## Business Updates

On November 16, 2020, Baidu (Hong Kong) Limited, our wholly-owned subsidiary, entered into a share purchase agreement with JOYY Inc. and certain of its affiliates, which are collectively referred to as JOYY, and subsequently amended the share purchase agreement on February 7, 2021. Pursuant to the agreement, we agreed to acquire JOYY's domestic video-based entertainment live streaming business in China, which is referred to as YY Live, for an aggregate purchase price of approximately US$3.6 billion in cash, subject to certain adjustments. Approximately US$2.0 billion of the purchase price would be payable to JOYY at the closing of the acquisition, subject to certain adjustments. After the closing, subject to certain conditions and adjustments, approximately US$1.0 billion would be payable no later than the later of the closing and April 30, 2021, and approximately US$300 million would be payable no later than the later of the closing and June 30, 2021 and a maximum amount of US$300 million would be payable subject to the achievement of certain conditions. The closing is subject to certain conditions, including, among others, there not having been any material adverse effect on YY Live, the financial statements of YY Live fairly representing its results of operations in all material respects, obtaining necessary regulatory approvals from governmental authorities, JOYY completing certain restructuring steps in relation to YY Live, and JOYY entering into a non-compete undertaking, pursuant to which JOYY would agree to not compete with us in certain areas of YY Live for a term of ten years. The share purchase agreement is subject to termination if the closing does not occur within a specified period of time. We have paid an aggregate of US$1.9 billion, after considering working capital adjustment of US$0.1 billion, to JOYY and its designated escrow account, and deposited an aggregate of US$1.6 billion into several escrow accounts, in accordance with the terms and schedule set forth in the share repurchase agreement, with certain customary matters remaining to be completed in the near future.

On November 18, 2020, Muddy Waters issued a short seller report containing certain allegations against JOYY, including YY Live business. The short seller report alleged that JOYY's, including YY Live's, revenue appears fraudulent, and JOYY committed fraud through methods such as using paying user bots from JOYY's own servers, and colluding with top performers and large channel owners recycling the gifts back into the system. Based on public records, JOYY and certain of its current and former officers and directors were named as defendants in a federal putative securities class action filed in November 2020 alleging that they made material misstatements and omissions in documents filed with the SEC regarding certain of the allegations contained in the Muddy Waters short seller report. We conducted financial, legal and commercial due diligence both prior to the execution of the share purchase agreement in relation to the acquisition, and after the release of Muddy Waters short seller report in relation to JOYY. In addition, we further negotiated with JOYY and entered into the amended and restated share purchase agreement on February 7, 2021, modifying certain terms and conditions in the original share purchase agreement. On February 8, 2021, JOYY publicly disclosed that its audit committee conducted an independent review of the allegations raised in the report related to the YY Live business, with the assistance of independent counsel, working with a team of experienced forensic auditors and data analytics experts, and that the review concluded that the allegations raised and conclusions reached in the report about the YY Live business were not substantiated. We had also maintained frequent and substantive communications with JOYY and its independent professional advisers. In light of these and also taking into consideration the potential synergies that YY Live may bring to our own business, we believe that it is in the commercial interest of our Company to proceed to complete the transaction pursuant to the terms and conditions in the amended and restated share purchase agreement. The acquisition has been substantially completed, with certain customary matters remaining to be completed in the near future. We are currently unable to predict the possible or further consequence that may arise from or relate in any way to the allegations contained in the Muddy Waters short seller report. There might be other class actions or regulatory enforcement actions in connection with such allegations. Any adverse outcome as a result of the short seller report, or any class action or regulatory enforcement action in connection thereof, could have a material adverse effect on YY Live's business, financial condition, results of operation, cash flows, and reputation, and we may record impairment charges or write-offs of intangible assets and goodwill in connection with the acquisition in the future. For more information on related risk, see "Risk Factors—Risks Related to Our Business and Industry—We face risks associated with our acquisition of YY Live and its online live streaming business."

In relation to YY Live, the Joint Sponsors with the assistance of counsels, have conducted relevant due diligence work, including but not limited to, (i) reviewing the summary of the key findings of the independent review of the allegations led by the audit committee of JOYY; (ii) interviewing the industry consultant of the Company, to understand the general practice of China's livestreaming industry; and (iii) discussing with the senior management team of JOYY and YY Live, and the management of the Company, to understand the views of them on the acquisition of YY Live, the business of YY Live, and the MW Report, as applicable.

Having considered the due diligence work conducted by the Company, and the independent due diligence conducted by the Joint Sponsors, nothing material has come to the Joint Sponsors' attention that the due diligence work conducted by the Company to be insufficient or unreasonable, and to disagree with the Directors' assessment and view in relation to YY Live and the allegations contained in the MW Report which conclude that it is in the interest of the Company to proceed with the acquisition of YY Live.

YY Live is a video-based live streaming platform in China offering content such as music and dance shows, talk shows, outdoor activities, sports and anime. Users of YY Live may enjoy the live streaming services on YY Live platform through YY mobile app, YY.com website and PC YY. Users access content on the platform free of charge, but are charged for purchases of virtual items. YY Live generates revenue from the sales of in-channel virtual items used on its platform as tips for live streaming hosts.

We expect YY Live to bring synergies to our Mobile Ecosystem, which currently offers various knowledge-and-information-centric products and services, and diversify our monetization capabilities and revenue streams. We may be subject to a variety of risks associated with the online live streaming business of YY Live. See "Risk Factors—Risks Related to Our Business and Industry—We face risks associated with our acquisition of YY Live and its online live streaming business." YY Live's net revenues amounted to RMB10,272.7 million, RMB10,962.5 million and RMB9,950.3 million (US$1,524.9 million), respectively. YY Live's net income amounted to RMB3,288.6 million, RMB3,700.7 million and RMB3,141.3 million (US$481.4 million) in the years ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2020, YY Live had net liabilities of RMB766.8 million (US$117.5 million). For the year ended December 31, 2020, YY Live's total net revenues, gross profit and net income accounted for 9.3%, 8.9% and 16.5% of our total net revenues, gross profit and net income, respectively. As of December 31, 2020, YY Live's total assets accounted for 0.2% of our total assets. For more information, please refer to "Financial Information—Financial Information of YY Live" and Appendix IB—Accountant's Report of YY Live.

**Extraordinary General Meeting of Shareholders to Approve Share Subdivision**

[The Company held an extraordinary general meeting of shareholders on March 1, 2021. A proposal of changing the Company's authorized share capital by one-to-eighty subdivision of shares was submitted to the Company's shareholders to be considered and voted upon at the meeting. The Company's board of directors approved a change in the ADS ratio proportionate to the Share Subdivision from ten (10) ADSs representing one (1) Class A ordinary share to one (1) ADS representing eight (8) Class A ordinary shares, which took effect on March 1, 2021].

**Impact of COVID-19 on Our Operations**

Our results of operations have been, and could continue to be adversely, and may be materially, affected, to the extent that the COVID-19 or any other epidemic harms the Chinese and global economy in general. Any potential impact to our results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of the COVID-19 and the actions taken by government authorities and other entities to contain the COVID-19 or treat its impact, almost all of which are beyond our control.

The potential downturn brought by and the duration of the COVID-19 pandemic may be difficult to assess or predict where actual effects will depend on many factors beyond our control. The extent to which the COVID-19 pandemic impacts our long-term results remains uncertain, and we are closely monitoring its impact on us. During the year ended December 31, 2020, our operations have been affected by the COVID-19 pandemic. Our online marketing revenues declined compared to the prior period mainly due to weakness in online advertising demand as our customers in certain industries are negatively impacted by COVID-19. We have also provided additional allowance for credit losses for accounts receivable and contract assets, recognized impairment charges on our long-term investments and content assets, and recorded loss from equity method investments in 2020, due to the impact of COVID-19 and other factors. In addition, increased market volatility has contributed to larger fluctuations in the valuation of our equity investments. There are still significant uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of new waves in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition especially for SMEs, almost all of which are beyond our control. As a result, certain of our estimates and assumptions, including the allowance for credit losses, the valuation of certain debt and equity investments, long-term investments, content assets and long-lived assets subject to impairment assessments, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to our current estimates in future periods. See also "Risk Factors—Risks Related to Our Business and Industry—We face risks related to health epidemics, severe weather conditions and other outbreaks."

**Promulgation of the Guidelines to Anti-Monopoly in the Field of Internet Platforms**

On February 7, 2021, the Anti-monopoly Commission of the State Council officially promulgated the Guidelines to Anti-Monopoly in the Field of Internet Platforms, or the Anti-Monopoly Guidelines for Internet Platforms. Pursuant to an official interpretation from the Anti-monopoly Commission of the State Council, the Anti-Monopoly Guidelines for Internet Platforms mainly covers five aspects, including general provisions, monopoly agreements, abusing market dominance, concentration of undertakings, and abusing of administrative powers eliminating or restricting competition. The Anti-Monopoly Guidelines for Internet Platforms prohibits certain monopolistic acts of internet platforms so as to protect market competition and safeguard interests of users and undertakings participating in internet platform economy, including without limitation, prohibiting platforms with dominant position from abusing their market dominance (such as discriminating customers in terms of pricing and other transactional conditions using big data and analytics, coercing counterparties into exclusivity arrangements, using technology means to block competitors' interface, favorable positioning in search results of goods displays, using bundle services to sell services or products, compulsory collection of unnecessary user data). In addition, the Anti-Monopoly Guidelines for Internet Platforms also reinforces antitrust merger review for internet platform related transactions to safeguard market competition. As the Anti-Monopoly Guidelines for Internet Platforms was newly promulgated, we are uncertain to estimate its specific impact on our business, financial condition, results of operations and prospects. We cannot assure you that our business operations comply with such regulations and authorities' requirements in all respects. If any non-compliance is raised by relevant authorities and determined against us, we may be subject to fines and other penalties.

We have received enquiry from the SAMR related to failure to file prior notification of concentrations of undertaking and the possibility of penalty. Relevant cases are still under investigation. We have been cooperating with SAMR and we keep written and oral correspondence with SAMR. In January 2021, we received one official case-filing notification in connection with one case, which required us to provide relevant materials and statements on whether the non-filing constitutes a failure to file prior notification of concentrations of undertaking. We have been cooperating with SAMR and providing the requested documents and information. Recently we received a notification from the SAMR contemplating the imposition of a fine of RMB500,000 in connection with this case. The SAMR will issue an official notice imposing the penalty if no objection was raised within three business days. We did not object to the penalty. We do not expect further penalty from the SAMR in connection with this case after we make full payment of the penalty. There can be no assurance that such enquiry can be resolved in a timely manner to the SAMR's satisfaction, or that we will not be subject to more enquiries in the future. We may be subject to penalty in connection with any such enquiry, including certain fines up to RMB500,000 per case, and in extreme case being order to terminate the contemplated concentration, to dispose of our equity or asset within a prescribed period, to transfer our business within a prescribed time or to take any other necessary measures to return to the pre-concentration status. We may receive greater scrutiny and attention from regulators and more frequent and rigid investigation or review by regulators, which will increase our compliance costs and subject us to heightened risks and challenges. We may have to spend much more personnel cost and time to evaluate and manage these risks and challenges in connection with our products and services as well as our investments in our ordinary business course to avoid any failure to comply with these regulations. Any failure or perceived failure by us to comply with the enacted Anti-Monopoly Guidelines for Internet Platforms and other anti-monopoly laws and regulations may result in governmental investigations or enforcement actions, litigations or claims against us and could have an adverse effect on our business, financial condition and results of operations. See also "Risk Factors—Risks Related to Doing Business in China—Any failure or perceived failure by us to comply with the enacted Anti-Monopoly Guidelines for Internet Platforms and other anti-monopoly laws and regulations may result in governmental investigations or enforcement actions, litigation or claims against us and could have an adverse effect on our business, financial condition and results of operations."