13 Rights of Registration and Voting Rights	18
2.14 Title to Property and Assets	18
2.15 Financial Statements	18
2.16 Changes	19
2.17 Employee Benefit Plans; Employees	20
2.18 Taxes	21
2.19 Labor Agreements and Actions	21
2.20 Proprietary Information, Invention Assignment and Non-Competition Agreement	22
2.21 Permits	22
2.22 Corporate Documents	23
2.23 Controlled Foreign Corporation	23
2.24 83(b) Elections	23
2.25 Real Property Holding Corporation	23
2.26 Circular 75 Registration	23
2.27 No Directed Selling Efforts	23
2.28 Insurance Coverage	23
2.29 Environment	24
2.30 PRC Taxes and Subsidies	24
2.31 Finder's Fee	24
3. Representations and Warranties of the Purchaser	24
3.1 Authorization	24



## TABLE OF CONTENTS

3.2	Purchase Entirely for Own Account	25
3.3	Disclosure of Information	25
3.4	Restricted Securities	25
3.5	No Public Market	25
3.6	Legends	26
3.7	Not U.S. Person	26
3.8	Home Laws	26
3.9	No General Solicitation	26
3.10	Finder's Fee	26
3.11	Sufficient Funds Available	27
4.	Pre-Closing Covenants	27
4.1	Conduct of the Company	27
4.2	Access to Information	29
4.3	Notices of Certain Matters	29
4.4	Reasonable Efforts to Complete	30
4.5	Public Announcements	30
4.6	Exclusivity	30
5.	Conditions of the Purchaser's Obligations at Closing	31
5.1	Representations and Warranties	31
5.2	Performance	31
5.3	No MAE	31
5.4	Compliance Certificate	31
5.5	Qualifications	31
5.6	Approvals and Consents	31
5.7	Boards of Directors	32
5.8	Restated Articles and Amended Share Plan	32
5.9	Transaction Documents	32
5.10	Employment Agreements	32
5.11	Proprietary Information, Invention Assignment and Non-Competition Agreement.	32
5.12	Director's Certificate	33
5.13	[Reserved]	33
5.14	Opinion of PRC Counsel	33
5.15	Opinion of Cayman Counsel	33
5.16	[Reserved]	33
5.17	Proceedings and Documents	33
5.18	Due Diligence	33
5.19	Restructuring	33
5.20	Termination of Shareholder Agreements	33
5.21	Minimum Percentage Ownership	33

TABLE OF CONTENTS

6. Conditions of the Company's Obligations at Closing	33
6.1 Representations and Warranties	33
6.2 Performance	34
6.3 Qualifications	34
7. Post-Closing Covenants	34
7.1 Conduct of the Business of the Group Companies	34
7.2 Notice of Breach	34
7.3 Compliance with Law and Instruments	34
7.4 Circular 75 Registration	34
7.5 Investment Policy	35
7.6 Circular 75 Modification Registration	35
7.7 Delivery of Audited Financial Statements	35
7.8 Certain PRC Licenses and Registrations	35
7.9 Company Press Releases	36
7.10 Termination of Covenants	36
8. Miscellaneous	36
8.1 Survival of Warranties	36
8.2 Termination	36
8.3 Transfer; Successors and Assigns	37
8.4 Governing Law	37
8.5 Counterparts	37
8.6 Titles and Subtitles	37
8.7 Notices	37
8.8 Attorney's Fees	38
8.9 Amendments and Waivers	38
8.10 Severability	38
8.11 Delays or Omissions	38
8.12 Entire Agreement	38
8.13 Dispute Resolution	38
8.14 Transaction Fees and Expenses	39
8.15 Schedule of Exceptions	39

**QUNAR CAYMAN ISLANDS LIMITED**

**ORDINARY SHARES PURCHASE AGREEMENT**

This Ordinary Shares Purchase Agreement (this "Agreement") is made as of the 24<sup>th</sup> day of June, 2011 by and between Qunar Cayman Islands Limited, a Cayman Islands exempted company (the "Company") and Baidu Holdings Limited, a British Virgin Islands company (the "Purchaser").

WHEREAS, as of the date hereof, the issued and outstanding shares of share capital of the Company consists of 29,222,825 ordinary shares, par value US\$0.001 per share, in the share capital of the Company ("Ordinary Shares"), 25,248,600 Series A Preferred Shares, par value US\$0.001 per share, in the share capital of the Company ("Series A Preferred Shares"), 24,448,690 Series B Preferred Shares, par value US\$0.001 per share, in the share capital of the Company ("Series B Preferred Shares"), and 11,600,055 Series C Preferred Shares, par value US\$0.001 per share, in the share capital of the Company ("Series C Preferred Shares"), and there are 9,121,221 Share Entitlements (as defined herein), 283,600 Vested Stock Options (as defined herein), 900,652 Unvested Stock Options (as defined herein) and 1,311,527 Unallocated Stock Options (as defined herein).

WHEREAS, pursuant to the First Conversion (as defined herein), as of the Record Date (as defined herein), the issued and outstanding shares of share capital of the Company shall consist of 21,343,674 Ordinary Shares, 12,486,348 Class A Ordinary Shares, par value US\$0.001 per share, in the share capital of the Company ("Class A Ordinary Shares"), 49,971,749 Class B Ordinary Shares, par value US\$0.001 per share, in the share capital of the Company ("Class B Ordinary Shares") and 6,718,399 Class C Ordinary Shares, par value US\$0.001 per share, in the share capital of the Company ("Class C Ordinary Shares"), and there will be 9,121,221 Share Entitlements, 283,600 Vested Stock Options, 900,652 Unvested Stock Options and 1,311,527 Unallocated Stock Options.

WHEREAS, pursuant to the Second Conversion (as defined herein), immediately prior to the Closing (as defined herein), the issued and outstanding shares of the Company shall consist of 100,210,382 Ordinary Shares, and there will be 14,958,899 Share Entitlements, 283,600 Vested Stock Options, 1,599,612 Unvested Stock Options and 3,882,251 Unallocated Stock Options.

WHEREAS, the parties contemplate a transaction pursuant to which, upon the terms and subject to the conditions set forth in this Agreement, the Company will sell and issue to the Purchaser, and the Purchaser shall purchase from the Company, at the Closing (as defined herein) 181,402,116 newly issued Ordinary Shares, representing 60% of the Ordinary Shares on a Fully-Diluted (as defined herein) basis, for the purchase price as set forth herein.

WHEREAS, the parties hereto desire to make certain representations, warranties, covenants and agreements, and to prescribe certain conditions, with respect to the consummation of the transactions contemplated by this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements set forth herein, as well as other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

1. **Purchase and Sale of Ordinary Shares.**

1.1 **Sale and Issuance of Ordinary Shares.** Subject to the terms and conditions of this Agreement, the Purchaser agrees to purchase at the Closing and the Company agrees to sell and issue to the Purchaser at the Closing that number of Ordinary Shares equal to 181,402,116, representing 60% of the Ordinary Shares on a Fully-Diluted basis, for an aggregate purchase price of US\$306,000,000 (the "**Purchase Price**"). The Ordinary Shares issued to the Purchaser pursuant to this Agreement shall be hereinafter referred to as the "**Shares**."

1.2 **Closing; Delivery.**

(a) The purchase and sale of the Shares shall take place at the offices of Davis Polk & Wardwell, Hong Kong Solicitors, The Hong Kong Club Building, 3A Chater Road, Hong Kong, at 10:00 a.m. Hong Kong time, as soon as possible, but in no event later than five Business Days, after fulfillment or waiver of the conditions set forth in Articles 5 and 6, or at such other time and place as the Company and the Purchaser mutually agree upon, orally or in writing (which time and place are designated as the "**Closing**").

(b) At least three Business Days prior to the date of the Closing, the Company shall deliver to the Purchaser a certificate of the Company signed by the Chief Executive Officer and the Chief Financial Officer of the Company (the "**Allocation Certificate**") certifying as to the accuracy and completeness, in each case as of the Closing, of: (i) the amount of the Dividends (as defined in the Transaction Framework Agreement) payable to each Shareholder (and the payee thereof), (ii) the amount of the CERH Fees (as defined in the Transaction Framework Agreement) payable to each Stock Option Holder and/or Share Entitlement Holder (and the payee thereof) and (iii) the amount and payee of all First Installments (as defined in the Transaction Framework Agreement) payable to each Equity Holder (and the payee thereof). Upon approval of the Allocation Certificate by the Purchaser prior to the date of the Closing, the Allocation Certificate shall be deemed the definitive calculation of such all amounts payable by the Company to each of the Equity Holders pursuant to, and subject to the terms of, the Transaction Framework Agreement.

(c) At the Closing, the Company shall deliver to the Purchaser a certificate representing the Shares (together with certified copy of register of members of the Company reflecting Purchaser as the owner of Shares) against (i) payment of an amount equal to the Purchase Price minus the Escrow Amount to the Company (the "**Closing Amount**"), by wire transfer to a bank account designated by the Company at least three Business Days prior to the date of the Closing, and (ii) as directed hereby by the Company, deposit of an amount equal to US\$45,900,000 (the "**Escrow Amount**") to JPMorgan Chase Bank, N.A., acting through its Hong Kong branch (the "**Escrow Agent**"), by wire transfer to the Escrow Account (as defined in the Escrow Agreement) (the "**Escrow Account**").

1.3 Defined Terms Used in this Agreement. In addition to the terms defined above, the following terms used in this Agreement shall be construed to have the meanings set forth or referenced below.

“Acknowledgement Agreement” shall have the meaning ascribed to such term in the Transaction Framework Agreement.

“Amended Share Plan” means the Share Plan as effective as of the Closing, substantially in the form of Exhibit A attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“Board” means the Board of Directors of the Company.

“Business Cooperation Agreement” means the Business Cooperation Agreement to be entered into by and between the Company and Baidu, Inc., dated as of the date of Closing, substantially in the form of Exhibit B attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“Business Day” means a day other than Saturday, Sunday or any other day on which commercial banks in the PRC or the Hong Kong Special Administrative Region are authorized or required by applicable law to close.

“Circular 75” means the Circular 75, issued by the State Administration of Foreign Exchange of the PRC on October 21, 2005, titled “Notice Regarding Certain Administrative Measures on Financing and Inbound Investments by PRC Residents Through Offshore Special Purpose Vehicles,” (国家外汇管理局关于境内居民通过境外特殊目的公司融资及返程投资外汇管理有关问题的通知) effective as of November 1, 2005, or any successor rule or regulation under PRC Law.

“Code” means the Internal Revenue Code of 1986, as amended.

“Consenting Holders” shall have the meaning ascribed to such term in the Transaction Framework Agreement.

“Domestic Entities” means Domestic TopCo and Domestic Sub.

“Domestic Sub” means Beijing Jiaxin Haoyuan Information Technology Co., Ltd. (北京嘉信浩远信息技术有限公司), a limited liability company organized and existing under the laws of the PRC and a wholly-owned subsidiary of Domestic TopCo.

“Domestic TopCo” means Beijing Qu Na Information Technology Co., Ltd. (北京趣拿信息技术有限公司), a limited liability company organized and existing under the laws of the PRC.

“Equity Holders” means all Shareholders, Stock Option Holders and Share Entitlement Holders.

“Employment Agreements” mean the employment agreements to be entered into by and between any Group Company and each of the employees listed in Exhibit C attached hereto, in each case, effective as of the date of Closing.

“Escrow Agreement” means the Escrow Agreement, dated as of the date of the Closing, to be entered into by and among the Purchaser, the Company, the Escrow Agent and the Holders’ Indemnification Representative reflecting the provisions of the Transaction Framework Agreement, as negotiated in good faith by the Purchaser and the Company prior to the date of the Closing.

“Existing Articles” means Amended and Restated Memorandum and Articles of Association of the Company in effect as of the date hereof.

“First Conversion” shall have the meaning ascribed to such term in the Transaction Framework Agreement.

“First Restated Articles” means the Amended and Restated Memorandum and Articles of Association of the Company giving effect to the First Conversion and Second Conversion, substantially in the form of Exhibit E attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“Founders” means each of Frederick Demopolous and Zhuang Chenchao.

“Fully-Diluted” means, with respect to the Ordinary Shares, all outstanding Ordinary Shares and all Ordinary Shares issuable in respect of securities convertible into or exchangeable for Ordinary Shares (including any preference shares), all share appreciation rights, options, warrants, share entitlements and other rights to purchase or subscribe for Ordinary Shares or securities convertible into or exchangeable for Ordinary Shares, including the Stock Options, the Share Entitlements and any Unallocated Stock Options.

“Fundamental Representations” means the representations and warranties of the Company contained in those Sections or Subsections set forth in Article 2 which are marked with an asterisk (\*).

“Governmental or Regulatory Authority” means any nation or government or any province or state or any other political subdivision thereof, or any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization.

“Group Companies” means the Company, WFOE, HK Entity, the Domestic Entities and any controlled affiliate any of the foregoing which that is not a natural person (each, a “Group Company”).

“HK Entity” means Queen’s Road Investment Management Limited, a limited liability company legally organized and existing under the laws of the Special Administrative Region of Hong Kong.

“Holders’ Indemnification Representative” shall have the meaning ascribed to such term in the Transaction Framework Agreement.

“Intellectual Property” means any and all (i) patents, all patent rights and all applications therefor and all reissues, reexaminations, continuations, continuations-in-part, divisions, and patent term extensions thereof, (ii) inventions (whether patentable or not), discoveries, improvements, concepts, innovations and industrial models, (iii) registered and unregistered copyrights, copyright registrations and applications, author’s rights and works of authorship (including artwork of any kind and software of all types in whatever medium, inclusive of computer programs, source code, object code and executable code, and related documentation), (iv) URLs, web sites, web pages and any part thereof, (v) technical information, know-how, trade secrets, drawings, designs, design protocols, specifications for parts and devices, quality assurance and control procedures, design tools, manuals, research data concerning historic and current research and development efforts, including the results of successful and unsuccessful designs, databases and proprietary data, (vi) proprietary processes, technology, engineering, formulae, algorithms and operational procedures, (vii) trade names, trade dress, trademarks, domain names, and service marks, and registrations and applications therefor, (viii) the goodwill of the business symbolized or represented by the foregoing, customer lists and other proprietary information and common-law rights, (ix) any other intellectual property or proprietary rights, and (x) all rights to sue or recover and retain damages, costs and attorneys’ fees for past, present and future infringement of misappropriation of any of the foregoing.

“Investors’ Rights Agreement” means the Amended and Restated Investors’ Rights Agreement entered into by and between the Company, the Purchaser and the Shareholders, dated as of the date of the Closing, in substantially the form of Exhibit F attached hereto, with such changes thereto as mutually agreed by the Company and the Purchaser.

“Key Shareholder” means each of the Founders and the other Shareholders listed on Exhibit G attached hereto.

“Knowledge,” including the phrase “to the Company’s Knowledge” or “to the Group Company’s Knowledge” shall mean the actual knowledge of any of the officers of any of the Group Companies.

“Law” means any constitutional provision, statute or other law, rule, regulation, official policy or interpretation of any Governmental or Regulatory Authority applicable to the Company or any Group Company.

“Material Adverse Effect” means a material adverse effect on the business, assets (including intangible assets), liabilities, financial condition, property or results of operations of the Company or any other Group Company taken as a whole.

“Order” means any injunction, judgment, decree, order, ruling, assessment or writ of any Governmental or Regulatory Authority.

“Person” means any individual, corporation, partnership, trust, limited liability company, association or other entity.

“Restructuring” shall have the meaning ascribed to such term in the Transaction Framework Agreement.

“PRC” means People’s Republic of China but solely for purposes of this Agreement and the other Transaction Documents, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region and the island of Taiwan.

“PRC Resident” has the meaning as set forth in Circular 75.

“Second Conversion” shall have the meaning ascribed to such term in the Transaction Framework Agreement.

“Second Restated Articles” means the Amended and Restated Memorandum and Articles of Association of the Company adopted with effect from Closing in substantially the form of Exhibit H attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Share Entitlement” means, as of the date of determination, any outstanding entitlement or right of any Person to be reflected in the register of members of the Company as the holder of any shares of share capital in the Company pursuant to the exercise of any Stock Option by such Person prior to the date of determination.

“Share Entitlement Holders” means all Persons holding Share Entitlements immediately prior to the Closing and listed on Exhibit I attached hereto.

“Shareholders” means all Persons holding shares of the Company and listed in the register of members of the Company immediately prior to the Closing.

“Stock Option” means any outstanding option or right to purchase any share of the Company.

“Stock Option Holders” means all Persons holding Stock Options immediately prior to the Closing and listed on Exhibit I attached hereto.

“Tax” or “Taxes” means (i) any tax, duty, custom, fee, assessment charge, or other levy separately or jointly due or payable to, or levied or imposed by any Governmental or Regulatory Authority, including income, gross receipts, license, wages, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duty, capital, capital gains, capital stock, goods and services, franchise, profits, withholding, social



security, unemployment, disability, real property, personal property, sales, use, transfer, transaction, registration, value added, alternative/add-on minimum, estimated or other tax, duty, charge, custom, governmental fee, assessment or other levy of any kind whatsoever, including any interest, penalty, fine or addition thereto, and any interest with respect to such addition or penalty, and (ii) any liability for the payment of any amounts described in clause (i) for or to any other Person as a result of being a member of an affiliated, consolidated, combined or unitary group, or as a transferee or successor, by contract, or otherwise, including as a result of an express or implied obligation to indemnify any other Person with respect to the payment of any amounts described in clause (i).

“Tax Asset” means any net operating loss, net capital loss, foreign tax credit, or any other credit or tax attribute that could be carried forward or back to reduce Taxes.

“Tax Return” means any return, statement, report, election, declaration, disclosure, schedule or form relating to Taxes that is filed or required to be filed with any taxing authority.

“Transaction Documents” means this Agreement, the Existing Articles, First Restated Articles, the Second Restated Articles, the Allocation Certificate, the Amended Share Plan, the Business Cooperation Agreement, the Investors’ Rights Agreement, the Employment Agreements, the Escrow Agreement, the Transaction Framework Agreement, the Transfer of Shares Agreement and the Voting Agreement.

“Transaction Framework Agreement” means the Transaction Framework Agreement entered into by and between the Purchaser, the Company and the Consenting Holders, substantially in the form of Exhibit J attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“Transfer of Shares Agreement” means the Transfer of Shares Agreement entered into by and among the Company, the Purchaser and the Shareholders, dated as of the date of the Closing, substantially in the form of Exhibit K attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“Unallocated Stock Options” means all option or right to purchase any share of the Company reserved for issuance under any share option plan, restricted share purchase plan or other similar share plan of the Company, including pursuant to the Amended Share Plan, which shall not have been granted or issued to any Equity Holder as of the date of determination.

“Unvested Stock Option” means each Stock Option which shall not have fully vested as of the relevant date specified herein.

“Vested Stock Option” means each Stock Option which shall have fully vested as of the relevant date specified herein.

“Voting Agreement” means the Amended and Restated Voting Agreement entered into by and among the Company, the Purchaser and the Shareholders, dated as of the date of the Closing, substantially in the form of Exhibit L attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

“WFOE” means Beijing Qunar Software Technology Co., Ltd. (北京趣拿软件科技有限公司) a wholly foreign owned enterprise organized and existing under the laws of the PRC.

**2. Representations and Warranties of the Company.** The Company hereby represents and warrants to the Purchaser that, except as set forth on the Schedule of Exceptions the delivered to the Purchaser concurrently with the execution of this Agreement (the “**Schedule of Exceptions**”), the following representations are true and complete as of the date of the Closing.

**2.1 Organization, Good Standing and Qualification.\*** The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the Cayman Islands and has all requisite corporate power and authority necessary to own, lease and operate the assets and properties it now owns, leases and operates, and to carry on its business as presently conducted or proposed to be conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a Material Adverse Effect. The Company is permitted by the laws of the Cayman Islands to carry on business outside the Cayman Islands. Each of WFOE and the Domestic Entities is duly organized, validly existing and in good standing with its business license and articles of association in full force and effect under, and in compliance with, the Laws of the PRC. Each of Group Companies (other than the Company) has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted and is duly qualified to transact business and is in good standing in each jurisdiction in which it conducts a material portion of its business in which failure to do so would have a Material Adverse Effect.

**2.2 Capitalization.\***

**(A) Company.**

(a) As of the date hereof, (i) the authorized capital of the Company consists of (i) 121,927,965 Ordinary Shares, of which 29,222,825 are issued and outstanding, (ii) 26,350,960 Series A Preferred Shares, of which 25,248,600 are issued and outstanding, (iii) 24,828,360 Series B Preferred Shares, of which 24,448,690 are issued and outstanding, and (iv) 12,000,000 Series C Preferred Shares, of which 11,600,055 are issued and outstanding, in each case, held by the Persons and in the amounts listed in Section 2.2(A)(a) of the Schedule of Exceptions and (ii) the Company has reserved 11,617,000 Ordinary Shares for issuance to officers, directors, employees and consultants of the Company pursuant to the Company’s 2007 Share Plan, as amended (the “Share Plan”), of which 1,311,527 Ordinary Shares remain available for grant of Stock Options or other equity awards, and there are 9,121,221 Share Entitlements, 283,600 Vested Stock Options, 900,652 Unvested Stock Options and 1,311,527 Unallocated Stock Options. Section 2.2(A)(a) of the Schedule of Exceptions completely and accurately lists the holders of all such Share Entitlements, Vested Stock Options and Unvested Stock Options, the number and type of shares of the Company subject to such options, the exercise price of such options (including with respect to any Share Entitlements, the method of exercise), and the vesting schedule for such options.

(b) After giving effect to the First Conversion, as of the Record Date, (i) the authorized capital of the Company will consist of (A) 115,930,789 Ordinary Shares, of which 21,343,674 will be issued and outstanding, (B) 12,486,348 Class A Ordinary Shares, of which 12,486,348 will be issued and outstanding, (C) 49,971,749 Class B Ordinary Shares, of which 49,971,749 will be issued and outstanding, and (D) 6,718,399 Class C Ordinary Shares, of which 6,718,399 will be issued and outstanding, in each case, held by the Persons and in the amounts listed in Section 2.2(A)(b) of the Schedule of Exceptions and (ii) the Company will have reserved 11,617,000 Ordinary Shares for issuance to officers, directors, employees and consultants of the Company pursuant to the Share Plan, of which 1,311,527 Ordinary Shares will remain available for grant of Stock Options or other equity awards, and there will be 9,121,221 Share Entitlements, 283,600 Vested Stock Options, 900,652 Unvested Stock Options and 1,311,527 Unallocated Stock Options. Section 2.2(A)(b) of the Schedule of Exceptions completely and accurately lists the holders of all such Share Entitlements, Vested Stock Options and Unvested Stock Options, the number and type of shares of the Company subject to such options, the exercise price of such options (including with respect to any Share Entitlements, the method of exercise), and the vesting schedule for such options.

(c) After giving effect to the Second Conversion, immediately prior to the Closing, (i) the authorized capital of the Company will consist of 800,000,000 Ordinary Shares, of which 100,210,382 will be issued and outstanding, held by the Persons and in the amounts listed in Section 2.2(A)(c) of the Schedule of Exceptions and (ii) the Company will have reserved 20,724,362 Ordinary Shares for issuance to officers, directors, employees and consultants of the Company pursuant to the Amended Share Plan, of which 3,882,251 Ordinary Shares will remain available for grant of Stock Options or other equity awards, and there will be 14,958,899 Share Entitlements, 283,600 Vested Stock Options, 1,599,612 Unvested Stock Options and 3,882,251 Unallocated Stock Options. Section 2.2(A)(c) of the Schedule of Exceptions completely and accurately lists the holders of all such Share Entitlements, Vested Stock Options and Unvested Stock Options, the number and type of shares of the Company subject to such options, the exercise price of such options (including with respect to any Share Entitlements, the method of exercise), and the vesting schedule for such options.

(d) Section 2.2(A)(d) of the Schedule of Exceptions sets forth the capitalization of the Company immediately following the Closing including the number of shares of the following: (i) issued and outstanding Ordinary Shares, (ii) the Share Entitlements, (iii) Vested Stock Options and Unvested Stock Options, including vesting schedule and exercise price, (iv) Unallocated Stock Options; and (v) warrants or share purchase rights, if any. Except (x) as set forth in Section 2.2(A)(d) of the Schedule of Exceptions and (y) for the rights provided in the Transaction Documents, immediately following the Closing there will be no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal or similar rights) or agreements, orally or in writing, for the purchase or acquisition from the Company of any shares. No share plan, share purchase, share option or other agreement or understanding between the Company and any holder of equity securities or rights to purchase equity securities provides for acceleration or other changes in the vesting provisions or terms of such agreements or understandings, or the lapse of a Company repurchase right, upon the occurrence of any event.

(B) WFOE, Domestic Entities and HK Entity.

(a) The registered capital of each of WFOE and the Domestic Entities, and the shareholders of the HK Entity, are set forth opposite their respective names on Section 2.2(B)(a) of the Schedule of Exceptions. The registered capital of the Domestic Entities and WFOE are fully paid. Section 2.2(B)(a) of the Schedule of Exceptions completely and accurately lists all those who are the beneficial owners of the registered capital of WFOE and the Domestic Entities and the respective percentage of registered capital held thereby, and the shareholders of the HK Entity, and as will be held thereby immediately prior to the Closing.

(b) Except as set forth in the Existing Domestic Documents, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), subscriptions, or other rights, proxy or shareholders agreements or contracts of any kind, either directly or indirectly, entitling the holder thereof to purchase or otherwise acquire or to compel any of WFOE, the Domestic Entities, and the HK Entity to increase or decrease its registered capital.

(c) Section 2.2(B)(c) of the Schedule of Exceptions lists all currently effective (i) approval letters and Foreign Investment Enterprise Approval Certificate issued by the PRC Ministry of Commerce or the relevant local officers to any Group Company which is a wholly foreign owned enterprise or Sino-foreign joint venture or Sino-foreign co-operative joint venture (collectively, the “FIEs”) with respect to the establishment and change of such FIEs (including changes in registered capital, shareholding, business scope and equity interest, etc.), (ii) approval letters issued by the PRC National Development and Reform Commission or its relevant local offices to any Group Company on the establishment of such Group Company or its operations or other project constructions, if any, (iii) business licenses issued by the PRC State Administration of Industry and Commerce and any local administration for industry and commerce to any Group Company, (iv) registrations with the PRC State Administration of Foreign Exchange or its local counterparts (“SAFE”) on the round-trip investment by any Founders or other Shareholders who are PRC residents or WFOE or the Domestic Entities, (v) tax registration certificates of WFOE or the Domestic Entities, (vi) Capital Verification Reports of WFOE and the Domestic Entities with respect to its establishment and change of registered capital, (vii) valuation reports of the shareholders’ contribution in kind (if any) issued by a qualified PRC asset valuation institute (or, if relating to state-owned assets, valuation reports by State-owned Assets Supervision and Administration Commission or its local counterparts, if any), (viii) Foreign Exchange Registration Certificates of any FIEs, and (ix) Organization Code Certificates of WFOE and the Domestic Entities. The Company has made available to counsel to the Purchaser a true copy of each of the documents listed in Section 2.2(B)(c) of the Schedule of Exceptions.

(d) All business licenses of WFOE and each Domestic Entity with the relevant AIC authorities in the PRC are valid and reflect the current registered address of such Group Companies.

2.3 Subsidiaries .. The Company does not currently own or control, directly or indirectly, any interest in any other corporation, partnership, trust, joint venture, limited liability company, association or other business entity other than the WFOE, HK Entity and the Domestic Entities. Except as disclosed in Section 2.3 of the Schedule of Exceptions, none of the Company, WFOE and the Domestic Entities is a participant in any joint venture, partnership or similar arrangement.

2.4 Authorization.\* All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and the Transaction Documents, the performance of all obligations of the Company hereunder and thereunder, including the Restructuring, and the authorization, issuance and delivery of the Shares has been taken or will be taken prior to the Closing, and the Transaction Documents, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their respective terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, or (iii) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal or state securities laws. As of the Record Date, the First Restated Articles will be in full force and effect. Immediately after the Closing, the Second Restated Articles will be in full force and effect.

2.5 Valid Issuance of Securities.\* The Shares, when issued and sold in accordance with the terms hereof for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under this Agreement or any other Transaction Agreement, applicable state and federal securities laws and liens or encumbrances created by or imposed by such Purchaser. Based in part upon the representations of the Purchaser in Section 3.7 of this Agreement and subject to the provisions of Section 2.6 below, the Shares will be issued in compliance with all applicable federal and state securities laws. Immediately after the Closing, the Shares shall represent 60% of the Ordinary Shares, calculated on a Fully-Diluted basis.

2.6 Governmental Consents and Filings . Assuming the accuracy of the representations made by the Purchaser in Section 3.7 and 3.8 of this Agreement, no consent, approval, order or authorization of, or notification, registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority is required on the part of any Group Company or any Key Shareholder in connection with the consummation of the transactions contemplated by this Agreement, except for filings pursuant to applicable Cayman Islands, U.S. state and federal law.

2.7 Litigation. Except as set forth in Section 2.7 of the Schedule of Exceptions, there is no claim, action, suit, proceeding, arbitration, complaint, charge or investigation pending against any Group Company, or any Key Shareholder in connection with his or her relationship with Group Company or, to the Company's Knowledge, currently threatened against any Group Company, any Key Shareholder or any officer, director or employee of any Group Company (in their capacity as such). None of the Group Companies, and to the Company's Knowledge, none of their officers or directors, is a party or is named as subject to the provisions of any order, writ, injunction, judgment or decree of any Governmental or Regulatory Authority (in the case of officers or directors, such as would affect any Group Company). Except as set forth in Section 2.7 of the Schedule of Exceptions, there is no (i) action, suit or proceeding by any Group Company pending or which any Group Company intends to initiate, or (ii) disputes with or claims against any Governmental or Regulatory Authority whether in respect of taxes, fines, penalties, administrative action, or otherwise. Except as disclosed in Section 2.7 of the Schedule of Exceptions, the foregoing includes, without limitation, actions, suits, proceedings or investigations pending or threatened in writing (or any basis therefor known to the Company) involving the prior employment of any of the Key Shareholders, their services provided in connection with the business of the Group Companies, or any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers. Section 2.7 of the Schedule of Exceptions sets forth all material consent decrees, judgments, other decrees or orders, settlement agreements or similar matters involving any Group Company within the last five fiscal years, if any. Section 2.7 of the Schedule of Exceptions sets forth, to the Company's Knowledge, a description of any litigation involving an executive officer or director of any Group Company concerning bankruptcy, crimes, violations of securities or commodity laws or business practices within the last five fiscal years, if any.

## 2.8 Intellectual Property.

(a) Each Group Company owns or possesses sufficient legal rights to all Intellectual Property used in connection with the business of such Group Company as now conducted (the "Group Company IP") without any conflict with, or infringement of, the rights of others. A Group Company is the sole and exclusive owner of all right, title and interest in and to all Group Company IP and, other than with respect to commercially available software products under standard end-user object code license agreements, there are no outstanding options, licenses, agreements, claims, encumbrances or shared ownership interests of any kind relating to any Group Company IP, nor is any Group Company bound by or a party to any options, licenses or agreements of any kind with respect to the Intellectual Property and processes of any other Person. No Group Company has infringed, misappropriated or otherwise violated any right in Intellectual Property of any third party, and none of the Group Companies has received any communications alleging that any Group Company has violated or, by conducting its business, would violate any of the Intellectual Property or processes of any other Person. To the Company's Knowledge, no third party is violating or infringing any Group Company IP. The Group Companies have taken reasonable measures to protect the proprietary nature of the Group Company IP. Section 2.8(c) of the Schedule of Exceptions lists (i) all confidentiality, non-disclosure, non-competition, work-for-hire and invention and copyright assignment agreements to which any Group Company or any employees or consultants of the foregoing are parties, and

(ii) any current or former employees or consultants of any Group Company which are not parties to any such agreements. With respect to patent rights, trademark and service mark rights, and any data or content provided or made available to any Group Company by a third party, the representations and warranties of this Section 2.8(a) are made only to the Company's Knowledge and without having conducted any special investigation or patent or trademark or service mark search.

(b) None of the Group Companies is aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of such employee's best efforts to promote the interest of such Group Company or that would conflict with the business of such Group Company. Neither the execution or delivery of this Agreement, nor the carrying on of a Group Company's business by the employees of such Group Company, nor the conduct of such Group Company's business as proposed, will, to the Company's Knowledge, conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any contract, covenant or instrument under which any such employee is now obligated.

(c) Each Group Company has obtained and possesses valid licenses to use all of the software programs authorized by any Group Company for use on the computers and other software-enabled electronic devices that it owns or leases or that it has otherwise provided to its employees for their use in connection with the business of such Group Company. To the Company's Knowledge, it will not be necessary to use any inventions of any of the Group Companies' employees or consultants (or Persons it currently intends to hire) made prior to their employment by any Group Company. Section 2.8(c) of the Schedule of Exceptions lists (i) all Group Company IP that is the subject of an application, registration or other government filing in the PRC or in any other jurisdiction, and (ii) all material databases and data collections used or controlled by any Group Company. The Group Companies are in material compliance with all of their license and disclosure obligations with respect to any open source, copyleft or community source code in any of its products generally available or in development, including but not limited to any libraries or code licensed under any general public license, lesser general public license or similar license arrangement. None of the Group Companies is a member of, has made any contribution to, or otherwise participated in, a standards body nor is it obligated, as a result of any such activities, to grant or offer any third party any license or right to Group Company IP, or otherwise restricted in its ability to assert any rights to Group Company IP.

#### 2.9 Compliance with Other Instruments.

(a) Each Group Company is in compliance in all material respects with all Laws and Orders that are applicable to it or to the conduct or operation of the business of the Group Companies as now conducted and as presently proposed to be conducted or the ownership or use of any of their respective assets, the violation of which would have a Material Adverse Effect.

(b) No event has occurred or circumstance exists that (with or without notice or lapse of time) (i) may constitute or result in a violation by any Group Company of, or a failure on the part of such Group Company to comply with, any Law or Order the violation of which would have a Material Adverse Effect or (ii) to the Company's Knowledge, may give rise to any obligation on the part of any Group Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(c) To the Company's Knowledge, none of the Group Companies has received any notice or other communication (whether oral or written) from any Governmental or Regulatory Authority regarding (i) any actual, alleged, possible, or potential violation of, or failure to comply with, any Law or Order or (ii) any actual, alleged, possible, or potential obligation on the part of such Group Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(d) None of the Group Companies nor any director, officer, agent, employee, or any other Person associated with or acting for or on behalf of such Group Company, has, directly or indirectly (i) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, regardless of form, whether in money, property, or services (A) to obtain favorable treatment in securing business, (B) to pay for favorable treatment for business secured or (C) to obtain special concessions or for special concessions already obtained, for or in respect of such Group Company in violation of any Law where any Group Company does business or (ii) established or maintained any fund or asset that has not been recorded in the Books and Records of such Group Company.

(e) None of the Group Companies is in violation of its business license, memorandum of association or articles of association, as appropriate, or equivalent constitutive documents as in effect where failure to do so would result in a Material Adverse Effect.

(f) The execution, delivery, and performance of the Transaction Documents by the parties thereto (other than the Purchaser) and by each Group Company and the consummation of the transactions contemplated hereby or thereby do not and will not (i) result in any violation of, be in conflict with, require a consent under, or constitute a default under, with or without the passage of time or the giving of notice or otherwise, (A) any provision of the business license, memorandum of association or articles of association, as appropriate, or equivalent constitutive documents of any Group Company as in effect at the Closing, the violation of which would result in a Material Adverse Effect, (B) any provision of any Order to which any Group Company is a party or by which it is bound, the violation of which would result in a Material Adverse Effect, (C) any Material Contract (as defined below), the violation of which would result in a Material Adverse Effect, or (D) any Law applicable to any Group Company, the violation of which would result in a Material Adverse Effect; (ii) accelerate or constitute an event entitling the holder of any indebtedness of any Group Company to accelerate the maturity of any such indebtedness or to increase the rate of interest presently in effect with respect to such indebtedness; (iii) cause any Group Company to be in default of its obligations under any indebtedness agreement; or (iv) result in the creation of any encumbrance upon any of the properties or assets of any Group Company.



(g) The Company has used commercially reasonable efforts to (i) notify all Equity Holders of the execution of this Agreement and the transactions contemplated hereby and (ii) provide each Equity Holder with the opportunity to sign to the Transaction Framework Agreement. To the Knowledge of the Company, no Equity Holder has (A) refused or indicated (orally or in writing) that it will refuse to sign the Transaction Framework Agreement, or (B) taken any action to dissent against or challenge any of the transactions contemplated by any of the Transaction Documents, or allege breach of fiduciary duty relating to any of the transactions contemplated by any of the Transaction Documents.

#### 2.10 Agreements; Actions.

(a) Other than (i) standard employee benefits generally made available to all employees, (ii) standard director and officer indemnification agreements approved by the Board of Directors, and (iii) the purchase of shares of the Company's capital shares and the issuance of options to purchase shares of the Company's Ordinary Shares, in each instance, approved by the Board of Directors, there are no agreements, understandings or proposed transactions between the Company and any of its officers, directors, affiliates, or any affiliate thereof.

(b) For purposes hereof, "Material Contract" means any currently effective agreement, written or otherwise (other than the Transaction Documents), to which a Group Company is a party that (i) cannot be terminated on less than sixty (60) days notice, (ii) involves payments (or a series of payments), contingent or otherwise, of US\$50,000 (or the equivalent thereof in another currency) or more individually or in the aggregate with respect to a series of related agreements, in cash, property or services by or to any Group Company, (iii) is with a Governmental or Regulatory Authority, (iv) materially limits or materially restricts any Group Company's ability to compete or otherwise conduct its business as now conducted and as presently proposed to be conducted in any manner, time or place, or that contains any exclusivity provision, (v) grants a power of attorney, agency or similar authority, (vi) relates to indebtedness for money borrowed, provides for an extension of credit, provides for indemnification or any guaranty, or provides for a "keep well" or other agreement to maintain any financial statement condition of another Person, (vii) (A) includes a license of Intellectual Property, other than "shrink-wrap" or "off-the-shelf" software commercially available on non-discriminating pricing terms, (B) is with any independent firms, consultants, or contractors for product research and development, (C) provides for any purchases or other acquisitions of Intellectual Property by any Group Company, or (D) is a disaster recovery program or service agreement related thereto, (viii) is with an affiliate of any Group Company (other than a Group Company), including each of the "Transaction Documents" (as defined in the Series C Preferred Shares Purchase Agreement dated as of October 29, 2009 among the Company and certain Key Shareholders) (the "Series C Transaction Documents") and the "Domestic Documents" (as defined in the Amended and Restated Investor's Rights Agreement dated as of October 29, 2009 among the Company and certain Key Shareholders) (the "Existing Domestic Documents"), in each case, as amended, (ix) is a lease on real or personal property, including operating leases (but excluding agreements relating exclusively to Intellectual Property), (x) is an insurance policy, (xi) grants the right to manufacture, produce, assemble, market or sells its products to any other Person, (xii) contains any outstanding guarantee or warranty obligations of any Group Company, (xiii) (A) relates to

material acquisitions or dispositions of substantial assets owned by a Group Company (including spin-offs), restructurings or reorganizations, including any disclosure schedules attached to such agreements, if any, (B) is with a financial advisor, if any, (C) is a joint venture, partnership or similar agreement, if any, (xiv) which will be terminated or which require the consent of a third party in connection with the transactions contemplated by the Transaction Documents, or (xv) is otherwise material to any Group Company or is an agreement on which any Group Company is substantially dependent. Section 2.10(b) of the Schedule of Exceptions lists all Material Contracts to which any Group Company is a party or by which any of their respective properties or assets may be bound or affected.

(c) A true, fully-executed copy of each Material Contract has been made available to counsel to the Purchaser. To the Company's Knowledge, each Material Contract is a valid and binding agreement of the Group Company that is a party thereto, the performance of which does not and will not violate any applicable Law or Order, is in full force and effect, and such Group Company has duly performed all of its obligations under each Material Contract to the extent that such obligations to perform have accrued, and, to the Company's Knowledge, no breach or default, alleged breach or alleged default, or event which would (with the passage of time, notice or both) constitute a breach or default thereunder by such Group Company or any other party or obligor with respect thereto, has occurred, or as a result of this Agreement or performance hereof will occur. No Group Company has given notice (whether or not written) that it intends to terminate a Material Contract or that any other party thereto has breached, violated or defaulted under any Material Contract. No Group Company has received any notice (whether or not written) that (i) it has breached, violated or defaulted under any Material Contract or (ii) any other party thereto intends to terminate such Material Contract.

(d) Except as disclosed in Section 2.10(d) of the Schedule of Exceptions, none of the Group Companies has (i) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock, (ii) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of US\$50,000 or in excess of US\$100,000 in the aggregate, (iii) made any loans or advances to any Person, other than ordinary advances for travel expenses, or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory or the licensing of its products in the ordinary course of business.

(e) None of the Group Companies is a guarantor or indemnitor of any indebtedness of any other Person.

(f) For the purposes of subsections (b) and (d) above, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same person or entity (including persons or entities the Company has reason to believe are affiliated with that person or entity) shall be aggregated for the purposes of meeting the individual minimum dollar amounts of each such subsection.

(g) The Company has made available to counsel to the Purchaser a true copy of its form of agreement with respect to each of its three business segments: hotel and travel agent services; advertising and group sales. Each of the Group Company's current revenue generating contracts is on terms consistent with the applicable form agreement described in the preceding sentence.

## 2.11 Disclosure.

(a) The Company and the Purchaser have engaged in a due diligence process, and in connection with that process the Company has made available to the Purchaser all the information reasonably available to the Company that the Purchaser has requested for deciding whether to acquire the Shares and all information that the Company believes is reasonably necessary to enable the Purchaser to make such a decision, including certain of the Company's projections describing its proposed business (collectively, the "Business Plan"). Assuming the accuracy of the Purchaser's representations regarding its sophistication with respect to investments in companies similar to the Company and in light of the due diligence process mentioned above, no representation or warranty of the Company contained in this Agreement and the exhibits attached hereto, any certificate furnished or to be furnished to the Purchaser at the Closing, or the Business Plan (when read together) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. To the extent the Business Plan was prepared by management of the Company, the Business Plan and the financial and other projections contained in the Business Plan were prepared in good faith; however, the Company does not warrant that it will achieve such projections. It is understood that this representation is qualified by the fact that the Company has not delivered to the Purchaser, and has not been requested to deliver, a private placement or similar memorandum or any "Risk Factors" or "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the type typically contained therein.

(b) As of the date hereof and the date of Closing, other than the Series C Transaction Documents and the Existing Domestic Documents, there exists no partnership, joint venture, shareholder, voting or a similar agreement or side letter providing for the sharing of any profits, losses or liabilities, or the formation, creation of equity or other ownership interests, or rights or obligations in relation to any of the foregoing or the voting of shares, or the operation, management or control, of any Group Companies, by or binding on any Group Company, any Equity Holder or any Person indirectly owning any shares in the share capital of the Company (collectively, "Side Arrangements").

2.12 No Conflict of Interest. None of the Group Companies is indebted, directly or indirectly, to any of its officers or directors or to their respective family members, in any amount whatsoever other than in connection with expenses or advances of expenses incurred in the ordinary course of business or relocation expenses of employees. Except as stated in Section 2.12 of the Schedule of Exceptions, none of the Group Company's officers or directors, or any members of their immediate families, are, directly or indirectly, indebted to any of the Group Companies (other than in connection with purchases of the Group Company's shares) or, to the Group Company's Knowledge, have any direct or indirect ownership interest in any firm or corporation with which the Group Company is affiliated or with which the Group Company has a business relationship, or any firm or corporation which competes with the Group Company except that officers, directors and/or shareholders of the Group Company may own shares in (but

not exceeding two percent of the outstanding share capital) any publicly traded company that may compete with the Group Company. None of the Group Company's officers or directors or any members of their immediate families is, directly or indirectly, interested in any material contract with any of the Group Companies.

2.13 Rights of Registration and Voting Rights. Except as provided in the Investors' Rights Agreement, the Company is not under any obligation to register under the Securities Act any of its currently outstanding securities or any securities issuable upon exercise or conversion of its currently outstanding securities. To the Company's Knowledge, no shareholder of the Company has entered into any agreements with respect to the voting of capital shares of the Company, other than the Voting Agreement.

2.14 Title to Property and Assets. The property and assets (excluding Group Company IP) that each Group Company owns are free and clear of all mortgages, deeds of trust, liens, loans and encumbrances, except for statutory liens for the payment of current taxes that are not yet delinquent and encumbrances and liens that arise in the ordinary course of business and do not materially impair ownership or use of such property or assets by the Group Companies. With respect to the property and assets it leases, each Group Company is in compliance with such leases, holds a valid leasehold interest free of any liens, claims or encumbrances other than those of the lessors of such property or assets and such leases have been registered with the relevant Governmental or Regulatory Authority in the PRC (which registrations are valid and in force). All properties and assets of each Group Company are in a good state of repair and in good working condition other than any normal wear and tear. None of the assets of any Group Company is a state-owned asset, and inasmuch, none of the assets of any Group Company is required by applicable Law to undergo any form of valuation procedure prior to the consummation of the transactions contemplated by the Transaction Documents. No Group Company owns title to any real property.

#### 2.15 Financial Statements.

(a) The Company has delivered to the Purchaser the unaudited financial statements (including balance sheet, statement of cash flow and income statement) of (i) the Group Companies (on a consolidated basis) as of and for the fiscal years ended December 31, 2008, 2009, and 2010, in each case which have been prepared in accordance with US GAAP, and (ii) the Group Companies (on a consolidated basis) for the four-month period from January 1, 2011 up to (and including) April 30, 2011, reviewed and approved by management of the Company (collectively, the "Financial Statements"). The Financial Statements fairly present in all material respects the financial condition and operating results of the Group Companies (on a consolidated basis) as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. After the Closing, the Company shall deliver financial statements (including balance sheet, statement of cash flow and income statement) of the Group Companies (on a consolidated basis) as of and for the fiscal years ended December 31, 2008, 2009, and 2010, certified and audited by the Company's current PRC audit firm and prepared in accordance with US GAAP (the "Audited Financials"), to the Purchaser pursuant to this Agreement, which Audited Financials shall not differ from the corresponding unaudited Financial Statements described in clause (i) above in any material and adverse respect.

(b) Except as set forth in the Financial Statements, none of the Group Companies has any material liabilities or obligations, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to April 30, 2011 and (ii) obligations under applicable Law and contracts and commitments incurred in the ordinary course of business and not required under United States generally accepted accounting principles (“U.S. GAAP”) to be reflected in the Financial Statements which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company. The Company will maintain a standard system of accounting established and administered in accordance with U.S. GAAP.

2.16 Changes. Since April 30, 2011, there has not been:

(a) any event, occurrence, fact, condition, change, development or effect that, individually or in the aggregate, has or could become or result in a Material Adverse Effect;

(b) any damage, destruction or loss, whether or not covered by insurance, that would reasonably be expected to have a Material Adverse Effect;

(c) any waiver or compromise by any Group Company of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim, or encumbrance or payment of any obligation by any Group Company, except in the ordinary course of business and the satisfaction or discharge of which would not have a Material Adverse Effect;

(e) any material change to a contract or agreement to which any Group Company is a party or any of its assets is subject;

(f) any material change in any compensation arrangement or agreement with any employee, officer, director or shareholder of any Group Company;

(g) any resignation or termination of employment of any officer or executive of any Group Company, including without limitation the Founders;

(h) any mortgage, pledge, transfer of a security interest in, or lien, created by any Group Company, with respect to any of its properties or assets, except liens for taxes not yet due or payable and liens that arise in the ordinary course of business and do not materially impair such Group Company’s ownership or use of such property or assets;

(i) any loans or guarantees made by any Group Company to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(j) any declaration, setting aside or payment or other distribution in respect of any of the share capital of any Group Company, or any direct or indirect redemption, purchase, or other acquisition of any of such share capital by any Group Company;

(k) any sale, assignment, license, transfer or other disposition of any Group Company IP outside the ordinary course of business;

(l) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of any Group Company;

(m) receipt of notice that there has been a disruption of, or material delay in, the delivery of products by any major supplier of any Group

Company;

(n) any other event or condition of any character, other than events affecting the economy or any Group Company's industry generally, that could reasonably be expected to result in a Material Adverse Effect; or

(o) any arrangement or commitment by any Group Company to do any of the things described in this Section 2.16.

#### 2.17 Employee Benefit Plans; Employees.

(a) The Company does not have any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(b) Section 2.17(b) of the Schedule of Exceptions sets forth copies of standard form employment, confidentiality and non-compete contracts entered into with employees of the Group Companies.

(c) Section 2.17(c) of the Schedule of Exceptions sets forth in respect of any for any Group Company (i) copies of any Social Insurance and Welfare Registrations or Vouchers for Social Insurance and Welfare, (ii) a description of the social insurance payments and housing fund payments for the employees and all the relevant supporting documents, (iii) copies of Housing Fund Contribution Registrations, and (v) latest receipts for the payments of social insurance and housing fund.

(d) The Company has made available to counsel to the Purchaser copies of (i) all employment, "change in control", severance, retirement, retention or consulting agreements or arrangements with the Founders, directors and key employees and consultants of the Group Companies, (ii) separation or termination agreements with former directors, officers or management employees, (iii) indemnification agreements or arrangements for officers, directors and consultants, (iv) outstanding loans to employees (including all executive officers) or directors,

(e) Section 2.17(e) of the Schedule of Exceptions sets forth copies of registration with SAFE and the PRC tax authorities relating to the Share Plan. Other than those issued or granted pursuant to the Share Plan, there are no outstanding compensatory stock options, stock appreciation rights, restricted stock, restricted stock units and other forms of equity-based compensation.

(f) Section 2.17(f) of the Schedule of Exceptions sets forth copies of all non-equity based incentive compensation plans or agreements (e.g., annual bonus plans, special bonus, long-term incentives, profit-sharing, etc.), including summaries of related performance goals and targets.

(g) All required social insurance and housing fund registrations of WFOE or any Domestic Entity with each relevant Governmental or Regulatory Authority in the PRC have been filed and are valid and in force.

#### 2.18 Taxes.\*

Except as disclosed in Section 2.18 of the Schedule of Exceptions:

(a) All Tax Returns that are required to be filed by any Group Company have been filed when due in accordance with all applicable laws and such Tax Returns were true and complete in all material respects. None of the Group Companies has granted any extension or waiver of the statute of limitations period applicable to any Tax Return, which period (after giving effect to such extension or waiver) has not yet expired.

(b) Except to the extent of any charges, accruals and reserves for Taxes contested in good faith and which are reflected on any Group Company's books, all Taxes that are due and payable under any applicable law have been timely paid, or withheld and remitted, to the appropriate taxing authority.

(c) The charges, accruals and reserves for Taxes reflected on any Group Company's books are adequate to cover Tax liabilities accruing through the end of the last period for which the relevant Group Company ordinarily records items on its books, and since the end of the last period for which any Group Company ordinarily records items on its books, none of the Group Companies has engaged in any transaction, or taken any other action, other than in the ordinary course of business, that would materially impact any Tax Asset or Tax liability of any Group Company.

(d) There is no claim, audit, action, suit, proceeding or investigation now pending or, to the Company's Knowledge, threatened against or with respect to any Group Company in respect of any Tax or Tax Asset. No adjustment that would increase the Tax liability or reduce any Tax Asset of any Group Company had been proposed or made by a Taxing Authority which could reasonably be expected to be threatened, proposed or made in an audit of any Tax period ending on or following date of Closing.

(e) No election with respect to Tax has been made by any Group Company with any taxing authority.

2.19 Labor Agreements and Actions. None of the Group Companies is bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and, to the Company's Knowledge, no labor union has requested or has sought to represent any of the employees, representatives or agents of any Group Company which could have a Material

Adverse Effect. There is no strike or other labor dispute involving any Group Company pending or threatened which could have a Material Adverse Effect, nor is any Group Company aware of any labor organization activity involving its employees. Each Group Company has complied in all material respects with all applicable employment Laws and with other Laws related to employment. Except as stated in Section 2.19 of the Schedule of Exceptions, no employee of any Group Company has been granted the right to continued employment by such Group Company or to any compensation following termination of employment with such Group Company. None of the Group Companies is aware that any officer, key employee or group of employees intends to terminate his, her or their employment with any Group Company, nor does any Group Company have a present intention to terminate the employment of any officer, key employee or group of employees. None of the Group Companies has made any representations regarding equity incentives to any officer, employees, director or consultant that are inconsistent with the share amounts and terms set forth in such Group Company's Books and Records. None of the Group Companies had any employee whose employment was terminated and who has not entered into an agreement with such Group Company providing for the full release of any claims against such Group Company or any officer, director, employee or other related party of any Group Company arising out of such employment.

2.20 Proprietary Information, Invention Assignment and Non-Competition Agreement. Except as set forth on the Schedule of Exceptions, each present and former employee, consultant and officer of each of the Group Companies has executed an agreement with the Group Company regarding proprietary information, assignment of inventions and non-competition substantially in the form or forms delivered to the counsel for the Purchaser. None of the Group Companies is aware that any of its present or former employees or consultants is in violation thereof, and each Group Company will use its best efforts to prevent any such violation.

2.21 Permits. Each Group Company has all material franchises, permits, licenses, approvals, authorizations and any similar governmental authority or registration with any Governmental or Regulatory Authority necessary for the conduct of the business of such Group Company, the lack of which could have a Material Adverse Effect (the "Material Licenses"). Section 2.21 of the Schedule of Exceptions contains a complete and correct list of all Material Licenses and the termination date of each such Material License. The Material Licenses are in full force and effect and to the Company's Knowledge, will remain in effect except if terminated or expired in the ordinary course of business. To the Company's Knowledge, no other license is necessary for, or otherwise material to, the conduct of the business by any Group Company. To the Company's Knowledge, the consummation of the transactions contemplated under the Transaction Documents will not result in the termination or revocation of any of the Material Licenses. None of the Group Companies is in default in any material respect under any of its Material Licenses and has not received any written notice relating to the suspension, revocation or modification of any such Material Licenses. The Company has made available to counsel to the Purchaser copies of any license issued by any PRC regulatory agency or its local counterpart for the activities of any Group Company in the PRC, including without limitation, the Value-added Telecommunication Business License, the approval or opinion rendered by competent administration of industry and commerce with respect to the business of advertisement operated by any FIEs.



2.22 Corporate Documents. The Existing Articles, the First Restated Articles and the Second Restated Articles are in the form provided to counsel for the Purchaser. The copy of the minute books of the Company provided to the Purchaser's counsel contains minutes of all meetings of directors and shareholders and all actions by written consent without a meeting by the directors and shareholders since the date of incorporation and reflects all actions by the directors (and any committee of directors) and shareholders with respect to all transactions referred to in such minutes accurately in all material respects.

2.23 Controlled Foreign Corporation. The Company is not a controlled foreign corporation ("CFC") as defined in Section 957 of the Code. No Group Company will be a CFC immediately after the Closing.

2.24 83(b) Elections. To the Company's Knowledge, all elections and notices under Section 83(b) of the Code, have been timely filed by all individuals that are taxable in the United States and that have purchased Ordinary Shares of the Company.

2.25 Real Property Holding Corporation. No Group Company is a "United States real property holding corporation" within the meaning of the Code and any applicable regulations promulgated thereunder.

2.26 Circular 75 Registration. Except as stated in Section 2.26 of the Schedule of Exceptions, each Person who directly or indirectly, through a holding company, holds any shares of the Company as of the Closing and who is a PRC Resident has either (i) complied with the registration and any other requirements of Circular 75, or (ii) delivered to the Company a written confirmation in form and substance reasonably satisfactory to such Purchaser that such Person (A) to such Person's knowledge, is not subject to the registration requirements of Circular 75 or (B) to such Person's knowledge, is subject to the registration requirements of Circular 75 and has complied with the registration requirements of Circular 75.

2.27 No Directed Selling Efforts. Neither the Company nor any of its affiliates or any other Person acting on its or their behalf has engaged or will engage in any directed selling efforts within the meaning of Regulation S under the Securities Act and all such Persons have complied with the offering requirements of Regulation S under the Securities Act.

2.28 Insurance Coverage. Section 2.28 of the Schedule of Exceptions sets forth (i) a true and complete description of all material insurance arrangements (including property damage, third-party liability, director and officer and key employee insurance) setting forth insurer, type of insurance, nature of risks covered, insured amounts, policy expiration date, endorsements, annual premium and deductibles, relating to the assets, business, operations, employees, officers or directors of the Group Companies, and (ii) a summary of claims experience under insurance policies for last five years. There is no claim by any Group Company pending under any of such insurance arrangements as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds or in respect of which such underwriters have reserved their rights.

2.29 Environment. No Group Company has received any notices, investigations, complaints, notices of violations, fines, potentially responsible party notices, consent orders, requests for information, claims, lawsuits or other proceedings with respect to environmental or hazardous material exposure matters, including any such proceedings arising under any contracts. Each Group Company has all required environmental permits, authorizations and licenses (including any related applications or renewals). Section 2.30 of the Schedule of Exceptions sets forth (in each case, if any) (i) all environmental feasibility study reports of any Group Company issued by government recognized institutions, and any verification issued by the environmental protection authorities approving the results of such reports, (ii) each Form of Declaration and Registration for Hazardous Waste (危险废物申报登记表) filed with local governmental authorities for environmental protection, (iii) each Operation Permit for Hazardous Waste (危险废物经营许可证) of third party service provider, if any China Sub engages a third party to dispose of the hazardous wastes, and (iv) approvals issued by the environmental protection authorities verifying that the waste discharge facilities of any Group Company is effective and sufficient for the protection of the environment.

2.30 PRC Taxes and Subsidies.\*

(a) Section 2.30(a) of the Schedule of Exceptions sets forth all documentation of subsidies, preferential Tax treatments, state aids or grants of whatever kind received or applied for by WFOE or the Domestic Entities as well as any repayment obligations.

(b) Neither WFOE nor the Domestic Entities has the benefit of any Tax holidays under PRC Tax law. The WFOE and Domestic TopCo are subject to a preferential enterprise income Tax rate of 15% and Domestic Sub is subject to an enterprise income Tax rate of 25%. Section 2.30(b) of the Schedule of Exceptions sets forth the approvals or other documents granting the preferential tax rate to the Domestic Entities.

(c) No filings are required pursuant to PRC Guo Shui Han 2009 No. 698 ("Circular 698") in connection with the transactions contemplated under this Agreement.

(d) The Group Companies have withheld all Taxes payable in connection with the exercise of any Stock Options or Share Entitlements.

2.31 Finder's Fee. There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of any Group Company who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

3. **Representations and Warranties of the Purchaser**. The Purchaser hereby represents and warrants to the Company, that:

3.1 Authorization. The Purchaser has full power and authority to enter into the Transaction Documents. The Transaction Documents, when executed and delivered by such Purchaser, will constitute valid and legally binding obligations of such Purchaser, enforceable in accordance with their terms, except (a) as limited by applicable bankruptcy, insolvency,

reorganization, moratorium, fraudulent conveyance, and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of a specific performance, injunctive relief, or other equitable remedies, or (b) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal or state securities laws.

3.2 Purchase Entirely for Own Account. This Agreement is made with the Purchaser in reliance upon the Purchaser's representation to the Company, which by the Purchaser's execution of this Agreement, the Purchaser hereby confirms, that the Shares to be acquired by the Purchaser will be acquired for investment for the account of the Purchaser or the Purchaser's Affiliated Fund, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same, other than to its Affiliated Funds. By executing this Agreement, the Purchaser further represents that it does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Shares.

3.3 Disclosure of Information. The Purchaser has had an opportunity to discuss the Company's business, management, financial affairs and the terms and conditions of the offering of the Shares with the Company's management and has had an opportunity to review the Company's facilities. The Purchaser understands that such discussions, as well as the Business Plan and any other written information delivered by the Company to the Purchaser, were intended to describe the aspects of the Company's business which the Purchaser believes to be material. The foregoing, however, does not limit or modify the representations or warranties in Section 2 of this Agreement or the right of Purchaser to rely thereon.

3.4 Restricted Securities. The Purchaser understands that the Shares have not been, and will not be, registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of such Purchaser's representations as expressed herein. The Purchaser understands that the Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Purchaser must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. The Purchaser acknowledges that the Company has no obligation to register or qualify the Shares for resale except as set forth in the Investors' Rights Agreement. The Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Shares, and on requirements relating to the Company which are outside of such Purchaser's control, and which the Company is under no obligation and may not be able to satisfy.

3.5 No Public Market. The Purchaser understands that no public market now exists for any of the securities issued by the Company, and that the Company has made no assurances that a public market will ever exist for the Shares.

3.6 Legends. The Purchaser understands that the Shares, and any securities issued in respect of or exchange for the Shares, may bear one or all of the following legends:

(a) "THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED."

(b) Any legend set forth in or required by the other Transaction Documents.

(c) Any legend required by the securities laws of any state to the extent such laws are applicable to the shares represented by the certificate so legended.

3.7 Not U.S. Person. The Purchaser is not a "U.S. Person" within the meaning of Regulation S and is not acquiring the Shares for the account or benefit of any "U.S. Person". The Purchaser is aware and agrees (i) that the sale to it is being made in an "off -shore transaction" (as defined in Regulation S) in reliance on an exemption from registration under the Securities Act, (ii) that the Shares are being offered in transactions not involving any public offering within the meaning of the Securities Act, and (iii) that the Shares have not been and will not be registered under the Securities Act.

3.8 Home Laws. The Purchaser hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the Shares or any use of this Agreement, including (i) the legal requirements within its jurisdiction of incorporation for the purchase of the Shares, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained, and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale, or transfer of the Shares. The Purchaser's subscription and payment for and continued beneficial ownership of the Shares, will not violate any applicable securities or other laws of the Purchaser's jurisdiction of incorporation.

3.9 No General Solicitation. Neither the Purchaser, nor any of its officers, employees, agents, directors, shareholders or partners has engaged the services of a broker, investment banker or finder to contact any potential investor nor has the Purchaser or any of the Purchaser's officers, employees, agents, directors, shareholders or partners, agreed to pay any commission, fee or other remuneration to any third party to solicit or contact any potential investor. Neither the Purchaser, nor any of its officers, directors, employees, agents, shareholders or partners has (a) engaged in any general solicitation, or (b) published any advertisement in connection with the offer and sale of the Shares.

3.10 Finder's Fee. There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Purchaser who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

3.11 Sufficient Funds Available. The Purchaser has, or will have as of the Closing, sufficient funds available to consummate the transactions completed by, and to perform its obligations to be performed as of the Closing, including payment of the Purchase Price and any Contribution Amounts due under this Agreement or the Transaction Framework Agreement.

#### 4. Pre-Closing Covenants.

4.1 Conduct of the Company. Except for matters expressly contemplated and required by the Transaction Documents (including the Restructuring) or as otherwise consented to in advance by the Purchaser (which consent will not unreasonably be withheld), from the date hereof until the earlier of termination of this Agreement or the date of the Closing, the Company shall, and shall cause each of the other Group Companies to, conduct its business in the ordinary course consistent with past practice and use its reasonable best efforts to (i) preserve intact its present business organization, (ii) maintain in effect all of its authorizations or permits from Governmental or Regulatory Authorities necessary to conduct its business in the ordinary course consistent with past practice, (iii) keep available the services of its directors, officers and key employees, and (iv) maintain satisfactory relationships with its customers, lenders, suppliers and others having material business relationships with it. Without limiting the generality of the foregoing, except for matters expressly contemplated by this Agreement (including the Restructuring) or as otherwise consented to in advance by the Purchaser (which consent will not unreasonably be withheld), the Company shall not, nor permit any of the other Group Companies to:

(a) amend its articles of association, bylaws or other similar organizational documents (whether by merger, consolidation or otherwise);

(b) (i) split, combine or reclassify any shares of share capital of any Group Company or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or any of its other securities, (ii) declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of, or convertible into or exchangeable or exercisable for, any share capital of any Group Company, (iii) redeem, repurchase or otherwise acquire or offer to redeem, repurchase, or otherwise acquire any shares of share capital or (iv) take any action that would result in any amendment, modification or change of any material term of any indebtedness;

(c) (i) issue, deliver or sell, or authorize the issuance, delivery or sale of, any shares of share capital or other equity interests, or (ii) amend any term of any shares of share capital or other equity interests (in each case, whether by merger, consolidation or otherwise);

(d) adopt a plan or agreement of, or resolutions providing for or authorizing, any complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization;

(e) make any capital expenditures or incur any liabilities in respect thereof, except for those contemplated by the Business Plans or in connection with the transactions contemplated by this Agreement or the Transaction Framework Agreement;

(f) acquire (i) any business or Person or division thereof (whether by purchase of stock, purchase of assets, merger, consolidation, or otherwise), or (ii) any other material assets (other than assets acquired in the ordinary course of business consistent with past practice);

(g) (i) sell, lease, license or otherwise transfer any of the Group Company's assets, securities, properties, interests or businesses, including any Group Company IP outside the ordinary course of business, or (ii) create any mortgage, pledge, transfer of security interest, or lien with respect to any of its properties or assets of any Group Company, except liens for taxes not yet due or payable and liens that arise in the ordinary course of business and do not materially impair such Group Company's ownership or use of such property or assets;

(h) (i) make any material change in any compensation arrangement or agreement with any employee, officer, director or shareholder of any Group Company, or (ii) establish, adopt, enter into or amend any employee benefit plan or agreement (other than offer letters that contemplate "at will" employment without severance benefits) or collective bargaining agreement;

(i) hire any employee whose annualized compensation exceeds RMB500,000;

(j) (i) repurchase, prepay or incur any Indebtedness, including by way of a guarantee, or any issuance or sale of debt securities or any merger, business combination or other acquisition, or issue and sell options, warrants, calls or other rights to acquire any debt securities of any Group Company, or (ii) make any loans or guarantees made by any Group Company to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(k) terminate or make any material change to a contract or agreement to which any Group Company is a party or any of its assets is subject, other than in the ordinary course of business;

(l) waive or compromise any valuable right or of a material debt owed to any Group Company;

(m) any satisfaction or discharge of any lien, claim, or encumbrance or payment of any obligation by any Group Company, except in the ordinary course of business;

(n) make any change in any method of accounting principles, method or practices, except for any such change required by generally accepted accounting principles or applicable law (in each case following consultation with the Company's independent auditor);

(o) make or change any Tax election, change any annual tax accounting period, adopt or change any method of Tax accounting, amend in any material respect any Tax Returns or file claims for material Tax refunds, enter into any closing agreement, settle any material tax claim, audit or assessment, surrender any right to claim a material Tax refund, offset or other reduction in Tax liability, or consent to any extension or waiver of the limitations period applicable to any Tax claim or assessment;

(p) institute, settle, or agree to settle any legal proceedings pending or threatened before any arbitrator, court or other Governmental or Regulatory Authority;

(q) enter into any new line of business; or

(r) authorize, resolve, commit or agree to do any of the things described in this Section 4.1.

4.2 Access to Information. From the date hereof until the date of the Closing, the Company will (i) give, and will cause each other Group Company to give, the Purchaser, its counsel, financial advisors, auditors and other authorized representatives full access during reasonable hours and upon reasonable notice to the offices, properties, books and records of the Group Companies, (ii) furnish, and will cause each other Group Company to furnish, to the Purchaser, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information relating to the Group Companies as such Persons may reasonably request and (iii) instruct the employees, counsel and financial advisors of the Group Companies to cooperate with the Purchaser in its investigation of the Group Companies. Any information furnished pursuant to this Section shall be deemed to be confidential information pursuant to the Confidentiality and Non-Disclosure Agreement dated as of August 26, 2010 between Baidu Online Network Technology (Beijing) Co., Ltd. and WFOE. Any investigation pursuant to this Section shall be conducted in such manner as not to interfere unreasonably with the conduct of the business of the Group Companies. No investigation by the Purchaser or other information received by the Purchaser shall operate as a waiver or otherwise affect any representation, warranty or agreement given or made by the Company hereunder.

4.3 Notices of Certain Matters. Prior to the Closing, (i) the Company shall give prompt written notice to the Purchaser of the occurrence or non-occurrence of any event known to the Company the occurrence or non-occurrence of which would reasonably be expected to cause any representation or warranty contained in Article 2 to be materially untrue, or of the failure of the Company to comply with or satisfy any covenant or agreement under this Agreement, and (ii) the Purchaser shall give prompt written notice to the Company of the occurrence or non-occurrence of any event known to the Purchaser the occurrence or non-occurrence of which would reasonably be expected to cause any representation or warranty contained in Article 3 to be materially untrue, or of the failure of the Purchaser to comply with or satisfy any covenant or agreement under this Agreement; provided that the delivery of any notice pursuant to this Section shall not limit or otherwise affect the remedies available hereunder to the party receiving that notice.

4.4 Reasonable Efforts to Complete. Subject to the terms and conditions of this Agreement, each of the Purchaser and the Company will use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable laws to consummate the transactions contemplated by this Agreement, including (i) preparing and filing as promptly as practicable with any Governmental or Regulatory Authority or other third party all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents and (ii) obtaining and maintaining all approvals, consents, registrations, permits, authorizations and other confirmations required to be obtained from any Governmental or Regulatory Authority or other third party that are necessary, proper or advisable to consummate the transactions contemplated by this Agreement. The Company and the Purchaser shall cooperate with one another (i) in determining whether any action by or in respect of, or filing with, any Governmental or Regulatory Authority is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by this Agreement and (ii) in taking such actions or making any such filings, furnishing information required in connection therewith and seeking timely to obtain any such actions, consents, approvals or waivers.

4.5 Public Announcements. On the date hereof or promptly thereafter, the Company and the Purchaser shall issue a joint press release substantially in the form of Exhibit M attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser, in connection with the transactions contemplated by this Agreement. The Purchaser shall be entitled to furnish a current report on Form 6-K to the U.S. Securities and Exchange Commission which exhibits such press release. The parties agree to consult with each other before issuing any other press release or making any public statement with respect to this Agreement or the transactions contemplated hereby and, except for any press releases and public statements the making of which may be required by applicable law, regulation or requirement of any Governmental or Regulatory Authority or any listing agreement with any securities exchange, in which case the party required to make the press release or public statement shall use reasonable efforts to allow the other party hereto reasonable time to comment on such release or announcement in advance of such issuance (it being understood that the final form and content of any such release or announcement, as well as the timing of any such release or announcement, shall be at the final discretion of the disclosing party) will not issue any such press release or make any such public statement prior to such consultation.

4.6 Exclusivity. Prior to the Closing, neither the Company nor any other Group Company shall, nor shall the Company or any other Group Company authorize or permit any of its or their directors, officers, affiliates or other representatives to, directly or indirectly, solicit, initiate or knowingly take any action to facilitate or encourage the submission of any offer, proposal, inquiry or indication of interest from any third party (other than the Purchaser) relating to any transaction or series of related transactions involving (i) any acquisition or purchase, directly or indirectly, of any outstanding voting or equity securities of any Group Company, (ii) any merger, consolidation, share exchange, business combination or other similar transaction involving any Group Company, (iii) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of 5% or more of the consolidated assets of the Group Companies, or



(iv) any liquidation, dissolution, recapitalization, extraordinary dividend or other significant corporate reorganization of any Group Company (each, a “Transaction Proposal”) or any inquiry, indication of interest or the making of any proposal that could reasonably be expected to lead to any Transaction Proposal, or conduct or engage in any discussions or negotiations with, disclose any non-public information relating to any Group Company to, afford access to the business, properties, assets, books or records of any Group Company to, or otherwise cooperate in any way with, or knowingly assist, participate in, knowingly facilitate or encourage any effort by, any third party that is seeking to make, or has made, any Transaction Proposal, or enter into any contract relating to any Transaction Proposal.

5. **Conditions of the Purchaser’s Obligations at Closing.** The obligations of the Purchaser to the Company to purchase Shares under this Agreement at the Closing are subject to the fulfillment, on or before such closing, of each of the following conditions, unless otherwise waived in writing by the Purchaser or specified otherwise in this Section 5

5.1 **Representations and Warranties.** The representations and warranties of the Company contained in Section 2 shall be true and correct in all material respects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

5.2 **Performance.** The Company shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

5.3 **No MAE.** No event, occurrence, change, effect or condition of any character shall have occurred following the date of this Agreement that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

5.4 **Compliance Certificate.** The Chief Executive Officer of the Company shall deliver to the Purchaser at such Closing a certificate certifying that the conditions set forth in Sections 5.1, 5.2 and 5.3 have been fulfilled.

5.5 **Qualifications.** All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the Cayman Islands, the United States or of any U.S. state that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall be obtained and effective as of the Closing.

5.6 **Approvals and Consents.** All authorizations, approvals, consents or permits of any competent Governmental or Regulatory Authority or of any third party that are required to be obtained by any Group Company or Key Shareholder before the Closing in connection with the consummation of the transactions contemplated by this Agreement (including but not limited to those related to the lawful issuance and sale of the Shares), including without limitation any waivers for rights of first refusal, preemptive rights, put or call rights, or other rights triggered, if any, shall have been duly obtained and effective as of the Closing.

5.7 Boards of Directors. As of the Closing, (i) the authorized size of the Board shall be no less than seven (7) and no more than nine (9), and the Board of Directors shall be comprised of such directors as shall have been designated by the Purchaser and the Shareholders prior to the Closing as contemplated by the Voting Agreement, (ii) the authorized size of the Board of Directors of HK Entity shall be three, and the such Board of Directors shall be comprised of at least two designees of the Purchaser, (iii) the authorized size of the Board of Directors of WFOE shall be three, and such Board of Directors shall be comprised of at least two designees of the Purchaser, (iv) the authorized size of the Board of Directors of Domestic TopCo shall be two, and such Board of Directors shall be comprised of two designees of the Purchaser, and (v) the authorized size of the Board of Directors of Domestic Sub shall be two, and such Board of Directors shall be comprised of two designees of the Purchaser.

5.8 Restated Articles and Amended Share Plan. (i) The First Restated Articles shall have been adopted by the Company simultaneously with the First Conversion and filed with the Registrar of Companies of the Cayman Islands, (ii) the Amended Share Plan shall have been adopted by the Company, and shall be in full force upon and with effect from the Closing, and (iii) the Second Restated Articles shall have been adopted by the Company upon and with effect from the Closing and shall be filed with the Registrar of Companies of the Cayman Islands within one Business Day after the Closing.

5.9 Transaction Documents. Each of the Company, the Shareholders, the Holders' Indemnification Representative and the Escrow Agent shall have executed and delivered each of the Transaction Documents to which it is a party, and shall be in full force and effect. (i) Each of the Shareholders, (ii) each of the holders of Stock Options or Share Entitlements listed on Exhibit N attached hereto and (iii) holders of at least 80% of all Stock Options or Share Entitlements held by any other Persons, including the Persons listed on Exhibit O attached hereto shall have executed and delivered the Transaction Framework Agreement. Each of the holders described in clauses (ii) and (iii) above shall have executed and delivered Acknowledgement Agreements.

5.10 Employment Agreements. The Company and the applicable employees listed in Exhibit C hereto shall have executed and delivered the Employment Agreements, in form and substance acceptable to the Purchaser.

5.11 Proprietary Information, Invention Assignment and Non-Competition Agreement. Each current employee, consultant and officer of each of the Group Companies and each former employee, consultant and officer who has provided services to any of the Group Companies within the last 12 months shall have executed an agreement with such Group Company regarding confidentiality and proprietary information in form and substance acceptable to the Purchaser. Each employee listed on Schedule 5.11 has executed a non-competition agreement in the form provided to Purchaser. All domain names included in the Group Company IP which are currently not held by a Group Company shall have been transferred to the WFOE.

5.12 Director's Certificate. A director of the Company shall deliver to the Purchaser at the Closing a certificate attaching (i) the certified Memorandum and Articles as then in effect, (ii) copies of all resolutions approved by the shareholders and board of directors of each Group Company related to the transactions contemplated hereby (including the Restructuring) and (iii) such other documents or certificates as the Purchaser may reasonably request.

5.13 [Reserved]

5.14 Opinion of PRC Counsel. The Purchaser shall have received from TransAsia Lawyers, the Company's PRC counsel, an opinion, dated as of the Closing, substantially in the form of Exhibit Q attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

5.15 Opinion of Cayman Counsel. The Purchaser shall have received from Maples and Calder, the Cayman Islands' counsel of the Company, an opinion, dated as of the Closing, substantially in the form of Exhibit R attached hereto with such changes thereto as mutually agreed by the Company and the Purchaser.

5.16 [Reserved]

5.17 Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to Purchaser, and Purchaser (or its counsel) shall have received all such counterpart original and certified or other copies of such documents as reasonably requested. Such documents may include good standing certificates.

5.18 Due Diligence. The Purchaser shall have completed all due diligence on the Group Companies to its reasonable satisfaction with respect to the matters listed on Schedule 5.18 hereto.

5.19 Restructuring. Each of the steps contemplated by the Restructuring shall have been consummated on terms acceptable to the Purchaser.

5.20 Termination of Shareholder Agreements. Other than the Transaction Documents and any employment related agreements, all Series C Transaction Documents and any other Side Arrangements, shall have been terminated and shall have no further force and effect.

5.21 Minimum Percentage Ownership. Immediately after the Closing, the Shares shall represent at least 60% of the fully-diluted equity ownership of the Company.

**6. Conditions of the Company's Obligations at Closing**. The obligations of the Company to the Purchaser under this Agreement are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

6.1 Representations and Warranties. The representations and warranties of the Purchaser contained in Section 3 shall be true and correct in all material respects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

6.2 **Performance.** All covenants, agreements and conditions contained in this Agreement to be performed by the Purchaser on or prior to the Closing shall have been performed or complied with in all material respects.

6.3 **Qualifications.** All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the Cayman Islands, the United States or of any U.S. state or of any other jurisdiction that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall be obtained and effective as of the Closing.

7. **Post-Closing Covenants.** From and after the Closing:

7.1 **Conduct of the Business of the Group Companies.** The Company undertakes to the Purchaser that, unless otherwise provided by the Board of Directors of the Company, the Company shall use commercially reasonable best efforts to, and cause WFOE and each other Group Company that is directly controlled by the Company or WFOE to use commercially reasonable best efforts to, cause each of the other Group Companies (including without limitation the Domestic Entities) to conduct the business of such Person in the ordinary course and in a prudent manner consistent with best practices.

7.2 **Notice of Breach.** The Company undertakes to promptly give notice to the Purchaser (i) of any notice or other communication from any Governmental or Regulatory Authority in connection with the transactions contemplated by this Agreement and/or any other Transaction Documents (including any requirement to make any Circular 698 filing or notification), and (ii) of any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement and/or any other Transaction Documents or purporting to dissent or commence or threaten legal proceedings in connection with the transactions contemplated by this Agreement and/or any other Transaction Documents.

7.3 **Compliance with Law and Instruments.** The Company undertakes to the Purchaser to cause WFOE and any other Group Company that is controlled by the Company or WFOE through ownership of voting securities or otherwise, and to use commercially reasonable best efforts to cause each of the other Group Companies, to comply with such Person's memorandum of association, articles of association, business licenses, or other constitutional or governance documents, each as may be amended from time to time, unless the Board of Directors of the Company directs otherwise.

7.4 **Circular 75 Registration.** The Company undertakes to use commercially reasonable best efforts to cause the registration of the Purchaser's ownership of the Shares to be registered under Circular 75 as soon as practicable after the Closing, and the satisfaction of all other requirements of Circular 75 with respect to the transactions contemplated by the Transaction Documents (including the Restructuring). Without limitation of the foregoing, such registration under Circular 75 shall include details of the Purchaser's nominees' ownership of the Domestic Entities pursuant to the consummation of the Restructuring and the shares reserved for issuance under the Amended Share Plan. The Company undertakes to use commercially reasonable best efforts to cause any Person who may in the future directly or indirectly hold any shares of the

Company and who is a PRC Resident to either (i) comply, as soon as possible, with the registration and any other requirements of Circular 75 as long as Circular 75 remains effective, or (ii) deliver to the Company and the Purchaser a written confirmation in form and substance reasonably satisfactory to the Purchaser that such Person is not subject to the registration requirements of Circular 75.

7.5 Investment Policy. The Company shall maintain any cash of the Company which is not required for daily operating needs of the Company in accordance with the then applicable investment policy of the Company, if any, approved by the Board of Directors of the Company.

7.6 Circular 75 Modification Registration. Within ten (10) days after the Closing, Zhuang Chenchao shall submit an application to file an updated registration to reflect his change of shareholding in the Company in compliance with Circular 75. Without limitation of the foregoing, such registration under Circular 75 shall include details of Zhuang Chenchao's ownership of the Domestic Entities pursuant to the consummation of the Restructuring and the shares reserved for issuance under the Amended Share Plan.

7.7 Delivery of Audited Financial Statements. The Company shall use reasonable best efforts to deliver the Audited Financial Statements to the Purchaser prior to July 31, 2011, and in any event shall cause the Audited Financial Statements to be delivered to the Purchaser prior to August 31, 2011.

7.8 Certain PRC Licenses and Registrations. The Company shall use commercially reasonable efforts to obtain each of the following as soon as practicable after the Closing:

(a) registration of the trademarks reflected in the trademark applications listed in Section 2.8(c) of the Schedule of Exceptions;

(b) a mobile value-added telecommunication business license ("MVAT License") from the PRC Ministry of Industry and Information Technology (the "MIIT") with respect to the provision by the Group Companies of free mobile-phone applications to enable customers to use the Company's website via their mobile phone, to the extent the Board determines such MVAT License is required;

(c) an Internet Publication Permit from relevant Governmental or Regulatory Authority in the PRC with respect to the tourism-related weblog published on the Company's website, to the extent the Board determines such Internet Publication Permit License is required;

(d) amendment of the business license of Domestic Sub with the relevant AIC authorities in the PRC to reflect its current registered address;

and

(e) tax registration and compliance with all other requirements of any relevant Governmental or Regulatory Authority in the PRC with respect to the Group Companies' operations in Shanghai, Chengdu and Guangzhou, to the extent the Board determines such tax registration and compliance is required.

7.9 Company Press Releases. After the Closing, prior to the Company issuing any press release or announcement, the Company shall submit its proposed final form of such press release or announcement to the Purchaser for its review and comment, and shall not issue such press release or announcement without the Purchaser's prior approval. The Purchaser agrees to review and comment on such draft press release within two Business Days.

7.10 Termination of Covenants. The covenants set forth in this Section 7 shall terminate as to the Purchaser and be of no further force or effect immediately prior to the consummation of an Exit Event (as defined in the Second Restated Articles).

#### 8. Miscellaneous.

8.1 Survival of Warranties. The covenants of the Company and the Purchaser contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing up to the until the latest date a claim may arise and/or be brought with respect to any breach of such covenant under applicable law. The representations and warranties of the Company contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing up to the date that is thirty-six (36) months following the Closing; provided that each Fundamental Representation shall survive the execution and delivery of this Agreement and the Closing up to the until the latest date a claim may arise and/or be brought with respect to any breach of such Fundamental Representation under applicable law.

8.2 Termination. This Agreement may be terminated at any time prior to the Closing: (a) by mutual written agreement of the parties hereto; (b) by either the Company or the Purchaser, if the Closing has not been consummated on or before August 31, 2011 (the "End Date"); provided that the right to terminate this Agreement pursuant to this Section 8.2(b) shall not be available to any party whose material breach of any provision of this Agreement results in the failure of the Closing to be consummated by the End Date; (c) there shall be any applicable law or requirement of any Governmental or Regulatory Authority that shall have become final and non-appealable that makes consummation of the Closing illegal or otherwise prohibited, or enjoins the consummation of the Closing; (d) by the Purchaser, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Company set forth in this Agreement shall have occurred that would cause any of the conditions set forth in Article 5 not to be satisfied and is incapable of being cured by the Company or, if capable of being cured by the Company, the Company does not cure such breach or failure within 20 days after its receipt of written notice thereof from the Purchaser; or (e) by the Company, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Purchaser set forth in this Agreement shall have occurred that would cause any of the conditions set forth in Article 6 not to be satisfied and is incapable of being cured by the Purchaser or, if capable of being cured by the Purchaser, the Purchaser does not cure such breach or failure within 20 days after its receipt of written notice thereof from the Company. If this Agreement is terminated pursuant to this Section 8.2, this Agreement shall become void and of no effect

without liability of any party to each other party hereto; *provided* that if such termination shall result from the willful or intentional (i) failure of any party to fulfill a condition to the performance of the obligations of any other party, or (ii) failure of any party to perform a covenant hereof, such party shall be fully liable for any and all liabilities and damages incurred or suffered by any other party as a result of such failure. The provisions of Section 4.5 and this Article 8 shall survive any termination hereof pursuant to this Section 8.2.

8.3 Transfer; Successors and Assigns. 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. Neither party may assign or delegate this Agreement, or any of the rights or obligations hereunder, in whole or in part, nor voluntarily or by operation of law, without the prior written consent of the other party which consent shall not unreasonably be withheld. 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.

8.4 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 Cayman Islands, without giving effect to principles of conflicts of law.

8.5 Counterparts. This Agreement may be executed in two or more counterparts, including counterparts delivered by facsimile transmission or in scanned format through e-mail, each of which shall be deemed an original and all of which together shall constitute one instrument.

8.6 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8.7 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by email or by fax (upon customary confirmation of receipt), or 48 hours after being deposited as certified or registered mail, with postage prepaid, addressed to the party to be notified at such party's address as set forth on the signature page hereto, or as subsequently modified by written notice, and (i) if to the Company, with a copy to TransAsia Lawyers, Beijing, Suite 2218 China World Tower 1, 1 Jianguomenwai Avenue, Beijing 100004, People's Republic of China and Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, 1200 Seaport Blvd., Redwood City, California 94063, USA, Attention: Robert V. Gunderson, Jr., Brooks Stough and Bennett L. Yee, Fax: 650.321.2800; E-mail: rgunderson@gunder.com, bstough@gunder.com, byee@gunder.com and (ii) if to the Purchaser, with a copy to Davis Polk & Wardwell, Hong Kong Solicitors, The Hong Kong Club Building, 3A Chater Road, Hong Kong, Attention: Howard Zhang, Kirtee Kapoor and Sam Kelso; Fax: +852 2533 3388; E-mail: howard.zhang@davispolk.com; kirtee.kapoor@davispolk.com; sam.kelso@davispolk.com.

8.8 Attorney's Fees. If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of any of the Transaction Documents, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

8.9 Amendments and Waivers. Any term of this Agreement may be amended or waived only with the written consent of the Company and the Purchaser. Any amendment or waiver effected in accordance with this Section 8.9 shall be binding upon the Purchaser and each transferee of the Shares, each future holder of all such securities, and the Company.

8.10 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (a) such provision shall be excluded from this Agreement, (b) the balance of the Agreement shall be interpreted as if such provision were so excluded and (c) the balance of the Agreement shall be enforceable in accordance with its terms.

8.11 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party under this Agreement, upon any breach or default of any other party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

8.12 Entire Agreement. This Agreement, and the documents referred to herein constitute the entire agreement between the parties hereto pertaining to the subject matter hereof, and any and all other written or oral agreements relating to the subject matter hereof existing between the parties hereto are expressly canceled.

#### 8.13 Dispute Resolution.

(a) *Negotiation Between Parties; Mediations*. The parties agree to negotiate in good faith to resolve any dispute between them regarding this Agreement. If the negotiations do not resolve the dispute to the reasonable satisfaction of both parties, then each party that is a company shall nominate one authorized officer as its representative. The parties or their representatives, as the case may be, shall, within 30 days of a written request by either party to call such a meeting, meet in person and shall attempt in good faith to resolve the dispute. If the disputes cannot be resolved by such senior managers in such meeting, the parties agree that they shall, if requested in writing by either party, meet within 30 days after such written notification for one day with an impartial mediator and consider dispute resolution alternatives



other than formal arbitration. If an alternative method of dispute resolution is not agreed upon in the one day mediation, either party may begin formal arbitration proceedings to be conducted in accordance with subsection (b) below. This procedure shall be a prerequisite before taking any additional action hereunder.

(b) *Arbitration*. In the event the parties are unable to settle a dispute between them regarding this Agreement in accordance with subsection (a) above, subject to subsection (c) below, such dispute shall be referred to and finally settled by arbitration at the Hong Kong International Arbitration Centre in accordance with the UNCITRAL Arbitration Rules (“UNCITRAL Rules”) in effect, which rules are deemed to be incorporated by reference into this subsection (b), subject to the following: (i) the arbitration tribunal shall consist of three arbitrators to be appointed according to the UNCITRAL Rules; and (ii) the language of the arbitration shall be English. The prevailing party shall be entitled to reasonable attorney’s fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

(c) *Specific Performance*. The parties hereto agree that the Purchaser would suffer irreparable damage if any provision of this Agreement were not performed in accordance with the terms hereof and that, notwithstanding anything to the contrary herein, the Purchaser shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof in any court of competent jurisdiction, in addition to any other remedy to which they are entitled at law or in equity.

8.14 Transaction Fees and Expenses. Each party shall pay all of its own costs and expenses incurred in connection with the negotiation, execution, delivery and performance of this Agreement and other Transaction Documents and the transactions contemplated hereby and thereby. In the event that this Agreement does not proceed to Closing as a result of any willful breach of this Agreement or the Transaction Framework Agreement by any of the Company or the Key Shareholders, the Company shall bear all documented third party costs and expenses incurred by or on behalf of the Purchaser in the preparation of the agreements(s) and all other documents up to a maximum aggregate amount of US\$1,500,000. In the event that this Agreement does not proceed to Closing as a result of any willful breach of this Agreement or the Transaction Framework Agreement by the Purchaser, the Purchaser shall bear all documented third party costs and expenses incurred by or on behalf of the Company in the preparation of the agreements(s) and all other documents up to a maximum aggregate amount of US\$1,500,000. In the event that the Company commits any breach of Section 4.6, the Company shall pay to the Purchaser, within three Business Days after written demand therefor, an amount equal to three times the aggregate amount of costs and expenses incurred by the Purchaser in connection with the negotiation, execution, delivery and performance of this Agreement and other Transaction Documents and the transactions contemplated hereby and thereby.

8.15 Schedule of Exceptions. The parties hereto agree that any reference in a particular Section of the Schedule of Exceptions shall be deemed to be an exception to (or, as applicable, a disclosure for purposes of) the representations and warranties (or covenants, as applicable) of the Company that are contained in the corresponding Section of this Agreement as well as to each other Section of this Agreement, to the extent the relevance of the disclosure to such Section is reasonably apparent.

[ Signature Pages Follow ]

The parties have executed this Ordinary Shares Purchase Agreement as of the date first written above.

**COMPANY:**

**QUNAR CAYMAN ISLANDS LIMITED,**  
a Cayman Islands exempted company

By: /s/ Authorized Signatory

Name:

Title:

Address: [Cayman address]

Facsimile: [                    ]

E-mail Address: [                    ]

**PURCHASER:**

**BAIDU HOLDINGS LIMITED**

By: /s/ Authorized Signatory

Name:

Title:

Date:

Address: P.O. Box 957, Offshore  
Incorporations Centre, Road Town, Tortola,  
British Virgin Islands

Facsimile: [                    ]

E-mail Address: [                    ]

EXECUTION VERSION

AGREEMENT

DATED 14 July 2011

US\$350,000,000

CREDIT FACILITY

FOR

**Baidu, Inc.**

ARRANGED BY

**GOLDMAN SACHS (ASIA) L.L.C.**

WITH

**THE BANK OF NEW YORK MELLON, HONG KONG BRANCH**

as Facility Agent

**ALLEN & OVERY**

**Allen & Overy LLP, Beijing office**

# CONTENTS

<b>Clause</b>		<b>Page</b>
1.	Interpretation	1
2.	Facility	10
3.	Purpose	11
4.	Conditions precedent and conditions subsequent	11
5.	Utilisation – Loan	11
6.	Repayment	12
7.	Prepayment and cancellation	13
8.	Interest	15
9.	Terms	16
10.	Market disruption	16
11.	Taxes	17
12.	Increased Costs	19
13.	Mitigation	20
14.	Payments	21
15.	Representations and warranties	24
16.	Information covenants	27
17.	Financial covenants	28
18.	General covenants	32
19.	Default	35
20.	The Administrative Parties	38
21.	Evidence and calculations	45
22.	Fees	46
23.	Indemnities and break costs	46
24.	Expenses	47
25.	Amendments and waivers	48
26.	Changes to the Parties	50
27.	Disclosure of information	53
28.	Set-off	54
29.	Pro Rata Sharing	54
30.	Severability	55
31.	Counterparts	55
32.	Notices	55
33.	Language	57
34.	Governing law	57
35.	Enforcement	57
<b>Schedules</b>		
1.	Original Parties	59
2.	Conditions precedent and conditions subsequent documents	60
3.	Form of Request	64
4.	Form of Transfer Certificate	65
5.	Existing Security	68
6.	Form of Compliance Certificate	69
Signatories		

**THIS AGREEMENT** is dated 14 July 2011 and is made **BETWEEN**:

- (1) **BAIDU, INC.**, a limited liability company incorporated under the laws of the Cayman Islands with registered number 96019 (the **Company**);
- (2) **GOLDMAN SACHS (ASIA) L.L.C.** as mandated lead arranger (in this capacity the **Arranger**);
- (3) **THE FINANCIAL INSTITUTION** listed in Schedule 1 (Original Parties) as original lender (the **Original Lender**); and
- (4) **THE BANK OF NEW YORK MELLON, HONG KONG BRANCH** as facility agent (in this capacity the **Facility Agent**).

**IT IS AGREED** as follows:

## **1. INTERPRETATION**

### **1.1 Definitions**

In this Agreement:

**Acquisition** means the subscription by the Company of certain newly issued shares in the Target Company, which details are to be more particularly set out in the Request.

**Acquisition Documents** means each document entered into or to be entered into by the Company with the Target Company and/or any other relevant party setting out the terms of the Acquisition.

**Administrative Party** means the Arranger or the Facility Agent.

**Affiliate** means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company.

**APLMA** means the Asia Pacific Loan Market Association.

**Availability Period** means the period from and including the date of this Agreement to and including the date falling one month after the date of this Agreement.

**Beijing Baidu Netcom** means Beijing Baidu Netcom Science Technology Co., Ltd., a limited liability company established under the laws of the PRC.

**Break Costs** means the amount (if any) which a Lender is entitled to receive under Clause 23.3 (Break Costs).

**Business Day** means a day (other than a Saturday or a Sunday) on which banks are open for general business in Hong Kong, Singapore and the PRC and, in relation to any day for the payment of US Dollars, New York City.

**Clean-Up Date** means the date falling 60 days after the completion of the Acquisition.

**Clean-Up Default** means an Event of Default referred to in Clause 19 (Default) which apply to any member of the Target Group except for an Event of Default referred to in Clause 19.2 (Non-payment), Clause 19.6 (Insolvency), Clause 19.7 (Insolvency proceedings) or Clause 19.8 (Creditors' process).

**Clean-Up Representation** means any of the representations and warranties under Clause 15 (Representations and warranties) which apply to any member of the Target Group.

**Clean-Up Undertaking** means any of the undertakings specified in Clause 18 (General covenants) which apply to any member of the Target Group.

**Commitment** means:

- (a) for the Original Lender, the amount set opposite its name in Schedule 1 (Original Parties) under the heading **Commitments** and the amount of any other Commitment it acquires; and
  - (b) for any other Lender, the amount of any Commitment it acquires,
- to the extent not cancelled, transferred or reduced under this Agreement.

**Compliance Certificate** means a certificate substantially in the form of Schedule 6 (Form of Compliance Certificate) setting out, among other things, calculations of the financial covenants.

**Confidentiality Undertaking** means a confidentiality undertaking substantially in a recommended form of the APLMA or in any other form agreed between the Company and the Facility Agent.

**Default** means:

- (a) an Event of Default; or
- (b) an event or circumstance specified in Clause 19 (Default) which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

**Disposal Threshold** means, at any time, an amount equal to 30% of the total assets of the Group as shown on the latest consolidated financial statements of the Company delivered to the Facility Agent pursuant to the provisions under this Agreement.

**Disruption Event** means:

- (a) a material disruption to the payment or communications systems or to the financial markets which are required to operate in order for payments to be made (or other transactions to be carried out) in connection with the transactions contemplated by the Finance Documents, which is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing it, or any other Party from:
  - (i) performing its payment obligations under the Finance Documents; or
  - (ii) communicating with other Parties under the Finance Documents, and which is not caused by, and is beyond the control of, the Party whose operations are disrupted.

**Dollar, US\$ or US Dollar** means the lawful currency for the time being of the United States of America.

**Event of Default** means an event or circumstance specified as such in Clause 19 (Default).

**Facility** means the credit facility made available under this Agreement.

**Facility Agent Fee Letter** means a letter entered into by reference to this Agreement between the Facility Agent and the Company setting out the amount of agency fee referred to in Clause 22 (Fees).

**Facility Office** means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
  - (b) by not less than five Business Days' notice,
- as the office(s) through which it will perform its obligations under this Agreement.

**Final Maturity Date** means the date falling on the second anniversary of the date of this Agreement.

**Finance Document** means:

- (a) this Agreement;
- (b) the Facility Agent Fee Letter;
- (c) a Transfer Certificate; or
- (d) any other document designated as such by the Facility Agent and the Company.

**Finance Party** means a Lender or an Administrative Party.

**Financial Indebtedness** means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit (including any dematerialised equivalent);
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any agreement treated as a finance or capital lease in accordance with GAAP;
- (f) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (g) the acquisition cost of any asset or service to the extent payable before or after its acquisition or possession by the party liable where the advance or deferred payment:
  - (i) is arranged primarily as a method of raising finance or of financing the acquisition of that asset or service or the construction of that asset or service; or

- (ii) involves a period of more than six months before or after the date of acquisition or supply;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark-to-market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in the above paragraphs, in each case, for the avoidance of doubt, excluding any indebtedness arising in the ordinary course of trading.

**GAAP** means generally accepted accounting principles in the United States of America.

**Group** means the Company and its Subsidiaries.

**HKD** mean the lawful currency of Hong Kong.

**Holding Company** of any other person, means a person in respect of which that other person is a Subsidiary.

**Increased Cost** means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return from a Facility or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

**Lender** means:

- (a) the Original Lender; or
- (b) any person which becomes a Party in accordance with Clause 26.2 (Assignments and transfers by Lenders).

**LIBOR** means for a Term of the Loan or overdue amount:

- (a) the applicable Screen Rate; or



- (b) if no Screen Rate is available for the relevant currency or Term of the Loan or overdue amount, the arithmetic mean (rounded upward to four decimal places) of the rates, as supplied to the Facility Agent at its request, quoted by the Reference Banks to leading banks in the London interbank market,

as at 11.00 a.m. (London time) on the Rate Fixing Day for the offering of deposits in the currency of the Loan or overdue amount for a period comparable to that Term.

**Listing Disposal** means any disposal of assets made by one member of the Group to another member of the Group (in each case excluding Beijing Baidu Netcom) which is made in contemplation of or in connection with the listing or proposed listing of any shares in the Receiving Member or any member of the Group which beneficially owns (whether directly or indirectly) all or any part of the shares in the Receiving Member on any stock exchange.

**Listing Event** means the listing of any shares in the Receiving Member or any member of the Group which beneficially owns (whether directly or indirectly) all or any part of the shares in the Receiving Member on any stock exchange.

**Loan** means, unless otherwise stated in this Agreement, the principal amount of the borrowing under this Agreement or the principal amount outstanding of that borrowing.

**London Business Day** means a day (other than a Saturday or a Sunday) on which banks are open for general business in London.

**Majority Lenders** means, at any time, Lenders:

- (a) whose share in the outstanding Loan and whose undrawn Commitments then aggregate  $66\frac{2}{3}$  per cent. or more of the aggregate of all the outstanding Loan and the undrawn Commitments of all the Lenders;
- (b) if there is no Loan then outstanding, whose undrawn Commitments then aggregate  $66\frac{2}{3}$  per cent. or more of the Total Commitments; or
- (c) if there is no Loan then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated  $66\frac{2}{3}$  per cent. or more of the Total Commitments immediately before the reduction.

**Mandatory Prepayment Request** has the meaning given to it in Clause 7.2(b) (Mandatory prepayment – disposals).

**Margin** means 0.65 per cent. per annum.

**Material Adverse Effect** means a material adverse effect on:

- (a) the business or financial condition of the Group as a whole;
- (b) the ability of the Company to perform its payment obligation or any other material obligation under any Finance Document (which, for the avoidance of doubt, includes but is not limited to its obligation under Clause 17 (Financial covenants) below); or
- (c) the validity or enforceability of any Finance Document.

**NASDAQ** means the NASDAQ Stock Market in the United States.

**Original Financial Statements** means the audited consolidated financial statements of the Company for the year ended 31 December 2010.

**PRC** means the People's Republic of China, but excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

**Party** means a party to this Agreement.

**Permitted Transaction** means:

- (a) an intra-Group re-organisation on a solvent basis and (if the Company is involved in such re-organisation) where the Company remains a surviving entity; or
- (b) any other transactions agreed by the Majority Lenders.

**Pro Rata Share** means:

- (a) for the purpose of determining a Lender's share in a utilisation of the Facility, the proportion which its Commitment bears to the Total Commitments; and
- (b) for any other purpose on a particular date:
  - (i) the proportion which a Lender's share of the Loan (if any) bears to the Loan;
  - (ii) if there is no Loan outstanding on that date, the proportion which its Commitment bears to the Total Commitments on that date; or
  - (iii) if the Total Commitments have been cancelled, the proportion which its Commitment bore to the Total Commitments immediately before being cancelled.

**Quasi-Security Interest** has the meaning given to it in Clause 18.5(a) (Negative pledge).

**Rate Fixing Day** means the second London Business Day before the first day of a Term or such other day as the Facility Agent (acting on the instructions of the Majority Lenders) determines is generally treated as the rate fixing day by market practice in the relevant interbank market.

**Receiving Member** means, in respect of any Listing Disposal, any member of the Group which is the purchaser of the relevant assets.

**Reference Banks** means the Facility Agent, Australia and New Zealand Banking Group Limited, Sumitomo Mitsui Banking Corporation and any other bank or financial institution appointed as such by the Facility Agent under this Agreement in consultation with the Company.

**Repeating Representations** means the representations and warranties set out in Clauses 15.2 (Status) to 15.11 (OFAC) (inclusive).

**Request** means a request for the Loan, substantially in the form of Schedule 3 (Form of Request).

**Restricted Group** means the Company and its Restricted Subsidiaries.

**Restricted Subsidiary** means, at any time, a Subsidiary of the Company if the gross Tangible Assets or turnover of that Subsidiary then equal to or exceed 10 per cent. of the gross Tangible Assets or turnover of the Group provided that in no circumstances shall Beijing Baidu Netcom be or become a Restricted Subsidiary.

For this purpose:

- (a) subject to paragraph (b) below:
  - (i) the contribution of a Subsidiary of the Company will be determined from its financial statements which were consolidated into the latest audited consolidated financial statements of the Company; and
  - (ii) the financial condition of the Group will be determined from the latest audited consolidated financial statements of the Company;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited consolidated financial statements of the Company were prepared:
  - (i) the contribution of the Subsidiary will be determined from its latest financial statements; and
  - (ii) the financial condition of the Group will be determined from the latest audited consolidated financial statements of the Company but adjusted to take into account any subsequent acquisition or disposal of a business or a company (including that Subsidiary);
- (c) the contribution of a Subsidiary will, if it has Subsidiaries, be determined from its consolidated financial statements;
- (d) if a Restricted Subsidiary disposes of all or substantially all of its assets to another member of the Group, it will immediately cease to be a Restricted Subsidiary and the other member of the Group (if it is not the Company or already a Restricted Subsidiary) will immediately become a Restricted Subsidiary;
- (e) a Subsidiary of the Company (if it is not already a Restricted Subsidiary) will become a Restricted Subsidiary on completion of any other intra-Group transfer or reorganisation if it would have been a Restricted Subsidiary had the intra-Group transfer or reorganisation occurred on the date of the latest audited consolidated financial statements of the Company; and
- (f) except as specifically mentioned in paragraph (d) above, a member of the Group will remain a Restricted Subsidiary until the next audited consolidated financial statements of the Company show otherwise under paragraph (a) above.

If there is a dispute as to whether or not a member of the Group is a Restricted Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

**RMB** means the lawful currency for the timing being of the PRC.

**Screen Rate** means the British Bankers Association Interest Settlement Rate for the relevant currency and Term, displayed on the appropriate page of the Reuters screen selected by the Facility Agent. If the relevant page is replaced or the service ceases to be available, the Facility Agent (after consultation with the Company and the Lenders) may specify another page or service displaying the appropriate rate.

**Security Interest** means any mortgage, pledge, lien, charge or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

**Subsidiary** means an entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the voting capital or similar right of ownership and **control** for this purpose means the power to direct the management and the policies of the entity whether through the ownership of voting capital, by contract or otherwise.

**Tangible Assets** of a person means its total assets, less

- (a) its net intangible assets; and
- (b) goodwill.

**Target Company** means Qunar Cayman Islands Limited.

**Target Group** means the company the subject of the Acquisition and its Subsidiaries.

**Tax** means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest).

**Tax Deduction** means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

**Tax Payment** means a payment made by the Company to a Finance Party in any way relating to a Tax Deduction or under any indemnity given by the Company in respect of Tax under any Finance Document.

**Term** means each period determined under this Agreement by reference to which interest on the Loan or an overdue amount is calculated.

**Total Commitments** means the aggregate of the Commitments of all the Lenders.

**Transfer Certificate** means a certificate, substantially in the form of Schedule 4 (Form of Transfer Certificate), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

**Utilisation Date** means the date on which the Facility is utilised.

## 1.2

### Construction

- (a) In this Agreement, unless the contrary intention appears, a reference to:
  - (i) an amendment includes a supplement, novation, extension (whether of maturity or otherwise), restatement, re-enactment or replacement (however fundamental and whether or not more onerous) and amended will be construed accordingly;
  - (ii) assets includes present and future properties, revenues and rights of every description;

- (iii) an authorisation includes an authorisation, consent, approval, resolution, permit, licence, exemption, filing, registration or notarisation;
  - (iv) disposal means a sale, transfer, assignment, grant, lease, licence, declaration of trust or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly (for the avoidance of doubt, the meaning of disposal does not include issue of new shares by a member of the Group);
  - (v) indebtedness includes any obligation (whether incurred as principal or as surety and whether present or future, actual or contingent) for the payment or repayment of money;
  - (vi) customer due diligence requirements are to the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
  - (vii) a person includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, fund, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
  - (viii) a regulation includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
  - (ix) a currency is a reference to the lawful currency for the time being of the relevant country;
  - (x) a Default or an Event of Default being outstanding means that it has not been remedied or waived;
  - (xi) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
  - (xii) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
  - (xiii) a Party or any other person includes its successors in title, permitted assigns and permitted transferees;
  - (xiv) a Finance Document or other document or security includes (without prejudice to any prohibition on amendments) any amendment to that Finance Document or other document or security, including any change in the purpose of, any extension for or any increase in the amount of a facility or any additional facility; and
  - (xv) a time of day is a reference to Hong Kong time.
- (b) Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (i) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);

- (ii) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
  - (iii) notwithstanding subparagraph (i) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- (c) Unless the contrary intention appears:
- (i) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
  - (ii) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
  - (iii) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is, may be or is capable of becoming outstanding under the Finance Documents.
- (d) The headings in this Agreement do not affect its interpretation.

## **2. FACILITY**

### **2.1 Facility**

Subject to the terms of this Agreement, the Lenders make available to the Company a term loan facility in an amount equal to the Total Commitments in one lump sum.

### **2.2 Nature of a Finance Party's rights and obligations**

Unless all the Finance Parties agree otherwise:

- (a) the obligations of a Finance Party under the Finance Documents are several;
- (b) failure by a Finance Party to perform its obligations does not affect the obligations of any other person under the Finance Documents;
- (c) no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- (d) the rights of a Finance Party under the Finance Documents are separate and independent rights;
- (e) a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights; and
- (f) a debt arising under the Finance Documents to a Finance Party is a separate and independent debt.

### **3. PURPOSE**

#### **3.1 Loan**

The Loan may only be used for:

- (a) funding the Acquisition;
- (b) payment of any fees, costs and expenses incurred by or on behalf of the Company in connection with the Acquisition or any Finance Document; and
- (c) general corporate purposes of the Group.

#### **3.2 No obligation to monitor**

No Finance Party is bound to monitor or verify the utilisation of the Facility.

### **4. CONDITIONS PRECEDENT AND CONDITIONS SUBSEQUENT**

#### **4.1 Conditions precedent documents**

- (a) Unless otherwise agreed by the Majority Lenders, a Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, acting on the instructions of the Majority Lenders, waived receipt of) all of the documents and evidence set out in Part 1A (Conditions precedent) of Schedule 2 (Conditions precedent and conditions subsequent documents) in form and substance satisfactory to the Facility Agent (acting on the instructions of the Majority Lenders acting reasonably).
- (b) The Facility Agent must give this notification to the Company and the Lenders promptly upon being so satisfied.

#### **4.2 Further conditions precedent**

The obligations of each Lender to participate in the Loan are subject to the further conditions precedent that on both the date of the Request and the Utilisation Date for the Loan:

- (a) the Repeating Representations are correct in all material respects; and
- (b) no Default is outstanding or would result from the Loan.

#### **4.3 Conditions subsequent**

The Company shall ensure that all the documents and other evidence set out in Part 1B (Conditions subsequent) of Schedule 2 (Conditions precedent and conditions subsequent documents) are delivered to the Facility Agent in form and substance satisfactory to the Facility Agent (acting on the instructions of the Majority Lenders acting reasonably) within the period prescribed therein.

### **5. UTILISATION – LOAN**

#### **5.1 Giving of Requests**

- (a) The Company may borrow the Loan by giving to the Facility Agent a duly completed Request.

(b) Unless the Facility Agent otherwise agrees, the latest time for receipt by the Facility Agent of a duly completed Request is 11.00 a.m. one Business Day before the Rate Fixing Day for the proposed borrowing.

(c) Only one Request may be given under this Agreement. Only one Loan may be requested in the Request. The Request, once given, is irrevocable.

## **5.2 Completion of Requests**

A Request for the Loan will not be regarded as having been duly completed unless:

(a) the Utilisation Date is a Business Day falling within the Availability Period;

(b) the amount of the Loan requested is:

(i) the amount of the Total Commitments; or

(ii) such other amount as the Facility Agent may agree;

(c) the proposed Term complies with this Agreement;

(d) the currency specified in the Request is US Dollars; and

(e) it identifies the shares in the Target Company which are the subject of the Acquisition and the subscription price payable by the Company for the Acquisition.

## **5.3 Advance of Loan**

(a) The Facility Agent must notify as soon as is reasonably practicable each Lender of the details of the requested Loan and the amount of its share in the Loan.

(b) The amount of each Lender's share of the requested Loan will be its Pro Rata Share on the proposed Utilisation Date.

(c) No Lender is obliged to participate in the Loan if, as a result:

(i) its share in the Loan would exceed its Commitment; or

(ii) the Loan would exceed the Total Commitments.

(d) If the conditions set out in this Agreement have been met, each Lender must make its share in the requested Loan available on the Utilisation Date. Subject to paragraph (e) below, such share in the requested Loan must be made available by each Lender to the Facility Agent for the Company through its Facility Office.

(e) If there is only one Lender on the date of the Request and the Utilisation Date, that Lender may, by giving the Facility Agent and the Company a written notice prior to the Utilisation Date, elect to make the requested Loan available to the Company directly from that Lender's Facility Office on the Utilisation Date.

## **6. REPAYMENT**

The Company must repay the Loan in full on the Final Maturity Date.



7. **PREPAYMENT AND CANCELLATION**

7.1 **Mandatory prepayment – illegality**

- (a) A Lender must notify the Facility Agent and the Company promptly if it becomes aware that it is unlawful in any applicable jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in the Loan.
- (b) After notification under paragraph (a) above the Facility Agent must notify the Company promptly that:
- (i) the Company must repay or prepay the share of that Lender in the Loan on the date specified in paragraph (c) below; and
  - (ii) the Commitment of that Lender will be immediately cancelled.
- (c) The date for repayment or prepayment of a Lender’s share in the Loan will be:
- (i) the last day of the current Term of the Loan; or
  - (ii) if earlier, the date specified by the Lender in the notification under paragraph (a) above and which must not be earlier than the last day of any applicable grace period allowed by law.

7.2 **Mandatory prepayment – disposals**

- (a) In this Subclause:

**net proceeds** means any amount received by a member of the Group other than Beijing Baidu Netcom as consideration for a relevant disposal to any person pursuant to any Listing Disposal or any person which is not a member of the Group (in the case of any disposal which is not a Listing Disposal), in each case including the amount of any intercompany loan repaid or prepaid to continuing members of the Group, less the transaction costs;

**relevant disposal** means a disposal of any asset or business (whether by way of a share or asset sale) of any member of the Group (other than Beijing Baidu Netcom) which is not permitted under sub-paragraphs (b)(ii) to (b)(vi) of Clause 18.6 (Disposals). For the avoidance of doubt, an issue of new shares by any member of the Group (including, without limitation, by the Company) is not a “relevant disposal”; and

**transaction costs** means, in respect of any relevant disposal, all Taxes and reasonable costs and expenses incurred by any member of the Group in connection with the relevant disposal.

- (b) Subject to paragraph (c) below, if a relevant disposal is made where the aggregate of:

- (i) the consideration receivable of any previous relevant disposals; and
- (ii) the consideration receivable of that relevant disposal,

would exceed the Disposal Threshold (such an excess amount being the **Excess Amount**),

then the Company must (x) promptly notify the Facility Agent of such relevant disposal and (if such relevant disposal is a Listing Disposal) the occurrence of any Listing Event and, (y) if within 21 days of such notification the Facility Agent (acting on the instructions of all Lenders) delivers a written request to the Company (each a **Mandatory Prepayment Request**), procure that:

- (A) an amount equal to the Excess Amount less the transaction costs for that relevant disposal is applied towards prepaying the Loan; and

- (B) an amount equal to the net proceeds of any subsequent relevant disposal (the **Subsequent Disposal**) and any Listing Disposal which Listing Event occurs after the Disposal Threshold is exceeded is applied towards prepaying the Loan.
  - (c) For the purpose of this Clause and Clause 18.6(b) (Disposals), the consideration receivable of any relevant disposal which is a Listing Disposal shall only be included in the Disposal Threshold upon the occurrence of a Listing Event.
  - (d) The Company must promptly notify the Facility Agent of any Subsequent Disposal.
  - (e) Any prepayment under this Subclause must be made within 45 days of the date of the relevant Mandatory Prepayment Request.
- 7.3 Voluntary prepayment**
- (a) The Company may, by giving not less than three Business Days' prior notice to the Facility Agent, prepay the Loan in whole or in part on or at any time after (i) the first anniversary of the Utilisation Date; or (ii) the date on which a Market Disruption Event occurs.
  - (b) A prepayment of part of the Loan must be in a minimum amount of US\$50,000,000 and an integral multiple of US\$10,000,000.
- 7.4 Automatic cancellation**
- The Commitment of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.
- 7.5 Right of repayment and cancellation of a single Lender**
- (a) If the Company is, or will be, required to pay to a Lender:
    - (i) a Tax Payment; or
    - (ii) an Increased Cost,the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
  - (b) After notification under paragraph (a) above:
    - (i) the Company must repay or prepay that Lender's share in the Loan on the date specified in paragraph (c) below; and
    - (ii) the Commitment of that Lender will be immediately cancelled.
  - (c) The date for repayment or prepayment of a Lender's share in the Loan will be:
    - (i) the last day of the current Term for the Loan ; or

(ii) if earlier, the date specified by the Company in its notification.

#### **7.6 Partial prepayment of the Loan**

No amount of the Loan prepaid under this Agreement may subsequently be re-borrowed.

#### **7.7 Miscellaneous provisions**

- (a) Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected portion of the Loan and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- (b) All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- (c) The Majority Lenders may agree a shorter notice period for a voluntary prepayment.
- (d) No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- (e) No amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

### **8. INTEREST**

#### **8.1 Calculation of interest**

The rate of interest on the Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- (a) Margin; and
- (b) LIBOR.

#### **8.2 Payment of interest**

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on the Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

#### **8.3 Interest on overdue amounts**

- (a) If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- (b) Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted the Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting on the instructions of the Majority Lenders):
  - (i) select successive Terms of any duration of up to three months; and

- (ii) determine the appropriate Rate Fixing Day for that Term.
- (c) Notwithstanding paragraph (b) above, if the overdue amount is a principal amount of the Loan and becomes due and payable before the last day of its current Term, then:
  - (i) the first Term for that overdue amount will be the unexpired portion of that Term; and
  - (ii) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on the Loan.After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with paragraph (b) above.
- (d) Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

#### **8.4 Notification of rates of interest**

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

### **9. TERMS**

#### **9.1 Selection**

- (a) The Loan has successive Terms. Each Term for the Loan will start on the Utilisation Date or on the expiry of its preceding Term.
- (b) Subject to the provisions of this Clause 9, each Term for the Loan will be three months or any other period agreed by the Company and all the Lenders.

#### **9.2 No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

#### **9.3 Other adjustments**

The Facility Agent (acting on the instructions of the Majority Lenders) and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of the Loan, but no Term in excess of six months may be agreed by the Facility Agent without the prior consent of all the Lenders.

#### **9.4 Notification**

The Facility Agent must notify each relevant Party of the duration of each Term promptly after ascertaining its duration.

### **10. MARKET DISRUPTION**

#### **10.1 Failure of a Reference Bank to supply a rate**

If LIBOR is to be calculated by reference to the Reference Banks but a Reference Bank does not supply a rate by 12.00 noon (London time) on a Rate Fixing Day, the applicable LIBOR will, subject as provided below, be calculated on the basis of the rates of the remaining Reference Banks.

## 10.2 Market disruption

- (a) In this Clause, each of the following events is a market disruption event:
- (i) LIBOR is to be calculated by reference to the Reference Banks but no, or (where there is more than one Reference Bank) only one, Reference Bank supplies a rate by 12.00 noon (London time) on the Rate Fixing Day; or
  - (ii) the Facility Agent receives by close of business on the Rate Fixing Day notification from Lenders whose shares in the relevant Loan exceed 50 per cent. of the Loan that the cost to them of obtaining matching deposits in the relevant interbank market is in excess of LIBOR for the relevant Term.
- (b) The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.
- (c) After notification under paragraph (b) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:
- (i) Margin;
  - (ii) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in the Loan from whatever source it may reasonably select.

## 10.3 Alternative basis of interest or funding

- (a) If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan.
- (b) Any alternative basis agreed will be, with the prior consent of all the Lenders and the Company, binding on all the Parties.

## 11. TAXES

### 11.1 General

In this Clause 11:

**Tax Credit** means a credit against any Tax or any relief or remission for Tax (or its repayment).

**VAT** means consumption tax, sales tax, value added tax or any other Tax of a similar nature which is imposed in any jurisdiction from time to time.

### 11.2 Tax gross-up

- (a) The Company must make all payments to be made by it under the Finance Documents without any Tax Deduction, unless a Tax Deduction is required by law.

- (b) If the Company or a Lender is aware that the Company must make a Tax Deduction (or that there is a change in the rate or the basis of a Tax Deduction), it must promptly notify the Facility Agent. The Facility Agent must then promptly notify the affected Parties.
- (c) If a Tax Deduction is required by law to be made by the Company or the Facility Agent, the amount of the payment due from the Company will be increased to an amount which (after making the Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) If the Company is required to make a Tax Deduction, it must make the minimum Tax Deduction allowed by law and must make any payment required in connection with that Tax Deduction within the time allowed by law.
- (e) Within 30 days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, the Company must deliver to the Facility Agent for the relevant Finance Party evidence satisfactory to that Finance Party (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

### **11.3 Tax indemnity**

- (a) Except as provided below, the Company must indemnify a Finance Party against any loss or liability or cost which that Finance Party determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- (b) Paragraph (a) above does not apply with respect to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:
  - (i) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
  - (ii) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- (c) Paragraph (a) above does not apply to the extent a loss, liability or cost:
  - (i) is compensated for by an increased payment under Clause 11.2 (Tax gross-up); or
  - (ii) would have been compensated for by an increased payment under Clause 11.2 (Tax gross-up) but was not compensated solely because one of the exclusions in that Clause applied.
- (d) A Finance Party making, or intending to make, a claim under paragraph (a) above must promptly notify the Company of the event which will give, or has given, rise to the claim.
- (e) A Finance Party must, on receiving a payment from the Company under this Clause notify the Facility Agent.

#### **11.4 Tax Credit**

If the Company makes a Tax Payment and the relevant Finance Party determines that:

- (a) a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part, or to that Tax Payment; and
- (b) it has obtained, used and retained that Tax Credit,

the Finance Party must pay an amount to the Company which that Finance Party determines will leave it (after that payment) in the same after-Tax position as it would have been if the Tax Payment had not been required to be made by the Company.

#### **11.5 Stamp taxes**

The Company must pay and indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, stamp duty land tax, registration or other similar Tax payable in connection with the entry into, performance or enforcement of any Finance Document, except for any such Tax payable in connection with the entry into of a Transfer Certificate.

#### **11.6 Value added taxes**

- (a) All amounts set out, or expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is or becomes chargeable on that supply, and accordingly, subject to paragraph (b) below, if VAT is chargeable on any supply made by any Finance Party to the Company under a Finance Document and the Finance Party is required to account for the VAT, the Company must pay to the Finance Party (in addition to and at the same time as paying the consideration for such supply) an amount equal to the amount of the VAT and the Finance Party shall promptly provide an appropriate VAT invoice to the Company.
- (b) Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any costs or expenses, that Party must also at the same time reimburse and indemnify (as the case may be) that Finance Party against all VAT incurred by the Finance Party in respect of those costs or expenses but only to the extent that the Finance Party (acting reasonably) determines that it is not entitled to credit or repayment from the relevant tax authority in respect of the VAT.
- (c) If VAT is chargeable on any supply made by a Finance Party to any Party under a Finance Document and if reasonably requested by the Finance Party, that Party must promptly give the Finance Party details of its VAT registration number (if applicable) and any other information as is reasonably requested in connection with the Finance Party's reporting requirements for the supply.

### **12. INCREASED COSTS**

#### **12.1 Increased Costs**

Except as provided below in this Clause 12, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- (a) the introduction of, or any change in, or any change in the interpretation, administration or application of, any law or regulation; or

- (b) compliance with any law or regulation made after the date of this Agreement.

## **12.2 Exceptions**

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- (a) compensated for under another Clause or would have been but for an exception to that Clause;
- (b) attributable to the implementation of, or compliance with the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee on Banking Supervision in June 2004 (Basel II) or any similar or related law or regulation which implements Basel II; or
- (c) attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation.

## **12.3 Claims**

- (a) A Finance Party intending to make a claim for an Increased Cost must notify the Facility Agent of the circumstances giving rise to and the amount of the claim, following which the Facility Agent will promptly notify the Company.
- (b) Each Finance Party must, as soon as practicable after a demand by the Facility Agent, provide a certificate confirming the amount of its Increased Cost.

## **13. MITIGATION**

### **13.1 Mitigation**

- (a) Each Finance Party must, in consultation with the Company, take all reasonable steps to mitigate any circumstances which arise and which result or would result in:
  - (i) any Tax Payment or Increased Cost being payable to that Finance Party;
  - (ii) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality; or
  - (iii) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank, including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of the Company under the Finance Documents.
- (c) The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of any step taken by it under this Subclause.



- (d) A Finance Party is not obliged to take any step under this Subclause if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

### **13.2 Conduct of business by a Finance Party**

No term of any Finance Document will:

- (a) interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it in respect of Tax or the extent, order and manner of any claim; or
- (c) oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

## **14. PAYMENTS**

### **14.1 Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents must be made to the Facility Agent to its account at such office or bank in Hong Kong, as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

### **14.2 Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times in immediately available funds

(a) via USD RTGS value on the due date or (b) (if not made via USD RTGS) one Business Day prior to the due date or in such funds as the Facility Agent may otherwise specify to the Party concerned as being customary at the time for the settlement of transactions in that currency in the place for payment.

### **14.3 Distribution**

- (a) Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank in Hong Kong, as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.
- (b) The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.
- (c) Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

**14.4 Currency**

- (a) Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Subclause.
- (b) Amounts payable in respect of Taxes, fees, costs and expenses are payable in the currency in which they are incurred.
- (c) Each other amount payable under the Finance Documents is payable in US Dollars.

**14.5 No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be calculated and made without (and free and clear of any deduction for) set-off or counterclaim.

**14.6 Business Days**

- (a) If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines (acting on the instructions of the Majority Lenders) is market practice.
- (b) During any extension of the due date for payment of any principal under this Agreement interest is payable on that principal at the rate payable on the original due date.

**14.7 Partial payments**

- (a) If the Facility Agent receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Facility Agent must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
  - (i) first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
  - (ii) secondly, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
  - (iii) thirdly, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
  - (iv) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (b) The Facility Agent must, if so directed by all Lenders, vary the order set out in sub-paragraphs (a)(ii) to (iv) above.
- (c) This Subclause will override any appropriation made by the Company.

#### **14.8 Disruption to payment systems**

- (a) If the Facility Agent is instructed by the Majority Lenders that a Disruption Event has occurred or the Company notifies the Facility Agent that a Disruption Event has occurred, the Facility Agent:
- (i) may, and must if requested by the Company, enter into discussions with the Company for a period of not more than five days with a view to agreeing any changes to the operation or administration of the Facility (changes) as the Facility Agent may decide is necessary;
  - (ii) is not obliged to enter into discussions with the Company in relation to any changes if, in its opinion, it is not practicable so to do and has no obligation to agree to any changes;
  - (iii) may consult with the Finance Parties in relation to any changes but is not obliged so to do if, in its opinion, it is not practicable in the circumstances; and
  - (iv) must notify the Finance Parties of any changes agreed under this Subclause.
- (b) Any agreement between the Facility Agent and the Company will be, (whether or not it is finally determined that a Disruption Event has occurred), binding on the Parties notwithstanding the provisions of Clause 25 (Amendments and waivers).
- (c) The Facility Agent accepts the discretions given to it by this Subclause only on the basis that it will not be liable (either in contract or tort) for any damages, costs or losses of any kind which any Party may incur or sustain as a result of the Facility Agent taking or not taking any action under this Subclause.
- (d) If the Facility Agent makes any payment to any person in respect of a liability incurred as a result of taking or not taking any action under this Subclause, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of such payment made or of any loss or liability incurred by the Facility Agent under this Subclause (unless the Facility Agent has been reimbursed by the Company under a Finance Document).
- (e) Paragraph (d) above applies notwithstanding:
- (i) any other term of any Finance Document (including any term in Clause 20 (The Administrative Parties)); and
  - (ii) irrespective of whether the payment was made as a result of actual or alleged negligence or gross negligence or wilful misconduct of the Facility Agent but so that the Facility Agent has no indemnity for claims against it which arise as a result of fraud by the Facility Agent.

#### **14.9 Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

**15. REPRESENTATIONS AND WARRANTIES**

**15.1 Representations and warranties**

The representations and warranties set out in this Clause 15 are made by the Company to each Finance Party.

**15.2 Status**

- (a) It is a limited liability company, duly incorporated and validly existing under the laws of the Cayman Islands.
- (b) It and each of its Subsidiaries has the power to own its assets and carry on its business as it is being conducted.
- (c) It is acting as principal on its account and not as agent or trustee in any capacity on behalf of any party in relation to this Agreement.

**15.3 Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

**15.4 Legal validity**

- (a) Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.
- (b) Each Finance Document to which it is a party is in the proper form for its enforcement in the jurisdiction of its incorporation.

**15.5 Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents or the Acquisition Documents do not conflict with:

- (a) any law or regulation applicable to it;
- (b) its or any of its Subsidiaries' constitutional documents; or
- (c) (in the case of the Finance Documents) any document which is binding upon it or any of its Subsidiaries or any of its or its Subsidiaries' assets or (in the case of the Acquisition Documents) any document which is binding upon it or any of its Subsidiaries or any of its or its Subsidiaries' assets in any material respect.

**15.6 No default**

- (a) No Event of Default is outstanding or will result from the entry into of, or the performance of any transaction contemplated by, any Finance Document; and
- (b) No other event or circumstance is outstanding which constitutes a default under any document which is binding on it or any of its Subsidiaries or any of its or its Subsidiaries' assets to an extent or in a manner which has or is reasonably likely to have a Material Adverse Effect.

#### 15.7 Authorisations

All authorisations required to enable it to enter into and perform its obligations under, and for the validity and enforceability of, and the transactions contemplated by, the Finance Documents or the Acquisition Documents have been, or will, by the time required, have been obtained or effected (as appropriate) and are, or will, by the time required be, in full force and effect.

#### 15.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

- (a) have been prepared in accordance with GAAP, consistently applied; and
- (b) give a true and fair view of its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements.

#### 15.9 Litigation

No litigation, arbitration or administrative proceedings against any member of the Group has been started or, to its knowledge, threatened, which have or, if adversely determined, are reasonably likely to have a Material Adverse Effect.

#### 15.10 Issued share capital

It has a paid up share capital of not less than HKD1,000,000 or an equivalent amount in any other approved currency.

For the purpose of this Subclause, **approved currency** means a currency which is freely convertible into Hong Kong dollars or a currency approved in writing by the Registrar of Money Lenders appointed under section 4 of the Money Lenders Ordinance (Cap. 163, Laws of Hong Kong) (the **MLO**) for the purpose of paragraph 12 of Part 2 of Schedule 1 to the MLO.

#### 15.11 OFAC

No member of the Group will:

- (a) use (or otherwise make available) the proceeds of the Loan for the purpose of financing directly or indirectly the activities of any person or entity which is currently listed on the Specially Designated Nationals (the **SDN**) List or in a country which is subject to U.S. economic sanctions administered by the U.S. Treasury Department Office of Foreign Assets Control (the **OFAC Sanctions**) to the extent such financing would be prohibited by the OFAC Sanctions if conducted by a person in the United States of America; or
- (b) contribute or otherwise make available the proceeds of the Loan to any person or entity if the relevant member of the Group has actual knowledge that such party intends to use such proceeds for the purpose of financing the activities of any person or entity which is on the SDN List or in a country which is subject to the OFAC Sanctions, to the extent such financing would be prohibited by the OFAC Sanctions if conducted by a person in the United States of America.

**15.12 No material adverse change**

There has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

**15.13 Information**

All written, factual information supplied by the Company or on its behalf to any Finance Party in connection with the Finance Documents (including any information supplied prior to the date of this Agreement) is true and accurate in all material respects as at its date or (if appropriate) as at the date (if any) at which it is stated to be given and the Company has not omitted to supply any information which, if disclosed, might make the information supplied untrue or misleading in any material respect.

**15.14 Restricted Group**

The following is a complete list of all the members of the Restricted Group as of the date of this Agreement:

- (a) Baidu.com Times Technology (Beijing) Co., Ltd.;
- (b) Baidu Online Network Technology (Beijing) Co., Ltd.; and
- (c) Baidu (China) Co., Ltd.

**15.15 Stamp duties**

Except for any registration fees, stamp duty or other similar Tax or charge referred to in any legal opinion required under this Agreement (which will be paid within any applicable time limit), as at the date of this Agreement, no stamp or registration duty or similar Tax or charge is payable in its jurisdiction of incorporation in respect of any Finance Document.

**15.16 Security Interest**

As at the date of this Agreement, other than any Security Interest and Quasi-Security Interest disclosed in Schedule 5 (Existing Security) or otherwise permitted under Clause 18.5(d) (Negative Pledge), no Security Interest or Quasi-Security Interest exists over the assets of any member of the Restricted Group.

**15.17 Times for making representations and warranties**

- (a) The representations and warranties set out in this Clause are made by the Company on the date of this Agreement.
- (b) Each Repeating Representation is deemed to be repeated by the Company on the date of the Request and the first day of each Term.
- (c) When a representation and warranty is repeated, it is applied to the circumstances existing at the time of repetition.

## **16. INFORMATION COVENANTS**

### **16.1 Financial statements**

- (a) The Company must supply to the Facility Agent in sufficient copies for all the Lenders:
  - (i) its audited consolidated financial statements for each of its financial years; and
  - (ii) its interim financial statements for the first half-year of each of its financial years.
- (b) All financial statements must be supplied as soon as they are available and:
  - (i) in the case of the Company's audited consolidated financial statements, within 180 days; and
  - (ii) in the case of the Company's interim financial statements, within 120 days, of the end of the relevant financial period.

### **16.2 Form of financial statements**

- (a) The Company must ensure that each set of financial statements supplied under this Agreement gives (if audited) a true and fair view of, or (if unaudited) fairly represents, its financial condition (consolidated or otherwise) as at the date to which those financial statements were drawn up.
- (b) The Company must notify the Facility Agent of any change to the manner in which its audited consolidated financial statements are prepared.
- (c) If requested by the Facility Agent, the Company must supply to the Facility Agent:
  - (i) a full description of any change notified under paragraph (b) above; and
  - (ii) sufficient information to enable the Finance Parties to make a proper comparison between the financial position shown by the set of financial statements prepared on the changed basis and its most recent audited consolidated financial statements delivered to the Facility Agent under this Agreement.

### **16.3 Compliance Certificate**

- (a) The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.
- (b) A Compliance Certificate must be signed by two authorised signatories of the Company.

### **16.4 Information – miscellaneous**

- (a) The Company must, subject to paragraph (b) below, supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:
  - (i) copies of all documents despatched by the Company to its shareholders (or any class of them) or to its creditors generally at the same time as they are despatched;
  - (ii) promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings against any member of the Group which are current, threatened or pending and which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;

- (iii) promptly on request, a list of the then current Restricted Subsidiaries; and
- (iv) promptly on request, such further information regarding the financial condition, business and operations of any member of the Group as any Finance Party through the Facility Agent may reasonably request.

(b) Nothing in paragraph (a) above shall require the Company to supply any document or information to the Facility Agent if and for so long such disclosure will cause the Company to be in breach of the relevant listing rules of NASDAQ or any mandatory provisions of applicable laws or any confidentiality agreements or undertakings.

#### **16.5 Notification of Default**

- (a) The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (b) Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate, signed by two of its authorised signatories on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

#### **16.6 Year end**

The Company must not change its financial year end.

#### **16.7 Customer due diligence requirements**

- (a) The Company must promptly on the request of any Finance Party through the Facility Agent supply to that Finance Party any documentation or other evidence which is reasonably requested by that Finance Party (whether for itself, on behalf of any Finance Party or any prospective new Lender) to enable a Finance Party or prospective new Lender to carry out and be satisfied with the results of all applicable customer due diligence requirements.
- (b) Each Lender must promptly on the request of the Facility Agent supply to the Facility Agent any documentation or other evidence which is reasonably required by the Facility Agent to carry out and be satisfied with the results of all customer due diligence requirements.
- (c) Notwithstanding any other provisions of this Agreement to the contrary, no Finance Party is obliged to do or omit to do anything if it would, or might in its reasonable opinion, constitute a breach of any applicable anti-money laundering, counter-terrorism financing, economic or trade sanctions law or regulations.

### **17. FINANCIAL COVENANTS**

#### **17.1 Definitions**

In this Clause 17:

**Adjusted Consolidated EBITDA** means, in relation to a Measurement Period, Consolidated EBITDA for the period adjusted by:

- (a) including the operating profit before interest, tax, depreciation, amortisation and impairment charges (EBITDA) of a member of the Group or attributable to a business or assets acquired during the Measurement Period for that part of the Measurement Period when it was not a member of the Group and/or the business or assets were not owned by a member of the Group; and



(b) excluding the EBITDA attributable to any member of the Group or to any business or assets sold during that Measurement Period.

**Consolidated EBIT** means, in relation to a Measurement Period, the aggregate of:

- (a) the consolidated operating profits of the Group (including the results from discontinued operations) before finance costs and tax for that Measurement Period;
- (b) plus or minus the Group's share of the profits or losses of associates for that period (after finance costs and tax) and the Group's share of the profits or losses of any joint ventures;

adjusted by:

- (i) taking no account of any Exceptional Item;
- (ii) taking no account of any unrealised gains or losses on any derivative instrument or other financial instrument (other than any derivative instrument which is accounted for on a hedge accounting basis) which is reported through the income statement;
- (iii) taking no account of any income or charge attributable to a post-employment benefit scheme other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme;
- (iv) taking no account of any expense referable to equity-settled share-based compensation of employees.

**Consolidated EBITDA** means, in relation to a Measurement Period, Consolidated EBIT for that Measurement Period after adding back any depreciation and amortisation and taking no account of any charge for impairment or any reversal of any previous impairment charge made in the period.

**Consolidated Tangible Net Worth** means at any time the aggregate of:

- (a) the amount paid up or credited as paid up on the issued share capital of the Company; and
- (b) the net amount standing to the credit (or debit) of the consolidated reserves of the Company,

based on the latest published audited consolidated balance sheet of the Company (the **latest balance sheet**) but adjusted by:

- (i) deducting any dividend or other distribution proposed, declared or made by the Company (except to the extent it has been taken into account in the latest balance sheet);
- (ii) deducting any amount attributable to goodwill or any other intangible asset;

- (iii) deducting any amount attributable to an upward revaluation of assets (other than financial instruments) after 31 December 2010 or, in the case of assets of a company which becomes a member of the Group after that date, the date on which that company becomes a member of the Group;
- (iv) reflecting any variation in the amount of the issued share capital of the Company after the date of the latest balance sheet (and any change in the consolidated reserves of the Group resulting from that variation);
- (v) reflecting any variation in the interest of the Company in any other member of the Group since the date of the latest balance sheet (to be calculated on the assumption that the variation had occurred immediately before the latest balance sheet date); and
- (vi) excluding any amounts debited or credited to deferred tax which relates to the revaluation of any item which is excluded from the calculation.

**Consolidated Total Borrowings** means, in respect of the Group, at any time, the aggregate of the following liabilities calculated at the nominal, principal or other amount at which the liabilities would be carried in a consolidated balance sheet of the Company drawn up at that time (or in the case of any guarantee, indemnity or similar assurance referred to in paragraph (i) below, the maximum liability under the relevant instrument):

- (a) any moneys borrowed;
- (b) any redeemable preference shares;
- (c) any acceptance under any acceptance credit (including any dematerialised equivalent);
- (d) any bond, note, debenture, loan stock or other similar instrument;
- (e) any indebtedness under a finance or capital lease in accordance with the GAAP;
- (f) any moneys owing in connection with the sale or discounting of receivables (except to the extent that there is no recourse);
- (g) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset;
- (h) any indebtedness arising in connection with any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing; and
- (i) any indebtedness of any person of a type referred to in the above paragraphs which is the subject of a guarantee, indemnity or similar assurance against financial loss given by a member of the Group,

in each case, for the avoidance of doubt, excluding any indebtedness arising (a) in the ordinary course of trading and (b) between members of the Group.

**Exceptional Item** means any material item of income or expense that represents:

- (a) any gain or loss arising from:
  - (i) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, and reversals of such write-downs;

- (ii) restructuring the activities of the Group or any member of the Group and any reversals of any provision for the costs of restructuring;
  - (iii) disposals of items of property, plant or equipment;
  - (iv) disposals of investments; or
  - (v) disposals or settlements of liabilities of any member of the Group that fall within the definition of Consolidated Total Borrowings; or
- (b) any gain of a highly unusual or non-recurring nature; or
- (c) any gain or loss arising from a transaction entered into otherwise than in the carrying on of the normal core business operations of the Group.

**Measurement Period** means a financial half-year of the Company.

#### **17.2 Interpretation**

- (a) Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.
- (b) Any amount in a currency other than US Dollars is to be taken into account at its US Dollar equivalent calculated on the basis of:
- (i) the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with US Dollars at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or
  - (ii) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.
- (c) No item must be credited or deducted more than once in any calculation under this Clause 17.

#### **17.3 Consolidated Tangible Net Worth**

The Company must ensure that Consolidated Tangible Net Worth is not at any time less than RMB 6 billion.

#### **17.4 Gearing**

The Company must ensure that Consolidated Total Borrowings do not at any time exceed 80 per cent. of Consolidated Tangible Net Worth at that time.

#### **17.5 Leverage**

The Company must ensure that Consolidated Total Borrowings do not, at the end of each Measurement Period, exceed two times of the Adjusted Consolidated EBITDA for that Measurement Period.

## 18. GENERAL COVENANTS

### 18.1 General

The Company agrees to be bound by the covenants set out in this Clause 18 relating to it and, where the covenant is expressed to apply to any other member of the Group or any other member of the Restricted Group (as the case may be), the Company must ensure that its relevant Subsidiaries or the relevant Restricted Subsidiaries (as the case may be) perform that covenant.

### 18.2 Authorisations

The Company must promptly:

- (a) obtain, maintain and comply with the terms; and
- (b) if requested by the Facility Agent, supply certified copies to the Facility Agent, of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document or the Acquisition Documents.

### 18.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so would have a Material Adverse Effect.

### 18.4 Pari passu ranking

The Company must ensure that its payment obligations under the Finance Documents at all times rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

### 18.5 Negative pledge

- (a) For the purpose of this Subclause, **Quasi-Security Interest** means an arrangement or transaction described in paragraph (c) below.
- (b) Except as provided below, no member of the Restricted Group may create or allow to exist any Security Interest on any of its assets.
- (c) No member of the Restricted Group may:
  - (i) sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by a member of the Restricted Group;
  - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
  - (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
  - (iv) enter into any other preferential arrangement having a similar effect, in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

- (d) Paragraphs (b) and (c) do not apply to:
- (i) any Security Interest or Quasi-Security Interest listed in Schedule 5 (Existing Security) except to the extent the principal amount secured by that Security Interest exceeds the amount stated in that Schedule;
  - (ii) any Security Interest or Quasi-Security Interest created solely for the purpose of securing the refinancing of any indebtedness secured by any Security Interest or Quasi-Security Interest listed in Schedule 5 (Existing Security) where the principal amount secured has not been increased above the amount stated in that Schedule which is to be refinanced;
  - (iii) any Security Interest or Quasi-Security Interest comprising a netting, set-off or cash-pooling arrangement entered into by a member of the Restricted Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
  - (iv) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by a member of the Restricted Group but excluding any Security Interest or Quasi-Security Interest under a credit support arrangement;
  - (v) any lien arising by operation of law and in the ordinary course of business;
  - (vi) any Security Interest or Quasi-Security Interest on an asset, or an asset of any person, acquired by a member of the Restricted Group after the date of this Agreement but only for the period of 6 months from the date of acquisition and to the extent that the principal amount secured by that Security Interest has not been incurred or increased in contemplation of, or since, the acquisition;
  - (vii) any Security Interest or Quasi-Security Interest arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a member of the Restricted Group in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by any member of the Restricted Group;
  - (viii) any Security Interest or Quasi-Security Interest over goods or documents of title arising in the ordinary course of letter of credit transactions entered into in the ordinary course of trade;
  - (ix) any Security Interest or Quasi-Security Interest provided with the prior consent of the Majority Lenders; and
  - (x) any Security Interest or Quasi-Security Interest securing indebtedness the amount of which (when aggregated with the amount of any other indebtedness which has the benefit of a Security Interest not allowed under the preceding sub-paragraphs) does not exceed RMB500,000,000 or its equivalent at any time;

#### **18.6 Disposals**

- (a) Except as provided below, no member of the Group (other than Beijing Baidu Netcom) may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets without the prior written consent of the Facility Agent (acting on the instruction of the Majority Lenders).

- (b) Paragraph (a) above does not apply to any disposal:
- (i) where the consideration receivable of that disposal (including any Listing Disposal, subject to Clause 7.2(c) (Mandatory prepayment – disposals)) (when aggregated with the consideration for any other disposal of assets by any member of the Group not allowed under sub-paragraphs (iii) to (vi) below) (A) does not exceed the Disposal Threshold; (B) exceeds the Disposal Threshold but no Mandatory Prepayment Request has been delivered by the Facility Agent to the Company within the applicable time period specified in Clause 7.2(b) (Mandatory prepayment – disposals); or (C) exceeds the Disposal Threshold where the net proceeds of that disposal are applied towards mandatory prepayment of the Loan in accordance with Clause 7.2(b) (Mandatory prepayment – disposals);
  - (ii) where the disposal is not a Listing Disposal and is made to another member of the Group (other than Beijing Baidu Netcom);
  - (iii) made in the ordinary course of trading of the disposing entity;
  - (iv) of assets in exchange for other assets comparable or superior as to type, value and quality;
  - (v) of obsolete or redundant vehicles, plant or equipment for cash; or
  - (vi) arising as result of a Permitted Transaction.
- (c) Each disposal shall only be permitted under this Subclause if it is made (i) on arm's length commercial terms or (ii) (other than in respect of any disposal permitted under paragraph (b)(ii) above) on more favourable terms to the disposing entity than arms' length commercial terms and at least for fair market value.

**18.7 Change of business**

The Company must ensure that no substantial change is made to the general nature of the business of the Restricted Group from that carried on at the date of this Agreement.

**18.8 Merger**

The Company may not enter into any amalgamation, demerger, merger or reconstruction other than a Permitted Transaction.

**18.9 Insurance**

Each member of the Restricted Group must insure its business and assets with insurance companies to such an extent and against such risks as companies engaged in a similar business normally insure.

**19. DEFAULT**

**19.1 Events of Default**

Each of the events or circumstances set out in this Clause 19 (other than Clause 19.13 (Acceleration) and 19.14 (Clean-up Period)) is an Event of Default.

**19.2 Non-payment**

The Company does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment:

- (a) is caused by technical or administrative error and is remedied within five Business Days of the due date; or
- (b) is caused by a Disruption Event and is remedied within five Business Days of the due date.

**19.3 Breach of other obligations**

- (a) The Company does not comply with any term of Clause 17 (Financial covenants); or
- (b) the Company does not comply with any term of the Finance Documents (other than any term referred to in Clause 19.2 (Non-payment) or in paragraph (a) above), unless the non-compliance:
  - (i) is capable of remedy; and
  - (ii) is remedied within 20 Business Days of the earlier of the Facility Agent giving notice of the failure to comply to the Company and the Company becoming aware of the non-compliance.

**19.4 Misrepresentation**

A representation or warranty made or deemed to be repeated by the Company in any Finance Document or in any document delivered by or on behalf of the Company under any Finance Document is incorrect or misleading in any material respect when made or deemed to be repeated, unless the circumstances giving rise to the misrepresentation or breach of warranty:

- (a) are capable of remedy; and
- (b) are remedied within 20 Business Days of the earlier of the Facility Agent giving notice of the misrepresentation or breach of warranty to the Company and the Company becoming aware of the misrepresentation or breach of warranty.

**19.5 Cross-default**

Any of the following occurs in respect of a member of the Restricted Group:

- (a) any of its Financial Indebtedness is not paid when due (after the expiry of any originally applicable grace period);
- (b) any of its Financial Indebtedness:
  - (i) becomes prematurely due and payable;

- (ii) is placed on demand; or
- (iii) is capable of being declared by or on behalf of a creditor to be prematurely due and payable or of being placed on demand, in each case, as a result of an event of default or any provision having a similar effect (howsoever described); or
- (c) any commitment for its Financial Indebtedness is cancelled or suspended as a result of an event of default or any provision having a similar effect (howsoever described),

unless the aggregate amount of Financial Indebtedness falling within all or any of paragraphs (a) to (c) above is less than US\$50,000,000 or its equivalent.

#### **19.6 Insolvency**

Any of the following occurs in respect of a member of the Restricted Group:

- (a) it is, or is deemed for the purposes of any applicable law to be, unable to pay its debts as they fall due or insolvent;
- (b) it admits its inability to pay its debts as they fall due;
- (c) it suspends making payments on its debts generally or announces an intention to do so;
- (d) by reason of actual or anticipated financial difficulties, it begins negotiations with any creditor for the rescheduling or restructuring of any of its indebtedness;
- (e) the value of its assets is less than its liabilities (taking into account contingent and prospective liabilities); or
- (f) any of its indebtedness is subject to a moratorium.

#### **19.7 Insolvency proceedings**

(a) Except as provided below, any of the following occurs in respect of a member of the Restricted Group:

- (i) any corporate action or legal proceedings is taken with a view to the suspension of payments, a moratorium or a composition, assignment or similar arrangement with any of its creditors;
- (ii) a meeting of its shareholders, directors or other officers resolves to petition for or to file documents with a court or any registrar for, its winding-up, administration or dissolution or any such resolution is passed;
- (iii) any person presents a petition, or files documents with a court or any registrar, for its winding-up, administration, dissolution or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (iv) any Security Interest is enforced over any of its assets having an aggregate value of at least US\$50,000,000;
- (v) an order for its winding-up, administration or dissolution is made;



- (vi) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets; or
- (vii) any analogous step or procedure is taken in any jurisdiction.

(b) Paragraph (a) above does not apply to:

- (i) any step or procedure which is part of a Permitted Transaction; or
- (ii) a petition for winding-up, administration or dissolution which is being contested in good faith and with due diligence and is discharged or struck out within 30 days.

**19.8 Creditors' process**

Any attachment, sequestration, distress, execution or analogous event affects any asset(s) of a member of the Restricted Group, having an aggregate value of at least US\$50,000,000 which is not discharged within 30 days.

**19.9 Cessation of business**

A member of the Restricted Group ceases, or threatens to cease, to carry on business except:

- (a) as part of a Permitted Transaction; or
- (b) as a result of any disposal allowed under this Agreement.

**19.10 De-listing**

The shares in the Company ceases to be listed on NASDAQ.

**19.11 Effectiveness of Finance Documents**

- (a) It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents.
- (b) The Company repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

**19.12 Material adverse change**

Any event or series of events occurs which, in the opinion of the Majority Lenders (acting reasonably), would have a Material Adverse Effect.

**19.13 Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by all Lenders, by notice to the Company:

- (a) cancel all or any part of the Total Commitments; and/or
- (b) declare that all or part of any amounts outstanding under the Finance Documents are:
  - (i) immediately due and payable; and/or

- (ii) payable on demand by the Facility Agent acting on the instructions of all Lenders.

Any notice given under this Subclause will take effect in accordance with its terms.

#### **19.14 Clean-Up Period**

Notwithstanding any other provision of any Finance Document:

- (a) any breach of a Clean-Up Representation or a Clean-Up Undertaking; or
- (b) any Event of Default constituting a Clean-Up Default,

will be deemed not to be a breach of representation or warranty, a breach of undertaking or an Event of Default (as the case may be) if:

- (i) it would have been (if it were not for this provision) a breach of representation or warranty, a breach of covenant or an Event of Default only by reason of circumstances relating exclusively to any member of the Target Group (or any obligation to procure or ensure in relation to a member of the Target Group);
- (ii) it is capable of remedy and reasonable steps are being taken to remedy it;
- (iii) the circumstances giving rise to it have not been procured by or approved by the Company; and
- (iv) it is not reasonably likely to have a Material Adverse Effect.

If the relevant circumstances are outstanding on or after the Clean-up Date, there shall be a breach of representation or warranty, breach of undertaking or Event of Default, as the case may be notwithstanding the above (and without prejudice to the rights and remedies of the Finance Parties).

### **20. THE ADMINISTRATIVE PARTIES**

#### **20.1 Appointment and duties of the Facility Agent**

- (a) Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under and in connection with the Finance Documents.
- (b) Each Finance Party irrevocably authorises the Facility Agent to:
  - (i) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
  - (ii) enter into and deliver each Finance Document expressed to be entered into by the Facility Agent.
- (c) The Facility Agent has only those duties which are expressly specified in the Finance Documents to which it is party, and no other duties shall be implied. Those duties are solely of a mechanical and administrative nature.

**20.2 Role of the Arranger**

Except as specifically provided in the Finance Documents, the Arranger has no obligations of any kind to any other Party in connection with any Finance Document.

**20.3 No fiduciary duties**

- (a) Nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person; and
- (b) no Administrative Party need hold in trust any moneys paid to it or recovered by it for a Party in connection with the Finance Documents or be liable to account for interest on those moneys.

**20.4 Individual position of an Administrative Party**

- (a) If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.
- (b) Each Administrative Party may:
  - (i) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing) and acquire interest in the Company or its related entities; and
  - (ii) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

**20.5 Reliance**

- (a) The Facility Agent in acting as Facility Agent under a Finance Document may:
  - (i) rely on any notice, document or other communication (including any e-mail or facsimile transmission) believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person (and the Facility Agent has no duty to verify any signature on any such notice, document or other communication or the authority of any such person in giving such notice, document or other communication);
  - (ii) rely on any determination, statement, notice or certificate provided to it by the Company;
  - (iii) rely on advice and statements of lawyers, accountants, auditors, bankers and other consultants and experts, whether or not retained by it;
  - (iv) rely on any statement, information, report or certification purportedly made or given by a director, authorised signatory, senior officer or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify; and
  - (v) engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent and including, without limitation, legal counsel, financial advisers, auditors and other experts),

and the Facility Agent, its directors, officers, employees and agents will be protected and will incur no liability for, or in respect of, any action taken, omitted to be taken, or suffered by the Facility Agent in reliance on such notice, document, communication, certificate, advice or statement and the Facility Agent shall not be responsible to any person for any loss occasioned by so acting except in the case of the Facility Agent's gross negligence or wilful misconduct.

- (b) The Facility Agent in acting as Facility Agent under a Finance Document may employ or appoint any person as employee, attorney, contractor, professional advisor, officer, agent, delegate or otherwise (if any), and delegate to any such person its powers, duties and obligations, as may be necessary for it to carry out any of its obligations under the Finance Documents. The Facility Agent will not have any obligation to supervise, or be liable for any acts or omissions of, any person it employs or appoints under this paragraph (provided that the Facility Agent has acted with all due care in selecting that person), except in the case of gross negligence or wilful misconduct.

#### **20.6 Majority Lenders' instructions**

- (a) The Facility Agent is fully protected if it acts (or refrains from acting, where so instructed) on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act (or refrain from acting) as it considers to be in the best interests of all the Lenders.
- (b) The Facility Agent may assume that unless it has received notice to the contrary, any right, power, authority or discretion vested in any Party or the Majority Lenders has not been exercised.
- (c) The Facility Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions.
- (d) The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.

#### **20.7 Responsibility**

- (a) The Facility Agent and its directors, officers, employees, agents and/or related bodies is not responsible for, or will not be liable in respect of any of the following whether before or after the date of this Agreement:
  - (i) the adequacy, accuracy or completeness of any statement or information (whether written or oral) made in, supplied or obtained by it from any third party in connection with any Finance Document (including the Information Memorandum) or Acquisition Document;
  - (ii) the legality, validity, effectiveness, genuineness, adequacy, completeness or enforceability of any Finance Document or any other document or any transaction contemplated thereunder;

- (iii) any failure by any party to a Finance Document (other than an the Facility Agent) to perform its obligations; or
  - (iv) any action taken or omitted to be taken by it or them under a Finance Document, except in the case of and only to the extent of its or their own gross negligence or wilful misconduct.
- (b) Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms that it:
- (i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
  - (ii) has not relied on any information provided to it by any Administrative Party in connection with any Finance Document or agreement entered into in anticipation of or in connection with any Finance Document.
- (c) Nothing in this Agreement shall oblige the Facility Agent to carry out any “know your customer” or other checks in relation to any person on behalf of any Lender and each Lender confirms to the Facility Agent that it is solely responsible for any such checks it is required to carry out and that it may not rely on any such checks made by, or any statement in relation to such checks made by, the Facility Agent.
- (d) Unless mandatorily required by applicable laws to which the Facility Agent is subject, the Facility Agent shall not be responsible for providing any certification, document or information (except information relating to itself) that may be required for any anti-money laundering due diligence purpose. Any such certification, document or information shall be provided by the Company or the relevant Lender directly provided that a request for such certification, document or information may be made through the Facility Agent.

**20.8 Exclusion of liability**

- (a) No Administrative Party is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its own gross negligence or wilful misconduct.
- (b) Notwithstanding any provision of any Finance Document to the contrary, no Administrative Party shall in any event be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), whether or not foreseeable.
- (c) In no event shall any Administrative Party be liable for any failure or delay in the performance of its obligations under a Finance Document because of circumstances beyond that Administrative Party’s control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, embargo, labour dispute, any laws, ordinances, regulations or the like which restrict or prohibit the providing of the services contemplated by the Finance Documents, inability to obtain or the failure of equipment, inability to obtain information or data from any third party or the provision of inaccurate information or data by such third party, or interruption of communications or computer facilities, and other causes beyond any Administrative Party’s control whether or not of the same class or kind as specifically named above.

- (d) No Party (other than the relevant Administrative Party) may take any proceedings against any officers, employees or agents of an Administrative Party in respect of any claim it might have against that Administrative Party or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document.
- (e) The Facility Agent is not liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- (f)
  - (i) Nothing in this Agreement will oblige any Administrative Party to satisfy any customer due diligence requirement in relation to the identity of any person on behalf of any Finance Party.
  - (ii) Each Finance Party confirms to each Administrative Party that it is solely responsible for any customer due diligence requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

#### **20.9 Default**

- (a) The Facility Agent is not obliged to monitor whether the Company or any other person is complying with its obligations under the Finance Documents, or to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- (b) If the Facility Agent:
  - (i) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
  - (ii) is aware of the non-payment of any principal, interest or fee payable to a Finance Party (other than the Facility Agent or the Arranger) under this Agreement,it must promptly notify the other Finance Parties.

#### **20.10 Information**

- (a) The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- (b) The Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (c) Except as provided above, the Facility Agent has no duty:
  - (i) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or

- (ii) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- (d) In acting as the Facility Agent, the Facility Agent will be regarded as acting through its agency division which will be treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by another division or department or otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- (e) In acting as Facility Agent, the Facility Agent will only be considered to have notice of any matter if the Facility Agent has notice of that matter by virtue of the actual notice of its officers who have day to day responsibility for the administration of the obligations of the Facility Agent under the Finance Documents.
- (f) The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by or on behalf of a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required in respect of any term of the Finance Documents.
- (g) The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.

#### **20.11 Indemnities**

- (a) Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent (and its officers, employees and directors and its agents, delegates, attorneys and/or nominees duly appointed pursuant to the terms hereof) for that Lender's Pro Rata Share of any loss, liability, claim, action, demand or expense incurred by the Facility Agent in acting as the Facility Agent (including, but not limited to, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing, and any loss of fees and expenses, including any loss of agency fees incurred in the performance of its duties under the Finance Documents, unless the Facility Agent has been reimbursed by the Company under a Finance Document), except to the extent that the loss or liability is caused by the Facility Agent's gross negligence, wilful misconduct or fraud. Any disclosure by any Lender to the Facility Agent that such Lender entered into this Agreement as an agent or representative of another person shall not relieve such Lender of any of its obligations under this Agreement.
- (b) Notwithstanding any other provision of the Finance Documents, the Facility Agent shall not be under any obligation to take any action under a Finance Document which it expects will result in any expense or liability accruing to it, the payment of which within a reasonable time is not, in its opinion, assured to it or is not indemnified to its absolute satisfaction.
- (c) If a Party owes an amount to the Facility Agent under the Finance Documents, the Facility Agent may, after giving notice to that Party:
  - (i) deduct from any amount received by it for that Party any amount due to the Facility Agent from that Party under a Finance Document but unpaid; and
  - (ii) apply that amount in or towards satisfaction of the owed amount.That Party will be regarded as having received the amount so deducted.

- (d) The provisions of this Clause 20.11 shall survive the termination of the Finance Documents, the resignation or removal of the Facility Agent or any other Finance Party ceasing to be a Finance Party under the Finance Documents

#### 20.12 Compliance

Each Administrative Party may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation. The Facility Agent may take and instruct any delegate, agent or nominee to take any action which it in its sole discretion considers appropriate so as to comply with any applicable law, regulation, request of a public or regulatory authority or the Facility Agent's Group policy which relates to the prevention of fraud, money laundering, terrorism or other criminal activities or the provision of financial and other services to sanctioned persons or entities. Such action may include but is not limited to the interception and investigation of transactions (particularly those involving the international transfer of funds) including the source of the intended recipient of funds paid. In certain circumstances, such action may delay or prevent the processing of instructions, the settlement of transactions or the Facility Agent's performance of its obligations under this Agreement. Where possible and at its sole discretion, the Facility Agent will endeavour to notify the intended recipient of funds and/or the party making such payment of the existence of such circumstances. For the purpose of this Clause 20.12, the **Facility Agent's Group** means the Facility Agent, its subsidiaries and associated companies.

#### 20.13 Resignation of the Facility Agent

- (a) The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the other Finance Parties and the Company.
- (b) Alternatively, the Facility Agent may, without giving any reason therefor and without being responsible for any liabilities incurred by such resignation, resign by giving 30 days' notice to the Finance Parties and the Company, in which case the Majority Lenders (after consultation with the Company but regardless of whether a mutual agreement is reached) may appoint a successor Facility Agent.
- (c) If no successor Facility Agent has been appointed under paragraph (b) above within 20 days after notice of resignation was given, the Facility Agent (after consultation with the Company but regardless of whether a mutual agreement is reached) may appoint a successor Facility Agent.
- (d) The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment.

On giving the notification the successor Facility Agent will succeed to the position of the Facility Agent and the term **Facility Agent** will mean the successor Facility Agent.

- (e) The retiring Facility Agent must, at its own cost:

- (i) make available to the successor Facility Agent those documents and records and provide any assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents; and



- (ii) enter into and deliver to the successor Facility Agent those documents and effect any registrations as may be required for the transfer or assignment of all of its rights and benefits under the Finance Documents to the successor Facility Agent.
- (f) Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to paragraph (f) above, it will have no further obligations under any Finance Document.
- (g) After consultation with the Company, the Majority Lenders may, with reasonable cause, by written notice of not less than 30 days to the Facility Agent, require it to resign under paragraph (b) above.

**20.14 Relationship with Lenders**

- (a) The Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.
- (b) The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.
- (c) The Facility Agent must keep a record of all the Parties and supply any other Party with a copy of the record on request. The record will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

**20.15 Facility Agent's management time**

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

**20.16 Notice period**

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

**21. EVIDENCE AND CALCULATIONS**

**21.1 Accounts**

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

**21.2 Certificates and determinations**

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

### **21.3 Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or in any case where the London interbank market differs, in accordance with that market practice.

### **22. FEES**

The Company must pay to the Facility Agent for its own account an agency fee in the amount and manner agreed in the Facility Agent Fee Letter.

### **23. INDEMNITIES AND BREAK COSTS**

#### **23.1 Currency indemnity**

(a) The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (i) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (ii) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

(b) Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

#### **23.2 Other indemnities**

(a) The Company must indemnify each Finance Party (and its officers, employees, agents, delegates and nominees) against any fees (including those of legal counsel), expenses (including those of legal counsel), loss or liability which that Finance Party incurs as a consequence of:

- (i) the occurrence of any Event of Default;
- (ii) written information produced or approved by the Company being or being alleged to be misleading or deceptive in any respect;
- (iii) any enquiry, investigation, subpoena (or similar order) or litigation with respect to the Company or with respect to the transactions contemplated or financed under the Finance Documents;
- (iv) any failure by the Company to pay any amount due under a Finance Document on its due date, including any resulting from any distribution or redistribution of any amount among the Lenders under this Agreement;
- (v) (other than by reason of gross negligence or wilful misconduct by that Finance Party) the Loan not being made after the Request has been delivered for the Loan; or
- (vi) the Loan (or part of the Loan ) not being prepaid in accordance with this Agreement.

The Company's liability in each case includes any loss or expense on account of funds borrowed, contracted for or utilised to fund any amount payable under any Finance Document or the Loan.

- (b) The Company must indemnify the Facility Agent against any loss or liability incurred by the Facility Agent as a result of:
  - (i) investigating any event which the Facility Agent reasonably believes to be a Default; or
  - (ii) acting or relying on any notice, request or instruction which the Facility Agent believes to be genuine, correct and appropriately authorised.
- (c) The provisions of this Clause 23.2 shall survive the termination of the Finance Documents, the resignation or removal of the Facility Agent or any other Finance Party ceasing to be a Finance Party under the Finance Documents.

### **23.3 Break Costs**

- (a) The Company must pay to each Lender its Break Costs if the Loan (or any part of it) or an overdue amount is repaid or prepaid otherwise than on the last day of any Term applicable to it.
- (b) Break Costs are the amount (if any) determined by the relevant Lender by which:
  - (i) the interest (excluding the Margin) which that Lender would have received for the period from the date of receipt of any part of its share in the Loan or an overdue amount to the last day of the applicable Term for the Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;  
exceeds
  - (ii) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.
- (c) Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Subclause.

## **24. EXPENSES**

### **24.1 Initial costs**

The Company must pay to each Administrative Party the amount of all costs and expenses (other than legal fees incurred by the Arranger which will be paid by the Arranger) reasonably incurred by it as agreed between the relevant Administrative Party and the Company in connection with the negotiation, preparation, printing, entry into and syndication of the Finance Documents.

### **24.2 Subsequent costs**

The Company must pay to the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- (a) the negotiation, preparation, printing and entry into of any Finance Document (other than a Transfer Certificate) entered into after the date of this Agreement; and

(b) any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by a Finance Document.

### **24.3 Enforcement costs**

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

### **24.4 Facility Agent's on-going costs**

- (a) If:
- (i) a Default occurs; or
  - (ii) the Facility Agent is requested by the Company or the Majority Lenders to undertake duties which the Facility Agent and the Company agree to be of an exceptional nature or outside the scope of the normal duties of the Facility Agent under the Finance Documents,
- the Company must pay to the Facility Agent any additional remuneration which may be agreed between them.
- (b) If the Facility Agent and the Company fail to agree:
- (i) whether the duties are of an exceptional nature or outside the scope of the normal duties of the Facility Agent; or
  - (ii) the appropriate amount of any additional remuneration,
- the dispute will be determined by an investment bank (acting as an expert and not as an arbitrator) selected by the Facility Agent and approved by the Company.
- (c) If the Company does not approve the investment bank selected by the Facility Agent, the dispute will be determined by an investment bank nominated (on application by the Facility Agent) by the President for the time being of the Law Society of Hong Kong.
- (d) The Company must pay the costs of nomination and of the investment bank.
- (e) The determination of any investment bank will be final and binding on the Parties.

## **25. AMENDMENTS AND WAIVERS**

### **25.1 Procedure**

- (a) Except as provided in this Clause 25, any term of the Finance Documents may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause 25.

- (b) The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under paragraph (a) above. Any such amendment or waiver is binding on all the Parties.

## **25.2 Exceptions**

- (a) An amendment or waiver which relates to:
- (i) the definition of Majority Lenders in Clause 1.1 (Definitions);
  - (ii) an extension of the date of payment of any amount to a Lender under the Finance Documents other than in relation to Clause 7.2 (Mandatory prepayment – disposals);
  - (iii) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
  - (iv) a change in currency of payment of any principal, interest, fee or other amount payable to a Lender under the Finance Documents;
  - (v) an increase in, or an extension of the period of availability for the utilisation of, a Commitment or the Total Commitments;
  - (vi) a term of a Finance Document which expressly requires the consent of each Lender;
  - (vii) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents; or
  - (viii) this Clause,
- may only be made with the consent of all the Lenders.
- (b) An amendment or waiver which relates to the rights or obligations of an Administrative Party may only be made with the consent of that Administrative Party.
- (c) The Facility Agent Fee Letter may be amended or waived with the agreement of the Facility Agent and the Company.

## **25.3 Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting on the instructions of the Majority Lenders and after consultation with the Company) determines is necessary to reflect the change.

## **25.4 Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

- (a) may be exercised as often as necessary;
- (b) are cumulative and not exclusive of its rights under the general law; and
- (c) may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

**26. CHANGES TO THE PARTIES**

**26.1 Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

**26.2 Assignments and transfers by Lenders**

Subject to the following provisions of this Clause 26, a Lender (the **Existing Lender**) may at any time:

- (a) assign any of its rights; or
- (b) transfer by way of novation any of its rights or obligations under this Agreement,

to another bank or financial institution (the **New Lender**) without the consent of the Company provided that (where the assignment or transfer is not made by the Original Lender) the Existing Lender has given the Company no less than 15 days prior written notice of such assignment or transfer.

**26.3 Other conditions to assignment or transfer**

- (a) The Facility Agent is not obliged to enter into a Transfer Certificate or otherwise give effect to an assignment or transfer until it has completed all customer due diligence or any “know your customer” or other checks in relation to any relevant person or other legal requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- (b) Subject to sub-paragraph (c) below, unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of US\$2,000.
- (c) Where the assignment or transfer is made between the Original Lender and any New Lender, the fee referred to in sub-paragraph (b) above shall be waived.
- (d) Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

**26.4 Procedure for assignment of rights**

An assignment of rights will only be effective on receipt by the Facility Agent of written confirmation from the New Lender (in form and substance satisfactory to the Facility Agent) that the New Lender will, in relation to the assigned rights, assume obligations to the other Finance Parties equivalent to those it would have been under if it had been an Original Lender.

**26.5 Procedure for transfer using a Transfer Certificate**

- (a) In this Subclause:

**Transfer Date** means, in relation to a transfer, the later of:

- (i) the proposed Transfer Date specified in that Transfer Certificate; and

- (ii) the date on which the Facility Agent enters into that Transfer Certificate.
- (b) A transfer of rights or obligations using a Transfer Certificate will be effective if:
  - (i) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
  - (ii) the Facility Agent enters into it.
- (c) On the Transfer Date:
  - (i) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender;
  - (ii) the Existing Lender will be released from those obligations and cease to have those rights; and
  - (iii) the New Lender will become a Lender under this Agreement and be bound by the terms of this Agreement as Lender.
- (d) The Facility Agent must enter into a Transfer Certificate delivered to it and which appears on its face to be in order as soon as reasonably practicable and, as soon as reasonably practicable after it has entered into a Transfer Certificate, send a copy of that Transfer Certificate to the Company.
- (e) Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to enter into and deliver any duly completed Transfer Certificate on its behalf.

**26.6 Original consents and waivers**

A New Lender shall be bound by any consent, waiver, election or decision given or made by the Original Lender under or pursuant to any Finance Document prior to the coming into effect of the relevant assignment or transfer to that New Lender.

**26.7 Limitation of responsibility of Existing Lender**

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
  - (i) the financial condition of the Company; or
  - (ii) the legality, validity, effectiveness, enforceability, adequacy, accuracy, completeness or performance of:
    - (A) any Finance Document or any other document;
    - (B) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document, or
    - (C) any observance by the Company of its obligations under any Finance Document or other document,

and any representations or warranties implied by law are excluded.

- (b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:
- (i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement;
  - (ii) has not relied on any information supplied to it by the Existing Lender in connection with any Finance Document;
  - (iii) has conducted its own investigation in connection with the Finance Documents and has not relied upon the Existing Lender to conduct any due diligence investigation on its behalf;
  - (iv) has access to all information that it believes is necessary or appropriate in connection with its participation of this Agreement and it is able to obtain or access business and financial information without undue difficulty;
  - (v) has consulted its own independent advisors or otherwise has satisfied itself concerning, without limitation, the tax, legal, currency and other economic considerations related to its participation in this Agreement, and has only relied on the advice of, or has only consulted with, such independent advisers;
  - (vi) has not relied and will not rely on any investigation or due diligence that the Existing Lender or any of its affiliates or employees or any person acting on behalf of the Existing Lender may have conducted in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets), and none of such persons has made any representation, warranty or recommendation to that New Lender, express or implied, in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) or the accuracy, completeness or adequacy of any information that New Lender obtain from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind); and
  - (vii) will not hold the Existing Lender, its affiliates or the officers, directors or employees responsible for any misstatements in or omissions from information it obtains from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind).
- (c) Nothing in any Finance Document requires an Existing Lender to:
- (i) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
  - (ii) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.



**26.8 Costs resulting from change of Lender or Facility Office**

If:

- (a) a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and
- (b) as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to pay a Tax Payment or an Increased Cost,

then the Company needs only pay that Tax Payment or Increased Cost to the same extent that it would have been obliged to if no assignment, transfer or change had occurred.

**27. DISCLOSURE OF INFORMATION**

(a) Each Finance Party must keep confidential any information supplied to it by or on behalf of the Company in connection with the Finance Documents. However, a Finance Party is entitled to disclose information:

- (i) which is publicly available, other than as a result of a breach by that Finance Party of this Clause;
- (ii) to the extent required for the purpose of any legal or arbitration proceedings;
- (iii) to the extent required to be disclosed under any law or regulation;
- (iv) to a governmental, banking, taxation or other regulatory authority;
- (v) to its professional advisers or any rating agency (provided that such person is under a duty of confidentiality to such Finance Party);
- (vi) to the extent allowed under paragraph (b) below; or
- (vii) with the agreement of the Company.

(b) Without detracting from the Finance Party's rights of disclosure under any law (including under the Banking Act, Chapter 19 of Singapore) (the **Banking Act**), a Finance Party and its officers (including "officers" as defined in the Banking Act) may disclose to any of its Affiliates, branches or associates or any person (a **third party**) with (or through) whom that Finance Party enters into (or may enter into) any kind of transfer, participation or hedge agreement in relation to this Agreement or any other transaction under which payments are to be made by reference to this Agreement or the Company:

- (i) a copy of any Finance Document; and
- (ii) any information which that Finance Party has acquired under or in connection with any Finance Document.

However, before a third party may receive any confidential information, it must have entered into a Confidentiality Undertaking.

(c) This Clause 27 supersedes any previous confidentiality undertaking given by any Finance Party in connection with this Agreement prior to it becoming a Party.

**28. SET-OFF**

A Finance Party may, for so long as an Event of Default is outstanding, set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

**29. PRO RATA SHARING**

**29.1 Redistribution**

If a Finance Party (the **recovering Finance Party**) receives or recovers any amount from the Company other than in accordance with this Agreement (a **recovery**) and applies that amount to a payment due under a Finance Document, then:

- (a) the recovering Finance Party must, within three Business Days, supply details of the recovery to the Facility Agent;
- (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Finance Party would have received if the recovery had been received and distributed by the Facility Agent in accordance with this Agreement without taking account of any Tax which would be imposed on the Facility Agent in relation to a recovery or distribution; and
- (c) the recovering Finance Party must pay to the Facility Agent an amount equal to the excess (the **redistribution**).

**29.2 Effect of redistribution**

- (a) The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Finance Parties, other than the recovering Finance Party, accordingly.
- (b) When the Facility Agent makes a distribution under paragraph (a) above, the recovering Finance Party will be subrogated to the rights of the Finance Parties which have shared in that redistribution.
- (c) If and to the extent that the recovering Finance Party is not able to rely on any rights of subrogation under paragraph (b) above, the Company will owe the recovering Finance Party a debt which is equal to the redistribution, immediately payable and of the type originally discharged.
- (d) If:
  - (i) a recovering Finance Party must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
  - (ii) the recovering Finance Party has paid a redistribution in relation to that recovery,

each Finance Party, on the request of the Facility Agent, must reimburse the recovering Finance Party all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the redistribution. In this event, the subrogation in paragraph (b) above will operate in reverse to the extent of the reimbursement.

### **29.3 Exceptions**

Notwithstanding any other term of this Clause 29, a recovering Finance Party need not pay a redistribution to the extent that:

- (a) it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or
- (b) it would be sharing with another Finance Party any amount which the recovering Finance Party has received or recovered as a result of legal or arbitration proceedings, where:
  - (i) the recovering Finance Party notified the Facility Agent of those proceedings; and
  - (ii) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

### **30. SEVERABILITY**

If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any jurisdiction, that will not affect:

- (a) the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or
- (b) the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

### **31. COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

### **32. NOTICES**

#### **32.1 In writing**

- (a) Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:
  - (i) in person, by post or fax; or
  - (ii) to the extent agreed by the Parties making and receiving communication, by e-mail or other electronic communication.
- (b) For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.
- (c) Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

### 32.2 Contact details

(a) Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

(b) The contact details of the Company for this purpose are:

Address: Baidu Campus No. 10 Shangdi 10<sup>th</sup> Street, Haidian District, Beijing 100085, PRC  
Fax number: +86 10 5992 0051  
E-mail: [li\\_li@baidu.com](mailto:li_li@baidu.com)  
Attention: Li Li

(c) The contact details of the Facility Agent for this purpose are:

Address: Level 12, Three Pacific Place  
1 Queen's Road East  
Hong Kong  
Fax number: +852 2295 3283  
E-mail: [honctrmg@bnymellon.com](mailto:honctrmg@bnymellon.com)  
Attention: Corporate Trust.

(d) Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

(e) Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

### 32.3 Effectiveness

(a) Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (i) if delivered in person, at the time of delivery;
- (ii) if posted, five Business Days after being deposited in the post, postage prepaid, in a correctly addressed envelope;
- (iii) if by fax, when received in legible form; and
- (iv) if by e-mail or any other electronic communication, when received in legible form.

(b) A communication given under paragraph (a) above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

(c) A communication to the Facility Agent will only be effective on actual receipt by it.

### 32.4 The Company

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

**33. LANGUAGE**

- (a) Any notice given in connection with a Finance Document must be in English.
- (b) Any other document provided in connection with a Finance Document must be:
  - (i) in English; or
  - (ii) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

**34. GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by Hong Kong law.

**35. ENFORCEMENT**

**35.1 Jurisdiction**

- (a) The Hong Kong courts have exclusive jurisdiction to settle any dispute including a dispute relating to any non-contractual obligation arising out of or in connection with any Finance Document.
- (b) The Hong Kong courts are the most appropriate and convenient courts to settle any such dispute in connection with any Finance Document. The Company agrees not to argue to the contrary and waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.
- (c) This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, the Finance Parties may take:
  - (i) proceedings in any other court; and
  - (ii) concurrent proceedings in any number of jurisdictions.
- (d) References in this Clause 35 to a dispute in connection with a Finance Document includes any dispute as to the existence, validity or termination of that Finance Document.

**35.2 Service of process**

- (a) The Company irrevocably appoints Li & Partners of 22nd Floor, World-Wide House, 19, Des Voeux Road, Central, Hong Kong as its agent under the Finance Documents for service of process in any proceedings before the Hong Kong courts in connection with any Finance Document.
- (b) If any person appointed as process agent under this Clause is unable for any reason to so act, the Company must immediately (and in any event within 14 days of the event taking place) appoint another agent on terms acceptable to the Facility Agent. Failing this, the Facility Agent may appoint another process agent for this purpose.
- (c) The Company agrees that failure by a process agent to notify it of any process will not invalidate the relevant proceedings.

(d) This Clause does not affect any other method of service allowed by law.

**35.3 Waiver of immunity**

The Company irrevocably and unconditionally:

- (a) agrees not to claim any immunity from proceedings brought by a Finance Party against the Company in relation to a Finance Document and to ensure that no such claim is made on its behalf;
- (b) consents generally to the giving of any relief or the issue of any process in connection with those proceedings; and
- (c) waives all rights of immunity in respect of it or its assets.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1**  
**ORIGINAL PARTIES**

Name of Original Lender	Commitments
GOLDMAN SACHS LENDING PARTNERS LLC	<u>US\$350,000,000</u>
<b>Total Commitments</b>	<u>US\$350,000,000</u>

**SCHEDULE 2**

**CONDITIONS PRECEDENT AND CONDITIONS SUBSEQUENT DOCUMENTS**

**PART 1A (CONDITIONS PRECEDENT)**

**Corporate documentation**

1. A copy of the constitutional documents of the Company.
2. A copy of a resolution of the board of directors of the Company approving the terms of, and the transactions contemplated by, each Finance Document to which it is a party.
3. A copy of the certificate of good standing of the Company issued by the Registrar of Companies of the Cayman Islands within one month as of the date of this Agreement.
4. A copy of the certificate of incumbency of the Company issued by its Cayman registered office provider within one month as of the date of this Agreement.
5. A copy of the Original Financial Statements.
6. A Director's Certificate for the Company substantially in the form of Part 2 of this Schedule.
7. A copy of the Facility Agent Fee Letter duly entered into by the Company.
8. Evidence that the agent of the Company under the Finance Documents for service of process in Hong Kong has accepted its appointment.

**Legal opinions**

9. A legal opinion of Allen & Overy, legal advisers in Hong Kong to the Arranger, addressed to the Finance Parties, substantially in the form distributed to the Arranger prior to the signing of this Agreement.
10. A legal opinion of Conyers Dill & Pearman, legal advisers in the Cayman Islands to the Arranger, addressed to the Finance Parties, substantially in the form distributed to the Arranger prior to the signing of this Agreement.

**Other documents and evidence**

11. Evidence that all fees and expenses then due and payable from the Company under Clause 22 (Fees) and Clause 24.1 (Initial costs) of this Agreement have been or will be paid by the first Utilisation Date.
12. A copy of any other authorisation or other document, opinion or assurance which the Facility Agent has notified the Company in writing prior to the date of this Agreement, is necessary in connection with the entry into and performance of, and the transactions contemplated by, any Finance Document or for the validity and enforceability of any Finance Document.



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**Part 1B (CONDITIONS SUBSEQUENT)**

1. Within five Business Days from the Utilisation Date, evidence that the Acquisition has been duly completed.

**PART 2**

**FORM OF DIRECTOR'S CERTIFICATE**

To: The Bank of New York Mellon, Hong Kong Branch as Facility Agent  
and to each Finance Party

**BAIDU, INC. – US\$350,000,000 Credit Agreement  
dated [—], 2011 (the Agreement)**

I refer to the Agreement. Terms defined in the Agreement have, unless defined in this certificate, the same meaning when used in this certificate.

I am a director of Baidu, Inc. (the **Company**), a company incorporated in the Cayman Islands with registered office at [—]. I am authorised to give this certificate and certify as follows:

1. Each [original] and copy document delivered by the Company to the Facility Agent under Part 1A of Schedule 2 (Conditions precedent documents) to the Agreement (including the documents listed below and attached to this certificate) is true, complete and in full force and effect on the date of this certificate:
  - (a) the Amended and Restated Memorandum and Articles of Association of the Company;
  - (b) the Certificate of Incorporation of the Company;
  - (c) the Certificate of Incorporation on Change of Name of Company;
  - (d) the Certificate of Good Standing of the Company;
  - (e) the Certificate of Incumbency of the Company; and
  - (f) the unanimous written resolutions of the Board of Directors of the Company passed on [—] 2011.
2. Borrowing the Total Commitments will not cause any borrowing or similar limit binding on the Company under its memorandum or articles of association or other constitutional documents or any law applicable to it to be exceeded.
3. Each resolution adopted pursuant to the unanimous written resolutions referred to in 1(f) above is in full force and effect without modification.
4. The resolutions adopted pursuant to the unanimous written resolutions referred to in 1(f) above constitute all corporate action necessary on the part of the Company to:
  - (a) approve the terms of and transactions contemplated by the Finance Documents; and
  - (b) authorise the signing of, any communications and/or other action under or in connection with, the Finance Documents.

5. The following is a complete list of all persons who are directors and Company Secretary of the Company as at the date of this Certificate and who were Directors and Company Secretary on the date of the meeting referred to above.

[       ]

6. Each person listed below:

- (a) occupies the position stated against his name (and occupied that position on the date each Finance Document was signed by him);
- (b) is the person duly authorised in the resolutions adopted pursuant to the unanimous written resolutions referred to in 1(f) above to sign the Finance Documents (and any other document in connection with the Finance Documents) on behalf of the Company; and
- (c) has his true signature appearing opposite his name.

Name	Position	Specimen Signature
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7. Unless we notify you to the contrary in writing, you may assume that this Certificate remains true and correct up until the date of the first Utilisation by the Company under the Agreement.

For

**Baidu, Inc.** \_\_\_\_\_

Director

**SCHEDULE 3**  
**FORM OF REQUEST**

To: The Bank of New York Mellon, Hong Kong Branch as Facility Agent

From: BAIDU, INC.

Date: [            ]

**BAIDU, INC. – US\$350,000,000 Credit Agreement**  
**dated [—], 2011 (the Agreement)**

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request.
2. We wish to borrow the Loan on the following terms:
  - (a) Utilisation Date: [            ];
  - (b) Amount: [            ];
  - (c) Term: [3 months].
3. The proceeds of the Loan should be credited to: [*accounts (including accounts for settlement of fees and expenses)*].
4. We confirm that each condition precedent specified in Clause 4.2 (*Further conditions precedent*) under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. Particulars of the Acquisition:
  - (a) Type/number of shares in the Target Company which are the subject of the Acquisition: [            ]
  - (b) Subscription price payable by the Company for the Acquisition: [            ]
6. This Request is irrevocable.

By:

**BAIDU, INC.** \_\_\_\_\_

Name:

[Director]

SCHEDULE 4

FORM OF TRANSFER CERTIFICATE

To: The Bank of New York Mellon, Hong Kong Branch as Facility Agent

From: [EXISTING LENDER] (the **Existing Lender**) and [NEW LENDER] (the **New Lender**)

Date: [ ]

**BAIDU, INC. – US\$350,000,000 Credit Agreement**  
dated [ ], 2011 (the **Agreement**)

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have, unless defined in this certificate, the same meaning when used in this Transfer Certificate

1. The Existing Lender transfers by novation to the New Lender the Existing Lender's rights and obligations referred to in the Schedule below in accordance with the terms of the Agreement.
2. The proposed Transfer Date is [ ].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations in respect of this Transfer Certificate contained in the Agreement.

In particular, the New Lender expressly acknowledges and confirms that:

- (a) the Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
  - (i) the financial condition of the Company; or
  - (ii) the legality, validity, effectiveness, enforceability, adequacy, accuracy, completeness or performance of:
    - (A) any Finance Document or any other document;
    - (B) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document; or
    - (C) any observance by the Company of its obligations under any Finance Document or other document,and any representations or warranties implied by law are excluded; and
- (b) it:
  - (i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in the Agreement;

- (ii) has not relied on any information supplied to it by the Existing Lender in connection with any Finance Document;
- (iii) has conducted its own investigation in connection with the Finance Documents and has not relied upon the Existing Lender to conduct any due diligence investigation on its behalf;
- (iv) has access to all information that it believes is necessary or appropriate in connection with its participation of the Agreement and it is able to obtain or access business and financial information without undue difficulty;
- (v) has consulted its own independent advisors or otherwise has satisfied itself concerning, without limitation, the tax, legal, currency and other economic considerations related to its participation in the Agreement, and has only relied on the advice of, or has only consulted with, such independent advisers;
- (vi) has not relied and will not rely on any investigation or due diligence that the Existing Lender or any of its affiliates or employees or any person acting on behalf of the Existing Lender may have conducted in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets), and none of such persons has made any representation, warranty or recommendation to the New Lender, express or implied, in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) or the accuracy, completeness or adequacy of any information the New Lender obtain from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind); and
- (vii) will not hold the Existing Lender, its affiliates or the officers, directors or employees responsible for any misstatements in or omissions from information it obtains from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind).

5. This Transfer Certificate may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of the Transfer Certificate.
6. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by Hong Kong law.

**THE SCHEDULE**

**Rights and obligations to be transferred by novation**

[insert relevant details, including applicable Commitment (or part)]

**Administrative details of the New Lender**

[insert details of Facility Office, address for notices, *fax number and attention details* and account details for payment etc.]

**[EXISTING LENDER]**

**[NEW LENDER]**

By:

By:

The Transfer Date is confirmed by the Facility Agent as [                      ].

[—]

By:

**Note: The New Lender is alone responsible for checking whether any further formalities should be complied with. An assignment may give rise to a stamp duty or transfer tax issues.**

**SCHEDULE 5**

**EXISTING SECURITY**

Member of the Group creating security	Details of security	Maximum principal amount secured
Baidu Online Network Technology (Beijing) Co., Ltd.	Security Interest in respect of cash	US\$ 20,000,000



SCHEDULE 6

FORM OF COMPLIANCE CERTIFICATE

To: The Bank of New York Mellon, Hong Kong Branch as Facility Agent

From: BAIDU, INC.

Date: [ ]

**BAIDU, INC. – US\$350,000,000 Credit Agreement  
dated [ ], 2011 (the Agreement)**

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meanings in this Compliance Certificate.
2. We confirm that as at [relevant testing date]:
  - (a) Consolidated Tangible Net Worth is [ ]; and
  - (b) Consolidated Total Borrowings are [ ] and therefore, Consolidated Total Borrowings are [ ] per cent. ([ ]%) of Consolidated Tangible Net Worth.
  - (c) Adjusted Consolidated EBITDA is [ ] and therefore, Consolidated Total Borrowings are [ ] per cent. ([ ]%) of Consolidated EBITDA.
3. We set out below calculations establishing the figures in paragraph 2 above:  
[ ].
4. We confirm that as at [relevant testing date] [no Default is outstanding]/[the following Default[s] [is/are] outstanding and the following steps are being taken to remedy [it/them]:  
[ ]].

**BAIDU, INC.**

By:

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**Signatories**

**Company**

**BAIDU, INC.**

By: /s/ Authorized Signatory

**Arranger**

**GOLDMAN SACHS (ASIA) L.L.C.**

By: /s/ Authorized Signatory

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**Original Lender**

**GOLDMAN SACHS LENDING PARTNERS LLC**

By: /s/ Authorized Signatory

**Facility Agent**

**THE BANK OF NEW YORK MELLON, HONG KONG BRANCH**

By: /s/ Authorized Signatory

**List of Principal Subsidiaries and Consolidated Affiliated Entities****Subsidiaries\***

Baidu Online Network Technology (Beijing) Co., Ltd. — Incorporated in the PRC  
Baidu Holdings Limited — Incorporated in the British Virgin Islands  
Baidu (China) Co., Ltd. — Incorporated in the PRC  
Baidu.com Times Technology (Beijing) Co., Ltd. — Incorporated in the PRC  
Baidu Japan Inc. — Incorporated in Japan  
Baidu (Hong Kong) Limited — Incorporated in Hong Kong  
Baidu, Inc. — Incorporated in Japan  
Hya Kudo, Inc. — Incorporated in Japan  
Baidu USA LLC — Incorporated in USA  
Baidu International Technology (Shenzhen) Co., Ltd. — Incorporated in the PRC  
Qunar Cayman Islands Limited — Incorporated in the Cayman Islands  
B.D.Mobile Telecommunications Limited — Incorporated in the Cayman Islands  
Baidu Cloud Computing Technology (Beijing) Co., Ltd. — Incorporated in the PRC  
Baidu Cloud Computing Technology (Shanxi) Co., Ltd. — Incorporated in the PRC

**Consolidated Affiliated Entities:**

Beijing Baidu Netcom Science Technology Co., Ltd. — Incorporated in the PRC  
Beijing Perusal Technology Co., Ltd. — Incorporated in the PRC  
Beijing BaiduPay Science and Technology Co., Ltd. — Incorporated in the PRC  
Baidu HR Consulting (Shanghai) Co., Ltd. — Incorporated in the PRC

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\* In addition, we own (1)100% ordinary shares in Qiyi.com, Inc., representing 59.92% of the total equity interests in Qiyi.com, Inc. on an as-converted basis, and (2)100% ordinary shares in Youa.com, Inc., representing 66.04% of the total equity interest in Youa.com, Inc. on an as-converted basis. However, we do not consolidate the financial results of Qiyi.com, Inc. and Youa.com, Inc. in our financial statements under the U.S. GAAP because of our lack of “control” over the board of directors of Qiyi.com, Inc. and Youa.com, Inc. and certain substantive participating rights provided to other shareholders of these companies.

**Certification by the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robin Yanhong Li, certify that:

1. I have reviewed this annual report on Form 20-F of Baidu, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2012

By: /s/ Robin Yanhong Li

Name: Robin Yanhong Li

Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jennifer Li, certify that:

1. I have reviewed this annual report on Form 20-F of Baidu, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2012

By: /s/ Jennifer Li

Name: Jennifer Li

Title: Chief Financial Officer



**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Baidu, Inc. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robin Yanhong Li, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2012

By: /s/ Robin Yanhong Li

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Name: Robin Yanhong Li

Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Baidu, Inc. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jennifer Li, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2012

By: /s/ Jennifer Li

Name: Jennifer Li

Title: Chief Financial Officer

[Maples and Calder Letterhead]

Baidu, Inc.  
Baidu Campus  
No. 10 Shangdi 10th Street  
Haidian District, Beijing 100085  
The People's Republic of China  
29 March 2012

Dear Sirs

**Baidu, Inc.**

We consent to the reference of our firm under the heading "Item 10.E. Additional Information—Taxation—Cayman Islands Taxation" and "Item 16G. Corporate Governance" on Form 20-F for the year ended December 31, 2011, which will be filed with the Securities and Exchange Commission in the month of March 2012.

Yours faithfully

/s/ Maples and Calder

[Han Kun Law Offices Letterhead]

March 29, 2012

Baidu, Inc.  
Baidu Campus  
No. 10 Shangdi 10th Street  
Haidian District, Beijing  
People's Republic of China 100085

Dear Sir/Madam:

We hereby consent to the reference of our name under the heading "Regulation" in Baidu, Inc.'s Annual Report on Form 20-F for the year ended December 31, 2011, which will be filed with the Securities and Exchange Commission in the month of March 2012. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Han Kun Law Offices

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-129374 and Form S-8 No. 333-158678) pertaining to Baidu, Inc.'s 2000 Option Plan and 2008 Share Incentive Plan of our reports dated March 29, 2012, with respect to the consolidated financial statements of Baidu, Inc. and the effectiveness of internal control over financial reporting of Baidu, Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2011.

/s/ Ernst & Young Hua Ming

Beijing, the People's Republic of China  
March 29, 2012