

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this [REDACTED] were extracted from official government publications, public market research and independent research. In addition, we engaged China Insights Consultancy (CIC), an independent market research and consulting company, for the [REDACTED]. Except as otherwise noted, all of the information contained in this section is derived from CIC’s industry report (CIC Report). We believe that the sources of the information in this section and other sections of this [REDACTED] are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us, [REDACTED], Joint Sponsors, [REDACTED], [REDACTED], any of [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the CIC Report that would qualify, contradict or have a material impact on the information in this section.

Baidu Core offers products and services in three growth engines, namely Mobile Ecosystem, AI Cloud and Intelligent Driving & Other Growth Initiatives. This section sets out overview of the industries and markets relating to these engines, including China’s (i) knowledge-and information-centric internet platforms, (ii) cloud service market, (iii) intelligent driving industry, (iv) new energy vehicle market, (v) smart devices market, (vi) AI chip industry and (vii) Internet healthcare industry. In addition, with respect to iQIYI, this section provides certain information about the online entertainment industry in China.

Overview of Artificial Intelligence in China

Artificial Intelligence technologies have developed differently in different parts of the world. However, according to the CIC Report, building a powerful AI system requires (i) chips and cloud computing to provide sufficient computational power to process massive amounts of data, (ii) a deep learning framework and model library, especially from open-source AI platforms, to enable developers to build high-quality AI algorithms and (iii) application-level capabilities, such as speech recognition, computer vision, optical character recognition and NLP, that help realize the abilities to perceive, understand and make decisions.

China is at the forefront of AI technology development. In 2019, China ranked No.1 globally in terms of total number of AI research papers published, No.1 globally in terms of number of AI patent applications and No.2 globally in terms of total number of AI companies, according to the CIC Report. Chinese AI companies also raised the highest amount of capital globally from 2015 to 2019. Since 2015, China’s investment in AI has surpassed that of the U.S. and reached approximately US\$46.76 billion in 2019, compared with US\$38.65 billion in the U.S, according to the CIC Report.

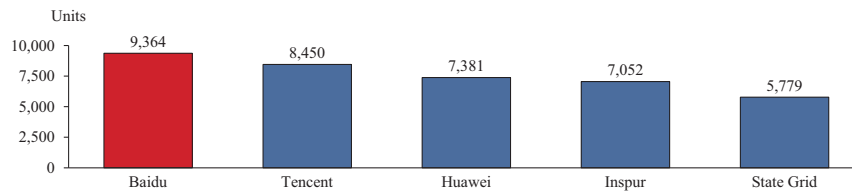
To compete successfully, AI companies shall possess the following criteria: (i) a robust ecosystem where ample data is available for machine learning and algorithm enhancement, (ii) technologically superior and cost-effective hardware and software integrated solutions and (iii) sufficient financial resources to support research and development and talent retention, as the path to monetization can be long and uncertain, according to the CIC Report. To date, Baidu is the only Chinese company to have

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developed full-stack AI capabilities ranging from chip design to deep learning framework and application-level AI capabilities, according to the CIC Report, resulting in its leadership in the following areas:

- Baidu holds the largest number of AI patent applications in China as of October 30, 2020.

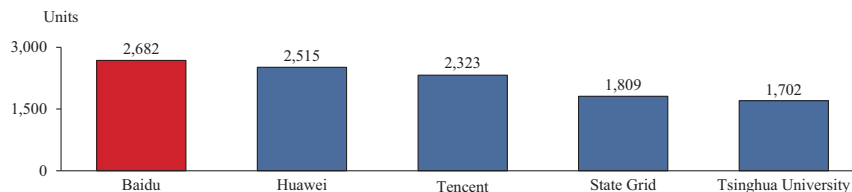
Top Companies by Cumulative Number of AI Patent Applications in China (October 30, 2020)



Source: CIC Report, China National Industrial Cyber Security Development Center

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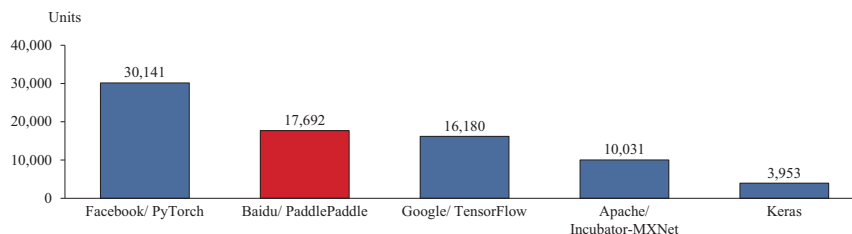
Top Companies by Cumulative Number of AI Patents in China (October 30, 2020)



Source: CIC Report, China National Industrial Cyber Security Development Center

- PaddlePaddle, Baidu’s open-source deep learning framework, ranked No.2 globally in terms of cumulative number of pull requests as measured in GitHub, the most popular open-source technology community in the world, as of December 31, 2020.

Top Open-Source Frameworks Globally by Cumulative Pull Request (December 31, 2020)

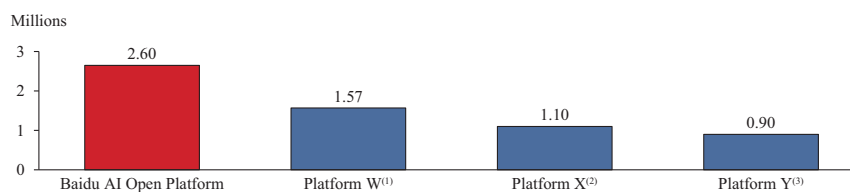


Source: CIC Report, GitHub

- Baidu AI Open Platform ranked No.1 in China in terms of number of developers as of December 31, 2020.

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Top Open Platforms in China by Number of Developers (December 31, 2020)



Notes:

- (1) Platform W is an open platform established by Company W, a voice focused AI solution provider.
- (2) Platform X is an open platform established by a public cloud services provider owned by a leading Internet company, Company X.
- (3) Platform Y is an open platform established by a public cloud services provider owned by a leading Internet company, Company Y.

Source: CIC Report

Advancement in computing power, algorithm and data volume, combined with significant financial resources and human capital, will continue to drive the development of AI technologies and related downstream fields such as AIoT and other AI-enabled products and services. Massive amounts of data will be produced, which will further enhance algorithms to eventually develop human-like intuition and behaviors.

Overview of Knowledge-and-Information-Centric Internet Platforms in China

China’s knowledge-and-information-centric Internet platforms include online search platforms, newsfeed platforms and other knowledge-and-information-centric online platforms. According to the CIC Report, China’s knowledge-and-information-centric Internet platforms play an important role in China’s Internet industry, with over 600 million active users, who spent a daily average of approximately 2.4 hours on these platforms in 2019. AI technologies are crucial for crawling unstructured Internet data, understanding user’s queries and recommending relevant content to users, which make knowledge-and-information-centric Internet platforms an integral part of the Internet space.

As a result of their massive user base and strong ability to help generate high consumer conversion rate, knowledge-and-information-centric Internet platforms have been attractive to brands for empowering their marketing and promotional activities. Consequently, online advertising has been the main source of revenue for knowledge-and-information-centric Internet platforms.

Key Trends and Drivers

According to the CIC Report, the key trends and drivers of the knowledge-and-information-centric Internet platforms include:

- ***Emergence of “super app”***

A super app is an app that encompasses and integrates a variety of functions from other apps and sites, such as search, Q&A, video, live streaming and e-commerce, without the need to direct users to other apps or sites. Therefore, a super app can better analyze and understand user behavior, improve and expand its functions and further increase user time spent in the app.

- ***Combining search and feed***

Search engines traditionally respond to user’s queries by providing a list of links that direct users to other sites for searched information and content. In the era of smart phones, as a result of smaller

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screen size as well as the ability to accurately track user behavior, many platforms aim to provide personalized and curated content. By predicting and recommending to users content from the platforms themselves and third-party sources, apps can offer users higher levels of interaction and result in a higher conversion rate.

- ***AI-enhanced search methods***

Historically, traditional search requires users to manually type key words. AI technologies, such as speech recognition and computer vision, allow users to communicate their intent more naturally and efficiently, through speech and image scanning, than through typing. Search interactions provide valuable user intent information that can be used to further enhance AI recommendation algorithms.

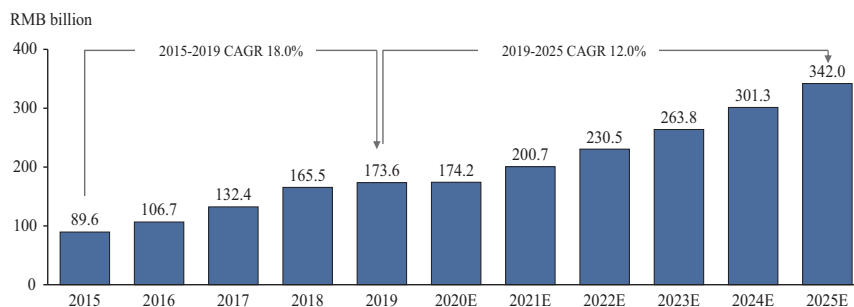
- ***More diversified monetization channels***

Better user understanding and increased user traffic could lead to faster growth in advertising revenue, as well as revenue generated from services provided to individuals (e.g., membership, online literature, online audio, and live broadcasting), which amounted to RMB214.9 billion in 2019, and is expected to increase to RMB750.5 billion in 2025, representing a CAGR of 23.2% between 2019 and 2025.

Market Size

The market size of advertising on knowledge-and-information-centric Internet platforms in China has grown from RMB89.6 billion in 2015 to RMB173.6 billion in 2019, representing a CAGR of 18.0%, according to the CIC Report. The market size is expected to reach RMB342.0 billion in 2025, representing a CAGR of 12.0% between 2019 and 2025.

Market Size of Advertising on Knowledge-and-Information-Centric Internet Platforms in China (2015-2025E)



Source: CIC Report

Competitive Landscape

According to the CIC Report, Baidu has been the No.1 search engine in China in the last decade in terms of revenue and number of users, as well as the No.1 “search-plus-feed” app in China in terms of MAUs and DAUs in December 2020. Baidu is also the No.1 knowledge-and-information-centric Internet platform in China in terms of online advertising revenue in 2019 and the only company with leading position in both search and feed advertisement.

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Our market share in search engine market in China keeps stable in recent 3 years. As illustrated by the table below, we have the highest market share (in terms of revenue in 2020), MAU and DAU among our peers which operate search engines in China.

Ranking	Companies	Market share in terms of revenue (2020, %)	Average MAUs (2020, in millions)	DAUs (2020, in millions)
1	Baidu	72.7%	538.28	208.06
2	Search engine $\alpha^{(1)}$	7.9%	61.14	26.36
3	Search engine $\beta^{(2)}$	6.6%	29.94	6.79
4	Search engine $\gamma^{(3)}$	N/A	2.12	0.69

Notes:

(1) Search engine α is a search engine with over 10 years history.

(2) Search engine β is a search engine acquired by a leading Internet company, Company Y.

(3) Search engine γ is a search engine owned by a leading Internet company, Company X.

Source: CIC report

There are vertical service providers in the forms of mobile apps and/or websites that allow users to search within their closed ecosystems. These players often purchase traffic from search engines and try to retain their users by offering comprehensive services on their platforms. Concurrently, Baidu is also extending its service offerings in various verticals, such as healthcare, business-to-business and live streaming, to increase the vibrancy of its platform.

As illustrated by the table below, we have the highest MAU and DAU among all of the knowledge-and-information-centric Internet platforms in China.

Ranking	Companies	Average MAUs (2020, in millions)	DAUs (2020, in millions)
1	Baidu	538.28	208.06
2	Knowledge-and -information-centric Internet platform $\alpha^{(1)}$	446.88	182.24
3	Knowledge-and -information-centric Internet platform $\beta^{(2)}$	422.79	123.48

Notes:

(1) Internet platform α is a knowledge-and-information-centric platform with over 10 years development history.

(2) Internet platform β is a knowledge-and-information-centric platform owned by a leading Internet company, Company Y.

Overview of Cloud Service Market in China

The concept of cloud services was first commercially introduced by Amazon in 2006. Since then, the market for cloud services has grown steadily globally, as enterprises continued to shift away from on-premise IT infrastructure. According to the CIC Report, China is the world’s second largest cloud service market in 2019. The penetration rate of China’s cloud service market, which is calculated by dividing the market size of cloud services by the total IT spending, was only approximately 5.1% in 2019, implying significant room for further development, according to the CIC Report.

As enterprises undergo digital transformation with a heightened focus to improve cost efficiency, cloud services in China is expected to experience tremendous growth and further penetration in the near future, according to the CIC Report.

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Key Trends and Drivers

According to the CIC Report, the key trends and drivers of China’s cloud service market include:

- ***Continued penetration in traditional enterprises***

Cloud service’s penetration is expected to increase among traditional enterprises, due to their ability to reduce cost and improve productivity. In addition, as traditional enterprises continue to undergo digital transformation by adopting more software solutions, they will become more receptive to the shift away from on-premise infrastructure.

- ***Increased demand from Internet users***

China has a massive number of Internet users, which will continually drive the development and growth of Internet products and services offerings. The surge of products and services will lead to increased demand for cloud services, which is sought after for its flexibility and scalability.

- ***Increased multi-cloud provider preference***

Multi-cloud strategies will reduce vendor dependency and cloud computing cost for enterprises. Thus, more enterprises are expected to adopt multi-cloud strategy. Benefiting from multi-cloud-provider preference, providers with neutrality, large-scale and quick ramp up capabilities are expected to have promising development prospect.

- ***Increased penetration of 5G and IoT will lead to more demand for AI***

The continued deployment of 5G technology will bring about significantly increased data transmission speed. This will benefit the development of video content as well as IoT, which will in turn vastly increase the demand for data storage and processing. In addition, IoT often requires AI technologies to interact with users, which will require deployment of cloud services.

- ***Favorable government policies and increased spending in intelligent transportation system***

During China’s 12th Five-Year Plan (2010-2015), the cloud services industry received significant amounts of investment and such high levels of investments have continued into the 13th Five-Year Plan (2016-2020). Furthermore, to revitalize its economy in light of the impact of COVID-19, the Chinese government ramped up a series of initiatives to boost “New Infrastructure” nationwide, covering areas such as 5G networks, AI technologies, IoT development and inter-city high-speed rail systems, as well as the establishment of research and development institutions related thereto. Almost all of the applications and technologies related to these initiatives require support from cloud services.

In addition, the Chinese government has awarded RMB9.8 billion worth of intelligent transportation system (ITS) contracts in 2019, which mainly includes intelligent vehicle infrastructure cooperative system, intelligent traffic signal control system, and intelligent public transportation system projects. ITS projects are government-led initiatives aimed to mitigate traffic jams, parking difficulties and overcrowding in public transportation faced by urban commuters in China. According to the CIC Report, investment in ITS is expected to reach approximately RMB52.2 billion in 2025, representing a CAGR of 32.0% between 2019 and 2025.

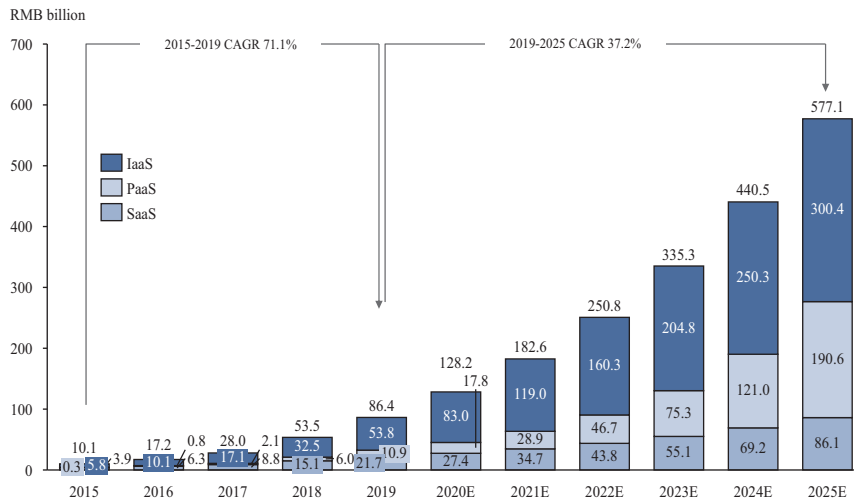
Market Size

China’s cloud service market has experienced significant growth since 2015, and China has become one of the fastest growing markets in the world. IaaS, the most basic type of cloud services, represents

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a large portion of the cloud service market in China. PaaS and SaaS are gaining popularity among developers and enterprises, owing to their customized and function-specific nature. According to the CIC Report, the market size of public cloud services industry in China grew from RMB10.1 billion to RMB86.4 billion between 2015 and 2019, representing a CAGR of 71.1% during that period, and is expected to grow to RMB577.1 billion by 2025, representing a CAGR of 37.2% from 2019 to 2025. The chart below presents the historical and expected market size of public cloud services in China.

Market Size of Public Cloud Services in China (2015-2025E)



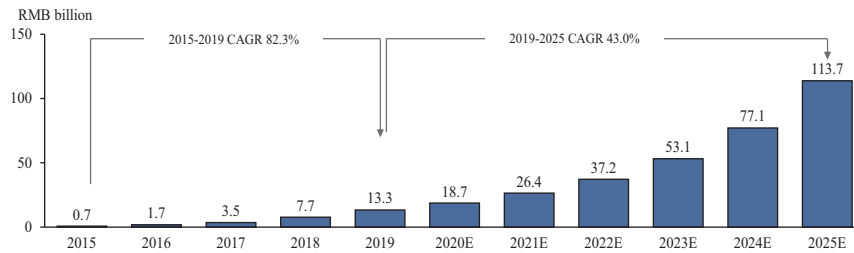
Source: CIC Report

According to the CIC Report, many developers and enterprises are faced with the challenge of integrating AI capabilities into their existing applications and products, as well as obtaining sufficient computing power to train and improve AI algorithms to meet their business needs. It is expensive and time-consuming to build and operate highly intelligent and scalable AI capabilities. Alternatively, AI cloud services can serve as “building blocks” for developers and enterprises by providing AI capabilities in the form of API. Leveraging AI cloud services is a convenient way for developers and enterprises to incorporate AI capabilities into their existing products and services, without spending large amounts of capital to upgrade their companies’ internal IT infrastructure or develop their own AI capabilities. According to the CIC Report, this high level of flexibility is the primary reason why an increasing number of enterprises are adapting cloud-based AI services.

AI cloud solutions can be applied through PaaS and SaaS, or implemented through customized private cloud solutions. According to the CIC Report, the addressable market for AI cloud solution providers has grown from RMB0.7 billion to RMB13.3 billion between 2015 and 2019, representing a CAGR of 82.3% during the period, and is expected to reach RMB113.7 billion by 2025, growing at a CAGR of 43.0% from 2019 to 2025.

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Addressable Market for AI Cloud Solutions Providers in China (2015-2025E)



Source: CIC Report

Competitive Landscape

Baidu is among China’s top four public cloud services providers and the leader in the AI public cloud service market in 2019, according to the CIC Report. Although the AI cloud service market is still at an early stage of development, Baidu has already distinguished itself as a clear market leader, according to the CIC Report. Our AI Cloud is the largest AI public cloud in China, in terms of product portfolio and APIs used by developers in 2020, according to the CIC Report.

2020	AI cloud product portfolio (Unit)	APIs used by developers (Billion)
Baidu AI Cloud	~330	~58
Cloud X ⁽¹⁾	~260	~47
Cloud Y ⁽²⁾	~240	~45

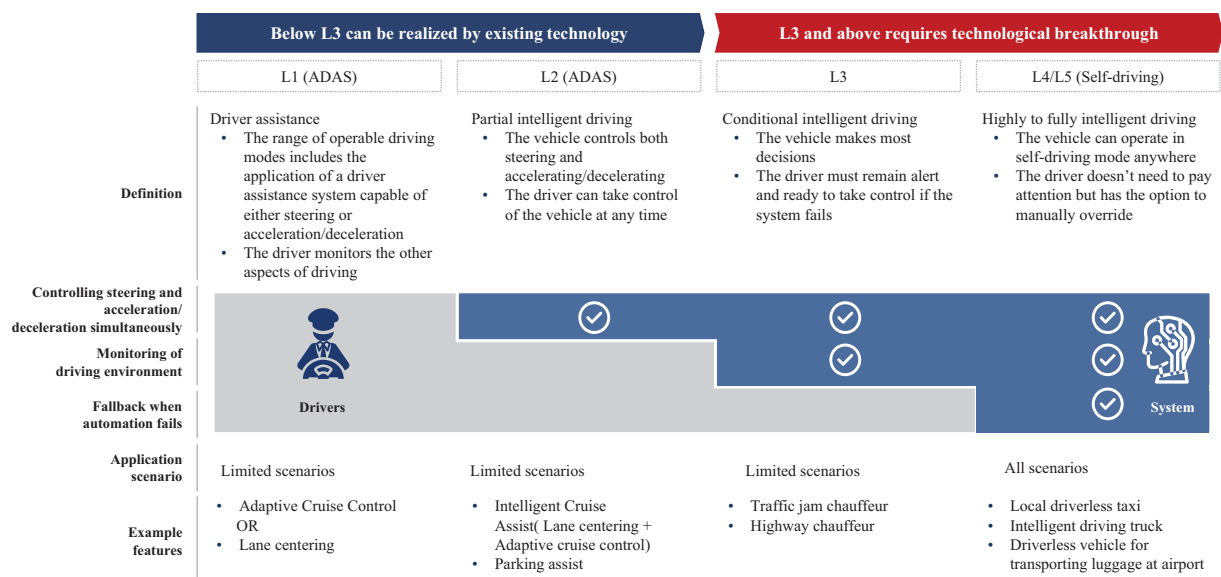
Notes:

- (1) Cloud X is a cloud services provider owned by a leading Internet Company, Company X.
- (2) Cloud Y is a cloud services provider owned by a leading Internet Company, Company Y.

Source: CIC Report

Overview of China’s Intelligent Driving Industry

Significant technological advancements have been made in the area of intelligent driving, which has evolved from providing basic driver assistance to enabling automobiles to sense and react autonomously. The graph below illustrates the key developmental stages of intelligent driving, according to the CIC Report.



Source: CIC Report

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Autonomous driving is perceived as the ultimate goal of intelligent driving, and operating robotaxis, in place of taxi rides, and ride sharing, is one of the largest monetization opportunities for autonomous driving. According to the CIC Report, many intelligent driving technology companies will develop their own proprietary algorithms and then task an automaker to assemble the necessary hardware together to produce fully self-driving vehicles. Although there could be years before robotaxis become fully commercialized due to technological and regulatory reasons, the evolution of intelligent driving is currently taking place. Automated valet parking, which enables vehicles to search for nearby parking and park itself, will be offered by multiple automakers in 2021 car models, according to the CIC Report. Going forward, it is expected that more intelligent driving solutions with a wide range of functionalities and capabilities, will be made available to consumers.

Key Trends and Drivers

According to the CIC Report, the key trends and drivers of the intelligent driving industry in China include:

- ***Increased adoption of intelligent features***

Sensors and cameras are becoming standard features in today’s passenger vehicles. According to the CIC Report, around 40% of new passenger vehicles sold in China in 2019 were equipped with L1/L2 capabilities. Consumers have been increasingly receptive to these new features, due to their ability to significantly improve safety and reduce risk of accidents, which encourages automakers to install such intelligent features in more vehicles in the future.

- ***Continued rise in labor cost***

Labor cost represents a significant portion in the taxi business. Continued rise in labor cost could give solution providers sufficient motivation to come up with alternative options, while encouraging business operators to adopt new technologies and change its existing form of operation.

- ***Reduction in hardware cost***

As prices for hardware, such as GPU, radar, and LiDAR, continued to decline, intelligent driving companies may increase the number of test vehicles and test miles, which will further improve autonomous driving algorithms. Also, a decline in cost also encourages automakers to adopt more advanced hardware and intelligent driving solutions in new car models.

- ***Increased investment***

Intelligent driving has drawn interest from a large number of investors. Continued investment and increase in start-ups entering the field are conducive to both the development of technology and commercialization of intelligent driving.

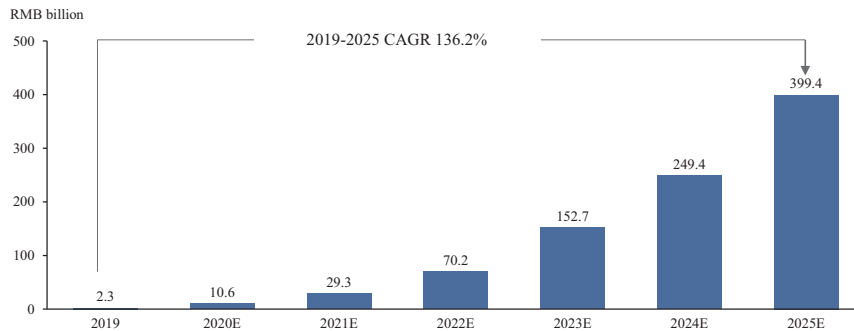
Market Size

The entire intelligent driving industry in China has significant growth potential. The total addressable market of robotaxis fleet operations, which is assumed to be equivalent to the combination of taxi, ride-sharing and rental car markets, is expected to amount to RMB1,458.1 billion in 2025, according to the CIC Report. While the robotaxi market represents significant monetization opportunity for fleet

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operators, it may not reach meaningful commercialization scale before 2023. In the meantime, self-driving services, such as automated valet parking and autonomous navigation, will drive industry growth. The market size for self-driving services in China is expected to increase from RMB2.3 billion to RMB399.4 billion between 2019 and 2025, representing a CAGR of 136.2% during the six-year period. The charts below present the historical and expected market size of self-driving services in China.

Market Size of Self-Driving Services Industry in China (2019-2025E)

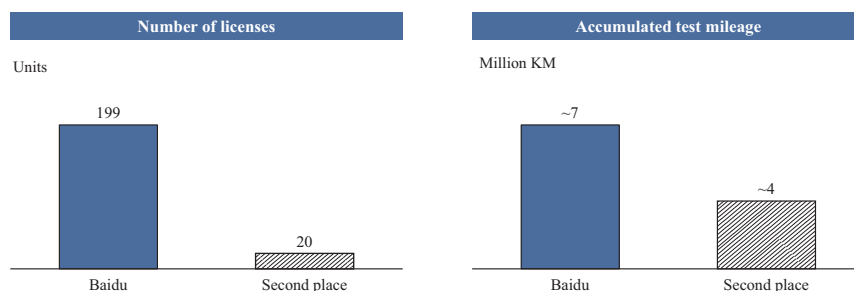


Source: CIC Report

Competitive Landscape of Autonomous Driving in China

As the leader in autonomous driving in China, Baidu Apollo has secured the largest number of autonomous driving licenses and has the highest accumulated test miles as of December 31, 2020, according to the CIC Report. Apollo’s leading scale in the autonomous driving industry, including having the most commercialized robotaxi pilot programs, enables it to collect more road scenarios from more geographic locations, as well as improve its algorithms faster and more efficiently than its peers. Accumulated miles, driving simulation and learnings from autonomous driving are used to strengthen Apollo’s competitiveness in self-driving services and V2X smart transportation solutions, and the network effect of the latter two will also boost Apollo’s strategic advantage for autonomous driving. Apollo’s autonomous driving aims to offer an alternative to Waymo’s LiDAR reliant approach by leveraging vehicle-to-road cooperative system to provide a more economical solution to autonomous driving. Unit economics will be a critical factor to the success of autonomous driving adoption. The chart below illustrates industry ranking of autonomous driving companies in China as of December 31, 2020.

Industry Ranking of Autonomous Driving Companies in China (December 31, 2020)



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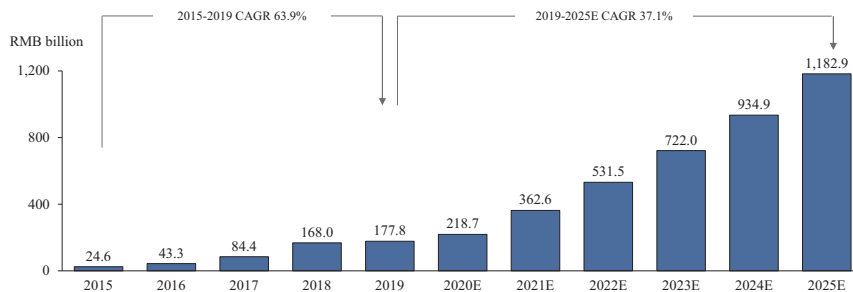
Overview of the New Energy Vehicle (NEV) market in China

China is one of the largest NEV markets in the world, which has significant growth potential due to the rapid development of the Chinese economy, strong support from government and improving awareness on environment protection and energy saving. Developing new energy vehicle is one of the critical solutions to help balance economy development and environment protection, gradually reducing China’s heavy reliance on oil as well as realizing the “carbon neutral” commitment by 2060.

Market Size

NEV sales value has grown from RMB24.6 billion in 2015 to RMB177.8 billion in 2019 in China, representing a CAGR of 63.9%. China’s NEV market is expected to grow at a CAGR of 37.1% from 2019 to 2025, reaching RMB1,182.9 billion in 2025, according to the CIC Report.

Market Size of New Energy Vehicle Industry in China (2015-2025E)



Source: CIC Report

Key Trends and Drivers

According to the CIC Report, the key trends and drivers of NEV development include:

- **Clear government target on EV penetration rate**

According to the “Energy-Saving and New Energy Vehicle Technology Roadmap 2.0” drafted under the instruction of the Ministry of Industry and Information Technology of the PRC in 2020, it is reaffirmed that the overarching development guideline of EV market is to achieve the goal that every other new car sold is an EV by 2035.

- **Various financial incentives in the form of subsidies and tax exemption**

China is one of the earliest countries in the world to provide financial subsidies for EV purchasers, which demonstrates its government’s strong determination to support the development of the NEV market. According to the “Announcement on Exemption of Vehicle Purchase Tax for NEVs,” from January 1, 2021 to December 31, 2022, new energy vehicles purchased will be exempted from vehicle purchase tax.

- **Continued rollout of charging infrastructure**

Ministry of Industry and Information Technology of the People’s Republic of China issued the “New Energy Vehicle Industry Development Plan (2021-2035),” in which it is estimated that the number of EVs will reach 64.2 million in 2030. According to the government target of achieving 1:1 ratio of charging pile and EV, a significant gap of 63.0 million charging piles needs be filled.

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Overview of the AIoT Market in China

Driven by increased mobile penetration and advancement in AIoT technologies, smart home appliances are rapidly gaining popularity in China, having grown at a CAGR of 27.4% from 2015 to 2019 and is expected to grow at a CAGR of 7.2% from 2019 and 2025, or from approximately RMB162.2 billion to RMB233.2 billion. As a comparison, China’s home appliances market grew at a steadily CAGR of 2.2% from 2015 to 2019 and is expected to grow at a CAGR of 2.0% from 2019 to 2025, or from approximately RMB891.0 billion to RMB1,002.1 billion during the period, according to the CIC Report. While AI-enabled home appliances may operate alone, products from different brands and manufacturers do not share a common operating platform, which can be unnecessarily cumbersome to perform simple tasks. Smart devices, which are powered by smart assistant to allow for conversational AI, may serve as the control center for other home devices, as well as providing AI-enabled services, such as voice search and skills store.

Overview of the Smart Devices Market in China

The smart devices market, including smart speakers without display, smart displays and smart earphones that connect with AI-enabled home appliances, are empowered by AI technologies, such as speech recognition, NLP and computer vision. Smart devices, which primarily interact with users through conversational AI, may offer a wide range of proprietary and third-party content and services through its skills store. Baidu is a leading provider of skills through its DuerOS skills store, because it enables developers to convert their smart mini programs from Baidu App, which draws a large developer community with over half a billion MAUs, into DuerOS skills for smart devices and smart vehicles.

Given the wide range of functionalities that a smart device can offer, such as search, music, video, online game, online literature and e-commerce, the large amount of time one can spend at home, and in the case of smart displays, a larger screen than smart phones, there are many monetization possibilities that smart devices can offer.

Key Trends and Drivers

According to the CIC Report, the key trends and drivers of China’s smart device market include:

- ***Increased penetration of WiFi and IoT***

Lower cost and increased demand for the Internet has made Internet connectivity and smart functions more commonly found in home appliances. As smart appliances increase, a network of smart appliances can formed around smart devices powered by a smart assistant, and the smart assistant that better understands human expression, does search well and provides an abundant functionality stand to benefit.

- ***Advancement in AI technologies***

With AI technologies continue to improve, smart devices will be able to better understand and respond to user needs and expand in functionality. While most smart devices are still limited by their placement and typically require voice activation in close vicinity, Xiaodu smart devices, powered by DuerOS smart assistant, is a leader in leveraging AI capabilities, including speech recognition, NLP and computer vision, by using internally designed Baidu Honghu chips. Consequently, Xiaodu smart

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devices enable far field as well as allowing users to interact more naturally through hand gestures and facial expressions, beyond conversational AI.

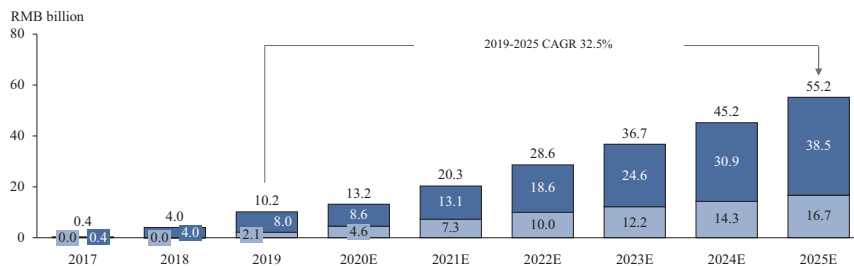
- **Increased adoption of skills store**

With the adoption of skills store from smart devices, online content and services have grown significantly both in terms of genres and volume of offering. Accessibility to content and services may enrich user experience and lead to more monetization opportunities.

Market Size

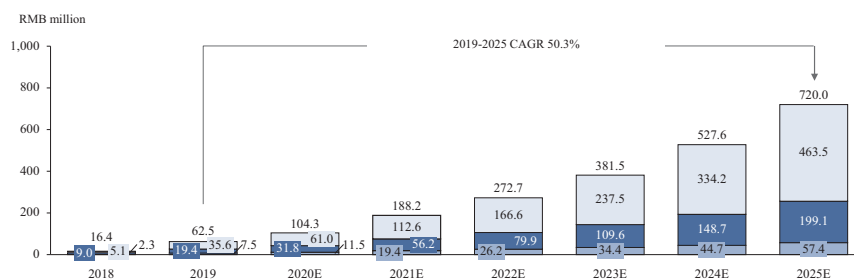
With a total of approximately 59.3 million devices in 2019, China’s smart devices market in terms of hardware revenue is expected to grow at a CAGR of 32.5% from 2019 to 2025, or from RMB10.2 billion to RMB55.2 billion in retail sales during the same period, according to the CIC Report. The non-hardware portion of the market, such as advertisement and content-related services, including paid membership, is expected to experience significant growth as the number of installed devices continues to grow. The charts below present the historical and expected size of the market of hardware and non-hardware revenue of smart devices:

Hardware Revenue of Smart Devices in China (2017-2025E)



Source: CIC Report

Non-Hardware Revenue of Smart Devices in China (2018-2025E)

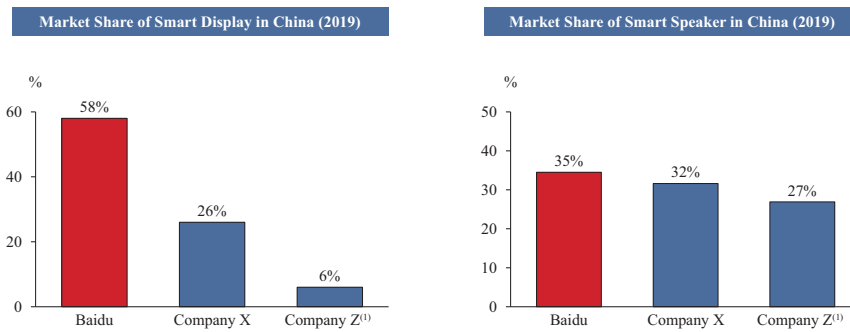


Source: CIC Report

Competitive Landscape

Leveraging its advantage in speech recognition, NLP, computer vision and AI chip design, Baidu has launched a series of Xiaodu-branded smart displays and speakers as well as licensed its DuerOS operating system for smart devices to third-party brands and hardware. The following charts set forth the market share of top smart display and smart speaker providers in China by sales volume in 2019.

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Source: CIC Report

Note:

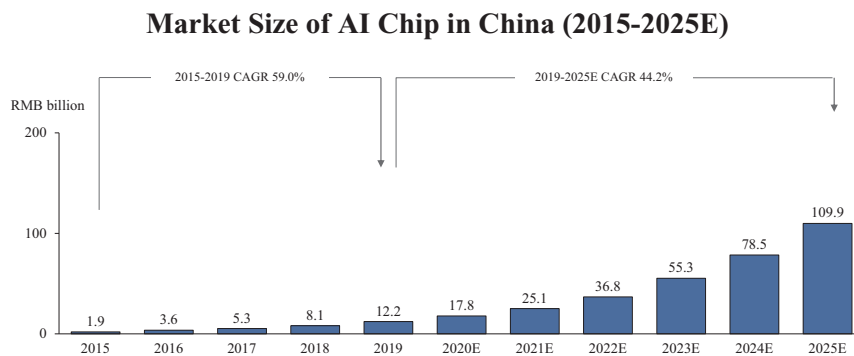
(1) Company Z is a leading mobile device and IoT company.

Overview of the AI chip industry in China

AI chip industry is still in the early stage of development in China. The number of AI chip design companies is increasing rapidly, accompanied by the emergence of a number of market leaders. AI chips are mainly applied in areas like cloud computing, data center, edge computing, consumer electronics, smart manufacturing, intelligent driving, intelligent finance and intelligent education.

Market Size

AI chip market has grown from RMB1.9 billion in 2015 to RMB12.2 billion in 2019 in China, representing a CAGR of 59.0%. China's AI chip market is expected to grow at a CAGR of 44.2 % from 2019 to 2025, reaching RMB109.9 billion, according to the CIC Report.



Key Trends and Drivers

According to the CIC Report, the key trends and drivers of AI chip industry include:

- **Support from the Chinese government**

The State Council of the PRC has announced plans to support the development of the AI chip industry from aspects like fiscal and taxation, investment and financing, research and development, import and export, talent development, intellectual property, market applications as well as international cooperation.

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- **Development of the new data economy**

The digital transformation of Chinese companies will bring about increasing demand of AI chips to support efficient handling of massive amounts of data, which will drive fast development and continuous innovation in the AI chip industry.

- **Fast-growing downstream applications**

AI chips have been applied in numerous cutting edge and fast-growing downstream sectors, such as autonomous driving, cloud computing, edge computing, robotics, intelligent manufacturing, “New Infrastructure”, intelligent driving, intelligent finance, intelligent education, and wearable devices. The development in these areas will in turn drive the development of the AI chip industry.

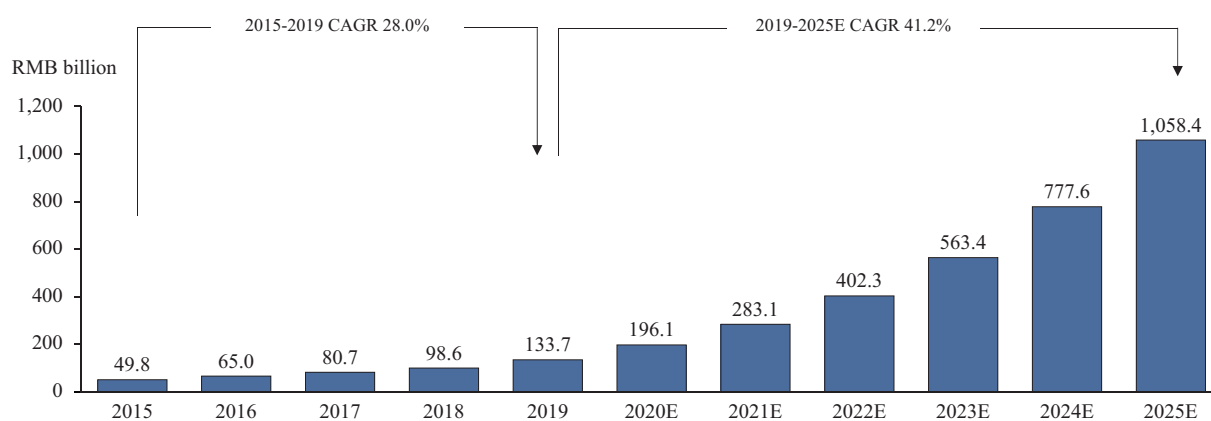
Overview of the Internet healthcare industry in China

China’s Internet healthcare market is in a stage of rapid development. The advancement of digital technology and rapid transformation of traditional hospitals drives the growth of both supply and demand in the Internet healthcare market. The Internet healthcare market mainly consists of digital solutions for hospitals, online consultation and services for patients, online retail pharmacy, healthcare insurance and mobile payment, and digital infrastructure including both hardware and software.

Market Size

The Internet healthcare market has grown from RMB49.8 billion in 2015 to RMB133.7 billion in 2019 in China, representing a CAGR of 28.0%. China’s Internet healthcare market is expected to grow at a CAGR of 41.2% from 2019 to 2025, reaching RMB1,058.4 billion, according to the CIC Report.

Market Size of Internet healthcare in China (2015-2025E)



Source: CIC report

Key Trends and Drivers

According to the CIC Report, the key trends and drivers of the Internet healthcare industry include:

- **Favorable government policies**

The Chinese government has promulgated favorable policies to accelerate the development and penetration of Internet healthcare services. For instance, the government covered Internet healthcare

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expenditures under the government medical insurance and promoted online consultation during covid-19 pandemic.

- ***Advancement of digital technology***

The advancement of digital technology including AI, dig data, and block chain contributes to reducing labor cost of Internet healthcare services, developing customized healthcare services for patients and enhancing mutual trust.

- ***Business expansion to the front line of industry chain***

The growing availability of patient data and importance of health management will incentivize market participants to analyze personal data with digital technology and provide customized health management services for disease prevention.

Overview of Online Entertainment Industry in China

Online entertainment industry in China consists of internet video, live broadcasting, short video, online literature, digital music and recreational internet anime and comic markets. As people spend more time on mobile phones, the market size of China’s online entertainment industry has grown steadily. Online entertainment is popular for the easy access, innovative entertainment formats, customized content and creative flexibility.

Competitive Landscape

iQIYI has developed a diversified monetization model, such as membership services and online advertising, to capture multiple opportunities arising from the rapid growth of the online entertainment industry in China.

The following table presents iQIYI’s average mobile MAU, average mobile DAU and number of paying users, as compared to those of other industry players in China to the extent that information is available, according to the CIC report.

	Average mobile MAU (in millions)		Average mobile DAU (in millions)		Number of Paying Users (in millions)	
	2019	2020	2019	2020	As of December 31, 2019	As of September 30, 2020
iQIYI	557.3	549.8	113.0	107.2	106.9	104.8
Video Y ⁽¹⁾	544.4	511.2	111.2	109.1	106.0	120.0
Video X ⁽²⁾	351.7	254.7	67.3	46.9	N.A.	N.A.

Notes:

(1) Video Y is a video platform owned by a leading Internet company, Company Y.

(2) Video X is a video platform acquired by a leading Internet company, Company X.

Source: CIC report

Source of Information

We commissioned CIC to conduct research, provide an analysis of, and to produce the CIC Report on the markets in which we operate. CIC is an independent market research and consulting company that provides industry consulting services, commercial due diligence, and strategic consulting services to both institutional investors and corporations. We incurred a total of RMB650,000 in fees and expenses for the preparation of the CIC Report. CIC undertook both primary and secondary research using a variety of resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources,

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including the National Bureau of Statistics of China, Chinese Government releases, annual reports published by relevant industry participants, industry associations, CIC’s own internal database and other relevant sources. CIC’s projection on the size of each of the related markets in China takes into consideration various factors, including (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in the aforementioned markets during the forecast period, including steady economic growth, fast growing data volume, large amount of investment in AI, and supporting policies and regulations; and, (iii) that there is no extreme force majeure or industry regulations by which the market situation may be affected either dramatically or fundamentally.