2010

2007

Alibaba.com Limited
阿里巴巴網絡有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code: 1688

2007 Annual Report

To make it easy to do business anywhere

To be an essential partner to all business people

To build a company that lasts 102 years

Vision

Values

Customer First

Teamwork

Embrace Change

Integrity

Passion

Commitment

2005 | 2002 | 1999

Financial and Operational Highlights

	2007	2006	Change
Revenue (RMB'000)	**2,162,757**	1,363,862	+59%
Profit attributable to equity owners (RMB'000)	**967,795**	219,938	+340%
Earnings per share (HK$)	**20.41 cents**	4.46 cents	+358%
Registered users	**27,599,959**	19,764,226	+40%
International marketplace	**4,405,557**	3,115,153	+41%
China marketplace	**23,194,402**	16,649,073	+39%
Storefronts	**2,956,846**	2,072,765	+43%
International marketplace	**697,563**	514,891	+35%
China marketplace	**2,259,283**	1,557,874	+45%
Paying members	**305,545**	219,098	+39%
Gold Supplier members	**27,384**	18,682	+47%
International TrustPass members	**12,152**	10,843	+12%
China TrustPass members	**266,009**	189,573	+40%

Strong growth of revenue by **59%** **to RMB2,163 million, mainly attributable to the increase in paying members and average spending per paying member**

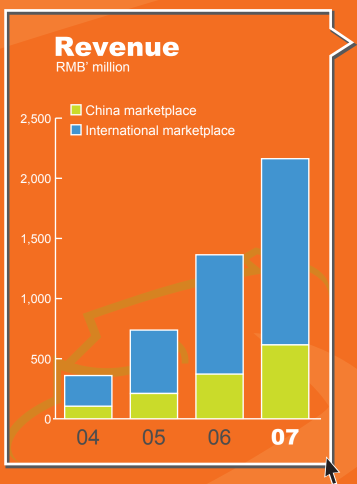
Profit attributable to equity owners increased by **340%** **to RMB968 million**

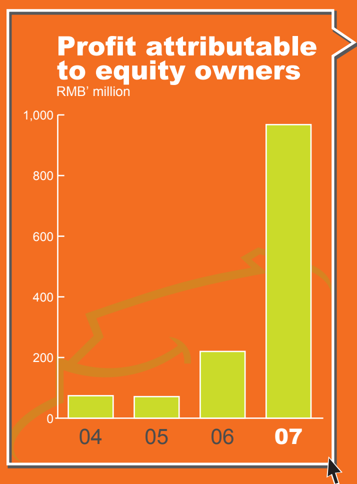
Earnings per share increased by **358%** **to HK$20.41 cents**

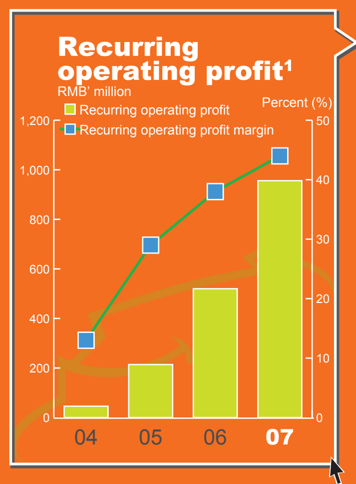
Total registered users increased by **40%** **to 27.6 million**

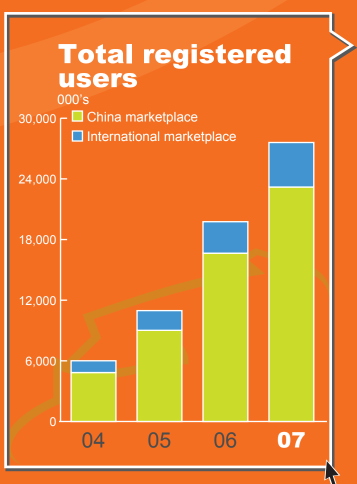
Total storefronts increased by **43%** **to 3.0 million**

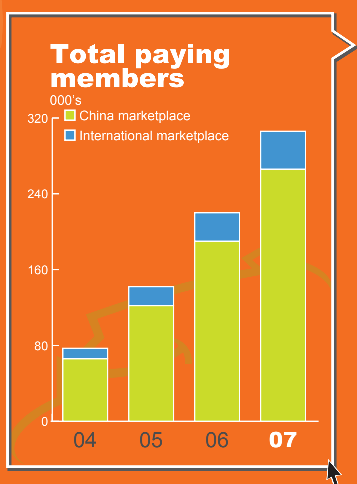
Total paying members grew by **39%** **to over 305,000**

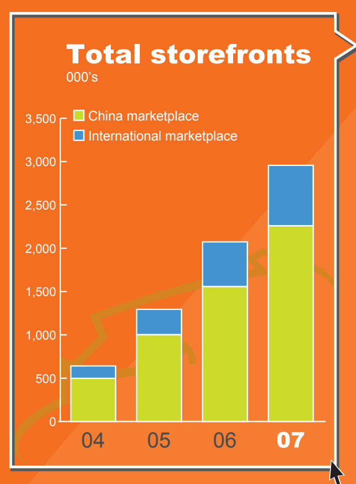


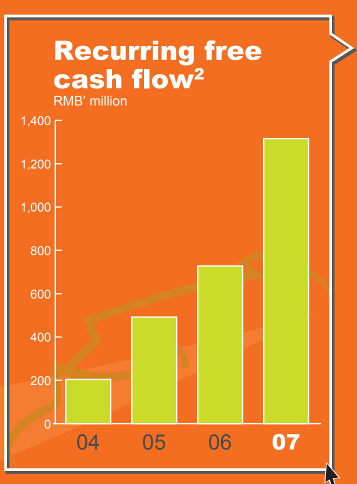












Note:

1 Recurring operating profit represents profit from operations as presented in our consolidated income statement excluding share-based compensation for all years and excluding expenses relating to non-B2B business in 2004 to 2006. This financial metric is not a measure of financial performance under International Financial Reporting Standards ("IFRS") but we consider it an important financial measure.

2 Recurring free cash flow represents net cash flow generated from operating activities as presented in our consolidated cash flow statement less purchase of property and equipment, and excludes one-off payments and other operating income or expenses which are of non-cash nature. This financial metric is not a measure of financial performance under IFRS but we consider it an important financial measure.

World's leading online marketplace for international trade

Contents

Corporate Information

BOARD OF DIRECTORS

Chairman and Non-executive Director
MA Yun, Jack

Executive Directors
WEI Zhe, David *(Chief Executive Officer)*
WU Wei, Maggie *(Chief Financial Officer)*
DAI Shan, Trudy
PENG Yi Jie, Sabrina
XIE Shi Huang, Simon

Non-executive Directors
TSAI Chung, Joseph
TSUEI, Andrew Tien Yuan
TSOU Kai-Lien, Rose
OKADA, Satoshi

Independent Non-executive Directors
LONG Yong Tu
NIU Gen Sheng
KWAUK Teh Ming, Walter

BOARD COMMITTEES

Audit Committee
KWAUK Teh Ming, Walter *(Chairman)*
LONG Yong Tu
TSAI Chung, Joseph

Remuneration Committee
NIU Gen Sheng *(Chairman)*
KWAUK Teh Ming, Walter
TSAI Chung, Joseph

Nomination Committee
MA Yun, Jack *(Chairman)*
LONG Yong Tu
NIU Gen Sheng

AUTHORIZED REPRESENTATIVES
WU Wei, Maggie
CHOW LOK Mei Ki, Cindy

QUALIFIED ACCOUNTANT
CHOW LOK Mei Ki, Cindy *CPA (Hong Kong), CPA (USA)*

COMPANY SECRETARY
WONG Lai Kin, Elsa *Solicitor (Hong Kong)*

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

COMPLIANCE ADVISER
NM Rothschild & Sons (Hong Kong) Limited

LEGAL ADVISERS
Freshfields Bruckhaus Deringer *(as to Hong Kong law)*
Sullivan & Cromwell LLP *(as to United States law)*
Fangda Partners *(as to PRC law)*
Maples and Calder *(as to Cayman Islands law)*

PRINCIPAL BANKERS IN CHINA (IN ALPHABETICAL ORDER)
Bank of China Limited
China Merchants Bank
Industrial and Commercial Bank of China Ltd.

PRINCIPAL BANKER IN HONG KONG
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE
Trident Trust Company (Cayman) Limited
Fourth Floor, One Capital Place
P.O. Box 847GT, Grand Cayman
Cayman Islands

CORPORATE HEADQUARTERS

6th Floor, Chuangye Mansion
East Software Park
99 Huaxing Road
Hangzhou 310099
China

PLACE OF BUSINESS IN HONG KONG

20th Floor, Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513, Strathvale House
North Church Street, George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

WEBSITE ADDRESS

www.alibaba.com (International marketplace)
www.alibaba.com.cn (China marketplace)

STOCK CODE

1688

Milestones

Jack Ma, our lead founder and chairman, and 18 other founders launched Alibaba.com in his Hangzhou apartment in 1999. Originally, Alibaba.com operated as a bulletin board service for businesses to post buy and sell trade leads, and later became a vibrant marketplace for small and medium enterprises around the world to identify potential trading partners and interact with each other to conduct business online. Alibaba.com was listed on the Main Board of the Hong Kong Stock Exchange on November 6, 2007 and is the flagship business of Alibaba Group.

1999

Established Alibaba Group

2000

October
Launched Gold Supplier membership to serve China exporters

2001

August
Launched International TrustPass membership to serve exporters outside China

2002

March
Launched China TrustPass membership to serve SMEs engaging in domestic China trade

July
Launched keyword services on our international marketplace

2003

November
Launched TradeManager instant messaging software to enable users to communicate in real time on our marketplaces

2005

March
Launched keyword bidding service on our China marketplace

2007

March
Launched branded advertisements on our China marketplace

September
Started distributing Alisoft Export Edition in three major regions

Launched premium placement display on our China marketplace

October
Launched SME loan in collaboration with China Construction Bank and Industrial and Commercial Bank of China

November
Successfully listed on the Main Board of the Hong Kong Stock Exchange

December
Re-launched our upgraded Alibaba Japan marketplace

2008

March
Became a constituent stock of Hang Seng Composite Index Series and Hang Seng Freefloat Index Series

Stock Code: 1688

Awards and Recognitions

Awardee	Award	Organization
Alibaba.com Limited	2007 Wharton Infosys Business Transformation Award	WIBTA
	2007 The Best Equity Deal of the Year	FinanceAsia
	The Best IPO – 2007	FinanceAsia
	Country Deals of 2007 – Hong Kong	Asiamoney
	The Most Respectful Chinese Enterprise – 2007	The 5th Global Chinese Business Leader Summit
Jack Ma	The Best Business Leader – 2007	BusinessWeek
	2007 World's 30 Best CEOs	Barron's
David Wei	The Best CEO of the Year – 2007	China Internet Weekly

Awards and Recognitions

Mr. Zhang-jun Fang
Hangzhou Benxin Apparel Co. Ltd.

"We use Alibaba.com to grow our business and expand our markets. We even make a lot of friends through Alibaba.com."

Mr. David Wilmot
Magic Marquee Ltd.

"I am a retailer and distributor from Scotland in the house and garden products sector. I also do commercial presentations on TV, so I am always looking for new products. Before I learned about Alibaba.com, I was using the Internet to find suppliers in China but there are some products I could only find on Alibaba.com. Since I joined two weeks ago, I have already made good new contacts with Alibaba suppliers and I hope to close a deal very soon."

Global E-Commerce Leader

Alibaba.com – The world's leading B2B e-commerce company

Chairman's Statement

"**Customer First**

The interests of our community of users and paying members always remain our first priority."

Dear Alibaba.com shareholder,

Alibaba.com was founded in 1999 and it is our vision to sustain and grow our company for 102 years. Based on this vision, we were only eight years old when we became a public company in 2007. Our mission in these 102 years is: to make it easy for our users to do business anywhere. We are devoted to serving small to medium-sized enterprises (SMEs). We have so far only walked through eight short years; we are now listed and our mission will not change.

We aim to become a provider of e-commerce infrastructure for SMEs in China and Asia and, by using Alibaba.com's e-commerce platform, to create a global manufacturing, trading and servicing ecosystem within 10 years. We will embrace opportunities and challenges with an open mind and share prosperity together with our users.

The world economy and trading environment will not always remain bright. Every downturn in the market, while likely posing real challenges to larger enterprises, will create opportunities for SMEs. During the SARS epidemic in 2003, a large number of SMEs used e-commerce to conduct their business and not only managed to survive the difficult times but secured new business opportunities that had been previously dominated by big companies. Recently, I participated in the World Economic Forum in Davos and the APEC Business Advisory Council (ABAC). I observed that: in Davos, the leaders of multinational corporations were very concerned about the world economic outlook and the forecast of a potential economic downturn, while in the ABAC meeting, participants were in contrast upbeat about the opportunities that SMEs may leverage on. Regardless of changes in the market, we will uphold our mission to serve SMEs in all circumstances.

Jack MA
Chairman

Along with other members of Alibaba Group, we believe we are well-positioned to capture opportunities arising from the growth of SMEs in the future. In its overall strategic planning, Alibaba Group has now established multiple important fronts to facilitate SMEs doing business online, such as offering platforms for international trade, domestic trade and retail trade, and providing business services related to trading, transaction financing, online marketing and management software. In 2007, members of Alibaba Group, Taobao, Alipay and Alisoft became dominant leaders in online retail, online payment and "Software as a Service" areas, respectively. Alibaba Group's newly launched Alimama has also taken its first steps into the promising advertising market of SME websites. Leveraging on Alibaba Group's first-mover advantages in the e-commerce business, we will work closely with other members within Alibaba Group to achieve synergies together that can benefit our B2B business.

We are well-positioned to capture opportunities arising from the growth of SMEs.

At Alibaba.com, as with other members of Alibaba Group, we believe in encouraging continuous development of our senior managers. Elsewhere in this Annual Report, we discuss the substantial investment we make in our people. Recently, Alibaba Group has also completed some re-assignment of senior management as part of our long-term strategic development in human capital. We firmly believe that by strengthening our management team's international exposure, encouraging these senior managers to continuously learn and to enhance their skills and knowledge, and placing them in different positions within Alibaba Group, Alibaba Group will be able to groom world-class business leaders for its long-term sustainable development, as well as to build further synergies among our member companies. Such a human resources development strategy for Alibaba Group will in turn support our human capital development and provide a reserve of talent for Alibaba.com in the future.

We are committed to creating long-term value for our customers, our employees and our shareholders.

From our investment in human capital to our investment in e-commerce infrastructure, and from our business planning to our putting decisions into action, it is easy to visualize our goal of creating long-term value for our customers, our employees and our shareholders. With careful planning, we are turning vision into reality.

I would like to take this opportunity to welcome you as a new shareholder and express my appreciation to you for choosing to invest in Alibaba.com. Thank you for your foresight and determination, and for your trust. I also would like to extend my heartfelt gratitude to our customers, our employees and our board of directors.

I believe that 2008, which is our first year as a listed company, will be an exciting and successful year for all of us. We will make the most of this unique opportunity!

Jack Ma
Chairman

CEO's Statement

Dear Alibaba.com shareholder,

Alibaba.com became a public company on November 6, 2007. At some point since then you have become our shareholder. In the past, we were a private company. As I write my first letter reporting to you, our new public shareholder, I ask myself again, "Why did we go public?"

The answer, as it was in November, is: branding, access to capital, and sharing our success.

To be more specific, an enhanced global brand will help us acquire a larger user base, creating an even greater network effect, and introduce us to more strategic partnership opportunities. Access to capital will enable the business to plan and build superior infrastructure over the long-term for SMEs and e-commerce. When investment opportunities arise, the business will be able to take advantage of them. We believe that sharing builds a base for bigger success. Sharing our success leads to rewards for our loyal employees, and sharing in the success of China's SMEs and e-commerce produces rewards for our public shareholders.

I always keep our mission and vision in mind: "to make it easy to do business anywhere" and "to make ours a business that lasts for 102 years". As a public company, such a mission is even more important. Now, just a few months after listing, we review our progress in carrying out that mission and in developing and growing the business.

David WEI
Chief Executive Officer

"Team Work

We expect our employees to collaborate as a team. We encourage input from our employees in the decision-making process."

2007 Financial highlights

We achieved outstanding financial results in 2007. Our total revenue grew by 59% to RMB2,163 million, driven by a combination of strong growth in paying members and further improvement in average spending per paying member. Profit from operations grew by 200% to RMB804 million, which was mainly attributable to our increasing economies of scale. Our subscription business model has continued to generate substantial recurring free cash flow, which increased by 81% to RMB1,316 million and has again significantly exceeded our profit from operations. Deferred revenue and customer advances on our balance sheet reached RMB1,920 million at the end of 2007, RMB666 million more than that at the end of 2006, laying a solid foundation for growth in 2008.

We continued to strengthen our position as the world's leading marketplace.

User base expansion

In 2007, we continued to strengthen our position as the world's leading marketplace for international trade, and our China marketplace has become even more dominant. The number of registered users of our international marketplace reached 4.4 million at the end of 2007, which is 1.3 million more than that at the end of 2006. The number of registered users of our China marketplace has grown to 23 million at the end of 2007, which is broadly in line with the overall growth rate of Internet users in China. As a public company, we expect our branding to further enhance the network effect both domestically and internationally.

Customer base expansion

In 2007, we opened 15 new sales and customer service offices in 15 new cities in China including Hong Kong, extending our Gold Supplier service coverage to more potential customers. Our Gold Supplier customer number continued to grow, reaching 27,384 by the end of 2007, representing a 47% increase over 2006. We chose Hong Kong to be the first place to upgrade our international paying members from our International TrustPass service to our Gold Supplier package. With regard to domestic customer acquisition, the number of China TrustPass members grew to 266,009, a net increase of 76,436. We continued to improve our telemarketing and online sales efficiency in 2007 and successfully tested the use of resellers in some remote cities in China with low Internet penetration rates but large numbers of SMEs.

Our six core values, governing everything we do, are an important part of the company's DNA.

Services enhancement

In the fourth quarter of 2007, we started to offer all our paying members unlimited product listings and increased the number of free users' product listings. Both the level of activity and the satisfaction of our buyers and sellers have shown marked improvement in the first quarter of 2008. To accommodate this new offering, we unified two Gold Supplier packages originally based on different product listing numbers into one package priced at RMB50,000. At the same time, we launched a special care program for both first-year Gold Supplier members and China TrustPass members through our sales, customer service and call center staff. We believe that this offering will help new paying members use our platform better and improve our customer retention rate.

Value-added services

Our new unlimited product listing policy has significantly increased the number of our product listings on our website, and we are creating more sales opportunities for keyword purchasing from our Gold Supplier members. We have also further fine-tuned the pricing for different keywords and rankings. As for Gold Supplier members, we started distributing a web-based business exporter CRM and order management solution designed by our sister company, Alisoft, through our direct sales force in a few selected regions. The Alisoft solution has been well received by our Gold Supplier members, and we have generated additional commission revenue from this cross-selling activity.

From November 2007, we extended keyword bidding from top three ranking positions to top five ranking positions for China TrustPass members. From the second half of 2007 onwards, China TrustPass members can also purchase premium placement positions in various product categories. Both of these initiatives have helped increase average member spending.

Since March 2007 we have attracted a growing number of corporate advertisers on our China marketplace interested in marketing their brands to our powerful community of SMEs. Revenue from branded advertisements continues to grow steadily.

People development

In 2007, we had a net increase of 1,720 staff. The increase is proportionally allocated throughout sales, customer service, marketplace operation and engineering, as well as other support functions. As a result of our ongoing training programs, the productivity of our new sales force has been steadily improving. Our retention and career development schemes have enabled us to realize an employee turnover rate that is lower than the market average. We have also strengthened our management team by promoting experienced staff internally and attracting experienced talent from outside.

Corporate social responsibility

Our belief in corporate social responsibility is fundamentally embedded within Alibaba.com's business mission, which is to help SMEs in China and around the world.

This mission starts with creating trade opportunities to help SMEs survive and prosper, and helping to create millions of related jobs in the process. Moreover, we provide free e-commerce related training to thousands of SMEs and students to build up the necessary skills they need to participate in e-commerce. Beyond facilitating efficient online trading, in 2007 we began to help SMEs with online financing, which is another element critical to the survival and growth of SMEs. We are also raising environmental protection awareness among our employees and SME members by pioneering a number of environmentally friendly campaigns. For a full report of our initiatives to advance this important mission, please refer to our Corporate Social Responsibility report on pages 37 to 39 of this Annual Report.

2008 Outlook

Our 2008 strategy keywords are: Global, E-Commerce Infrastructure and Alibaba Ecosystem.

Our international marketplace is truly global and we plan to further improve our reach in developed countries such as Japan and emerging markets like India in 2008. Broadening our service geographically will further diversify our SME portfolio across different countries and will create new monetization opportunities. Regardless of economic fluctuations, SMEs will continue to benefit from the rise of dispersed manufacturing which generates increasing demand for cross-border business-to-business interactions. E-Commerce will be an important facilitator of this trend.

Our China marketplace will continue to benefit from increasing domestic demand. To benefit from this growth, we aim to be the destination of choice for all SMEs to start their Internet presence and to become the premier e-commerce infrastructure for SMEs in China.

We will continue to work closely with our sister companies, such as Alisoft, Alipay and Taobao, to provide more packaged services for SMEs and create more cross-selling opportunities. The Alibaba ecosystem is more than achieving synergy between ourselves and our sister companies. We will continue to open our platform to other service providers to leverage on our strong marketplace and to offer other SME applications to our member community.

We remain positive about the long-term growth of our business. In 2008, we plan to continue to invest part of our profits and capital into global expansion, new product development, customer support services and, most importantly, in our people.

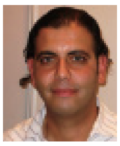
Thank you

We had a remarkable year in 2007! I would like to take this opportunity to express my heartfelt gratitude to our loyal users and members, our talented and passionate employees, and our supportive fellow directors and shareholders.

David Wei
Chief Executive Officer

Mr. Qin Yang
Telecast Technology Co.,Ltd.

"I'm proud of being a SME that is able to win business from well-known international companies through Alibaba.com"



Mr. Medjdoub
Sdv Trade Sarl

"My company has been using Alibaba.com to find new buyers and to promote our products around the world. This platform is a great tool to help me develop my business without travelling expenses and offers me the ability to find new partners as if I were exhibitors of a trade show."

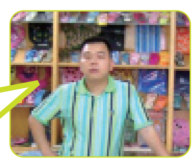
Management Discussion and Analysis

Our business success and rapid growth have been built on the spirit of entrepreneurship, innovation, and an unwavering focus on meeting the needs of our customers.

"Alibaba.com has become an important part of my life!"

Mr. Tian-rong Tong
Dongguan Diva Fashion Garment Co.,Ltd
China

"Our business volume has almost tripled after we began using Alibaba.com, now we have many customers sending us inquiries everyday."



Mr. Cheng-wei Zheng
Fuzhou Fuyan Footwear Co Ltd.
China

BUSINESS ENVIRONMENT

Buoyant China economy

In 2007, bolstered by strong domestic consumption and robust global trade, China recorded GDP growth of 11.4%, with export growth significantly outpacing GDP. According to data released by the PRC Statistics Bureau, China's export volume grew 23.5% during the year to reach US$1,218 billion (RMB9,257 billion). The total trading volume of China in 2007 was US$2,174 billion (RMB16,522 billion), representing a 23% increase over the previous year.

Growing importance of SMEs in China

With continued support from the China Government, the SME sector, which is Alibaba.com's target customer segment, remains vibrant. The China SME sector is a growth engine for the national economy. According to the National Development and Reform Commission, there were over 42 million SMEs and other private sector companies in China as of October 31, 2006. In addition to being fast-growing and significant in number, SMEs also formed a critical component of the overall China economy. As of the end of June 2007, the SME sector contributed around 60% of GDP and more than 53% of China's tax revenue, and employed over 75% of the available workforce in urban areas. The SME sector is clearly one of the most important building blocks for the China Government to develop a harmonious economy.

Ever-increasing Internet access and broadband penetration

The rapid growth in Internet access and broadband penetration has also facilitated the growth of our business. In 2007, growth of the Internet market in China continued. According to China Internet Network Information Center, the number of Internet users in China grew by 53% to reach 210 million in 2007, and China's broadband Internet users also increased significantly by 80% to reach 163 million, representing a broadband penetration of 78%. This, together with China's buoyant economy and growing SME sector, generated strong demand for e-commerce activities.

Leveraging more online e-commerce platforms

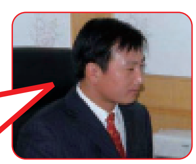
Against this backdrop, we saw an increasing number of SMEs use B2B online marketplaces or other e-commerce platforms to reach international consumers. According to iResearch, the number of SMEs using a third party B2B platform increased by 34% compared to 2006. The growing usage of the Internet for e-commerce activities among SMEs in China has led to, and the market expects this to further drive, significant increases in their online marketing budgets. Based on iResearch's estimates, SMEs are likely to spend more of their marketing budgets on online channels than in the past. It is expected that the proportion of online spending in marketing budgets of SMEs will double from 2006 to 2012.

Alibaba.com, as the leader in online B2B marketplaces with a large base of SME customers, is well poised to benefit from this favorable operating environment.

"The use of TrustPass has helped my company generate a total revenue of RMB12 million and a net profit of over RMB1 million within half a year, with transaction volume growing at 100% per year."

Mr. Shu-cai Zhao
Runpu Audio (Beijing) Technology Development Co.,Ltd.
China

"Our business volume doubled after we became a TrustPass member."



Mr. Feng Shi
Beijing Meilijia Building Materials Factory
China

BUSINESS REVIEW

2007 was again a year of solid growth for Alibaba.com, one in which we succeeded in growing our business on all major fronts. We continued to extend our dominant position as the world's leading marketplace for both international and China domestic trade. As of December 31, 2007, we had 27.6 million registered users, 3.0 million storefronts and a total of 305,545 paying members on our two marketplaces.

International marketplace

During the year, we continued to see significant growth in our user base and revenue. Revenue from our international marketplace reached RMB1,547.7 million in 2007, an increase of 56.0% over 2006. This growth was mainly driven by an increase in members as well as the increased spending on value-added services by our paying members.

The robust growth in China's global trade volume was reflected in the growth of our registered users and paying members in 2007. Supported by more active global trade by SMEs in the international arena, the total number of registered users on our international marketplace grew 41.4% to 4.4 million during the year. Also, we further enhanced our branding through extensive marketing efforts during our initial public offering, which lifted the global awareness of our brand and services. We saw a significant growth in the number of registered users from countries outside Mainland China. Through proactive sales and marketing efforts, the expansion of our business to new markets, an increase in the number of sales people and the enhancement of our sales efficiency, we achieved a net increase of 10,011 new paying members during the year, giving us a total of 39,536 paying members as of December 31, 2007. Of these, over 30% are from countries outside Mainland China.

Alibaba.com established its first European office in Geneva, Switzerland in October 2007. The state councillor of Switzerland in charge of the Economy and Health Department and staff members of Alibaba.com celebrated at the inaugural ceremony.

Mr. Xiang-ye Bao
Shuyang Chengxin Wood Company
China

"Now my products are sold to more than ten European countries, and nearly all of the business is brought to us by Alibaba.com."

"Alibaba.com is an important business tool for my company"

Mr. Kaoru Uno
H and S Co Ltd
Japan

As part of the annual global "e-Businessmen of the Year" awards, Alibaba.com organized the "Hong Kong e-Businessmen of the Year" award ceremony in July 2007 to honor 10 outstanding Alibaba.com members from the Asia region.

International marketplace operating data

	As of December 31,			
	2004	2005	2006	**2007**
Registered users	1,165,911	1,949,741	3,115,153	**4,405,557**
Storefronts	142,805	292,414	514,891	**697,563**
Paying members(1)	11,450	19,983	29,525	**39,536**
Gold Supplier members	6,435	12,192	18,682	**27,384**
International TrustPass members	5,015	7,791	10,843	**12,152**

(1) Includes paying members with active storefront listings, as well as paying members who have paid membership package subscription fees but whose storefronts have not been activated.

"Alibaba.com opens the overseas market for us."

Mr. Guo-ran Song
Hi-Stone Co., Ltd.
China

"Alibaba.com makes our dreams come true!"

Mr. Naveed Ul Hassan
Sangla Fashions
Pakistan

International marketplace — geographic distribution of registered users (other than China) as of December 31, 2007

	Country or region	Number of registered users in country or region	Percentage of total registered users of our international marketplace
1	United States	794,763	18.0%
2	European Union[1]	399,680	9.1%
3	India	368,304	8.4%
4	United Kingdom	268,034	6.1%
5	Canada	122,488	2.8%

Note: (1) Excluding the United Kingdom

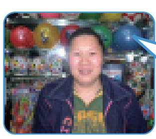
We are devoted to developing and maintaining our sales infrastructure. In 2007, we expanded our geographical coverage substantially by opening 15 new offices in both coastal and inland cities in China, giving us a presence in 30 cities across the country, including Hong Kong. In the fourth quarter of 2007, we unified Gold Supplier membership fees to RMB50,000 and upgraded our Gold Supplier product features by allowing unlimited product listings and providing a video recording service. This change was well-received by our customers. We believe this product enhancement was a win-win strategy for Alibaba.com and our customers. While it increased the satisfaction of both buyers and sellers through the highly sought after product features, it also accelerated sales conversion. The simplified package helped raise the efficiency of the selling process and, more importantly, the unlimited product listing increased the opportunities for keyword sales. We expect keyword sales penetration will continue to grow in 2008.

Overseas expansion

In 2007, we began to more actively explore overseas markets, strengthening the network effect of our marketplace as well as increasing the number of international members to further create revenue opportunities. In April 2007, we suspended new International TrustPass sales in Hong Kong and migrated to selling Gold Supplier membership to meet customers' demands. We are also looking forward to introducing Gold Supplier membership to other countries and regions, such as Taiwan, and to further diversifying our revenue sources beyond Mainland China.

We continued to drive the expansion of our overseas business for long-term, sustainable growth. In December 2007, we re-launched our upgraded Alibaba Japan marketplace (www.alibaba.co.jp), a Japanese language website that helps extend our reach to users in Japan, which was China's second largest trading partner in 2007. We are also in preparation with Softbank to form a joint venture to operate our Japanese website business.

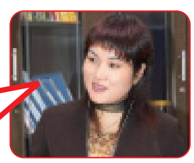
In October 2007, we officially opened our first European branch office in Geneva. Our presence in Europe will make it easier for SMEs in the region to conduct international trade through Alibaba.com, and it will



"Many Chinese speaking foreign customers found us via Alibaba.com. We have become the largest rubber ball manufacturer in China."

Ms. Qi-hui Ran
Shanghai Xudong Rubber Ball Co Ltd
China

"All of our new customers are coming from Alibaba.com, and we do not even need to reach out to them."



Ms. Xue-qin Jiang
Cixi Shifa Plastics Co Ltd
China

localize user services and facilitate our development of the global trade business, attracting new members as well as serving our customers better.

Meanwhile, we continue to explore potential business opportunities in other Asian countries. We made progress in India, where we conducted a survey to further understand the Internet industry there and its robust economy, paving the way for further development in India in 2008.

To facilitate sourcing through our global platform, we have established more country and regional channels in our international marketplace. For instance, in 2007, with the increasing number of Indian suppliers, we added a new India channel. Paying members from a particular country or region now have priority placement in their own country or regional channel. Together with the enhanced community features in the country channel, this feature significantly improves the appeal of our international marketplace to overseas users and members. We believe that tailoring our international website with higher country visibility is one way to raise our value to customers and make our marketplace increasingly attractive.

Value-added services

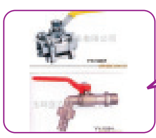
Value-added services remain one of our key revenue streams. We continue to enhance the features of our core value-added service products, in particular keyword searching. As previously mentioned, the introduction of unlimited product listings for Gold Supplier members created more keyword sales opportunities, and hence value-added services growth. In the last quarter of 2007, we fine-tuned the pricing structure of keyword sales, differentiating the pricing of keywords and display positioning based on demand and ranking in search results. All these improvements have been well received by our customers. Looking ahead in 2008, we believe that revenue from value-added services generated by our established sales offices will continue to see promising growth, while paying customers in newly developed areas may start with the basic membership package first before value-added services adoption takes off.

New products

Leveraging on our relationship with Alibaba Group, we have started cross-selling products developed by Alisoft Software (Shanghai) Co., Ltd ("Alisoft"), our sister company, to our SME customer base. In 2007, we became the exclusive distributor for Alisoft Export Edition, a web-based business exporter CRM and order management solution developed by Alisoft. We first launched this product in Jiangsu, Shanghai and Zhejiang and it was met with remarkable success. The revenue that we share with Alisoft serves as an incremental source of revenue for us and, more importantly, this product helps enhance the stickiness of our marketplace for our existing paying members. In 2008, we will continue to roll out the sales of Alisoft Export Edition to SMEs. We believe that this product will enjoy strong growth, although its contribution to total revenue may remain relatively small compared with our core revenue.

Community

Parallel to the growth of our marketplaces, we also placed strong emphasis on the development of the community on our website. The B2B e-commerce community is a powerful tool to keep our users abreast of industry information and increase the stickiness of our website. Last year, we continued to run various kinds of online and offline community events for buyers and sellers. Collaborating with top tradeshow organizers worldwide, we brought top tier tradeshow combined with e-commerce promotion opportunities to our members. We formed our buyer service and development team in 2007 to facilitate a large number of renowned multi-national companies such as General Electric and Home Depot to source through Alibaba.com.



"Six months after we joined China TrustPass, we completed a transaction in Malaysia with a value of RMB2.7 million!"

Mr. Qi-ao Yang
Yuhuan Yayi Copper Co., Ltd.
China

"90% of our domestic business is coming from our China TrustPass membership!"

Mr. Jun-jian Qian
Taixing Fengling Musical Instruments Co.,Ltd.
China

China marketplace

Both users and paying members in the China marketplace enjoyed strong growth in 2007. As of December 31, 2007, we had 23.2 million registered users in our China marketplace and 266,009 China TrustPass members, representing a net increase of 6.5 million registered users and 76,436 paying members, respectively, from 2006. The significant increase in revenue from our China marketplace was a result of accelerated paying member acquisition, increased penetration of value-added services and our revision in pricing of the basic fee from RMB2,300 to RMB2,800 per annum in April 2007. In addition, our business also benefited from new revenue generated from the sale of branded advertisements, which we started during the year.

China marketplace operating data

	As of December 31,			
	2004	2005	2006	**2007**
Registered users	4,840,641	9,019,214	16,649,073	**23,194,402**
Storefronts	497,876	1,002,768	1,557,874	**2,259,283**
China TrustPass members[(1)]	66,472	121,631	189,573	**266,009**

(1) Includes paying members with active storefront listings, as well as paying members who have paid membership package subscription fees but whose storefronts have not been activated.

The accelerated paying member acquisition was largely due to our increased telephone sales efforts to convert registered users into paying members and our successful trial of resellers in certain areas to acquire new China TrustPass members.

The use of resellers opened up a new source of SME business leads for us, and it proved to be an efficient way to cover regions with a significant SME presence but low Internet penetration. Looking ahead, we expect to extend the reseller business model for China TrustPass to more geographic locations.

To provide more value to our customers, during the year we upgraded key features in paying members' storefronts to allow more flexibility for users to customize their own storefronts. More importantly, this means SMEs can now enjoy having their own customized style and identity for their storefronts and at the same time leverage on the comprehensive functionality of the B2B marketplace.

Value-added services

In 2007, we made good progress in value-added services sales on the China marketplace. In the fourth quarter of 2007, we launched a new value-added service for premium placement display, which opened up the inventory of promotional positions on the right side of the relevant search results. Keyword bidding has also gained momentum. In response to the demand and supply of our keyword bidding services, starting at the end of 2007 we enhanced the service by opening up two more positions for bidding, offering up to a maximum of five positions per keyword. We see great potential for value-added services in our China marketplace, and through innovative product development, we are poised to capitalize on these opportunities to drive further growth.

Other products

Alibaba.com continues to be home to China's largest SME community. This is a valuable base to attract advertisers who wish to reach an SME audience. In 2007, we started monetizing the SME community by

"Nearly all our domestic business is coming from Alibaba.com. While we receive inquiries everyday, we also receive more orders from our customers."

Mr. Hui-Cheng Zhou
Qingdao Fumanxin Food Company
China

"Alibaba.com gives us a bridge to big buyers."

Ms. Li Feng
Tongxiang L&A Accessories Co., Ltd.
China

selling branded advertisements mainly on our home page and community pages. World-recognized brands such as HSBC, Samsung, IBM, Microsoft and BMW, and top Chinese brands such as Lenovo and China Netcom have all become our branded advertisement customers.

Strategic initiatives

We are excited to embark on new initiatives together with two major Chinese banks as we seek to help solve the financing difficulties of SMEs. In the fourth quarter of 2007, we test-launched SME Internet financing in selected cities in cooperation with Industrial and Commercial Bank of China and China Construction Bank. As of February 2008, based on the good track record of our Gold Supplier members and China TrustPass members, the two banks offered more than RMB160 million in loans to our paying members as part of our cooperation agreement with them. We expect to roll out this initiative to other cities in 2008.

Technology

Security and reliability are at the forefront of doing business online, and many new product features could not be made available without technological advances. We put a lot of emphasis on technological development in these areas. For instance, we further improved our infrastructure redundancy to ensure high availability, and we strengthened our technology platform and implemented security enhancements for our applications to provide better protection against security risks. During the year, we also introduced a number of enhancements, including new features for our search engines in both marketplaces such as smart recommendations and vertical search, and upgraded storefront features and appearance, bringing user experience to a new level. These enhancements further facilitated our value-added services growth.

Sales and customer service

As of December 31, 2007, we had over 2,000 field sales people for Gold Supplier, and over 900 telephone sales people for China TrustPass, further strengthening the driving force for customer acquisition. During the period, we saw strong sales growth. In 2008, we will examine the potential of each geographical region to further implement our expansion strategies.

Enhancing customer service is an ongoing commitment at Alibaba.com. We have a strong and dedicated customer service team of over 550 people, serving our customers in both marketplaces. In 2007, after implementing a special care program for our first-year customers and helping new paying customers better utilize our platform, we started to see enhancement of renewal rates. By proper deployment of resources during the year, we significantly improved the efficiency of our customer service team.

As of December 31, 2007, we had a total of 5,292 employees.

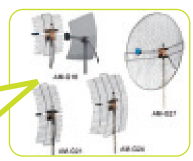
FINANCIAL REVIEW

We experienced significant growth in revenue and profitability in 2007. Total revenue increased to RMB2,162.8 million (2006: RMB1,363.9 million), representing an increase of 58.6% for the year ended December 31, 2007. Profit from operations increased by 199.6% to RMB804.3 million (2006: RMB268.5 million). Profit attributable to equity owners increased by 340.0% to RMB967.8 million (2006: RMB219.9 million). Profit attributable to equity owners in 2007 included non-recurring interest income of RMB350.5 million generated from the over-subscription proceeds retained during our initial public offering in Hong Kong in November 2007 and foreign exchange loss of RMB61.2 million principally from the translation of non-Renminbi cash proceeds raised from our initial public offering. Excluding these two items, our profit attributable to equity owners would have been RMB678.5 million, a 208.5% increase. Earnings per share increased 357.6% from HK$4.46 cents to HK$20.41 cents.

Mr. Wei Chen
Shenzhen Aomei Metal Co., Ltd.
China

"We keep receiving orders via the Internet and have acquired many stable customers. Having been a TrustPass member for three years, we now have annual revenue of over RMB2 million."

"We have been a Alibaba.com member for four years and now 80-90% of our business comes from the Internet."



Mr. Hong-hai Wang
SJZ Chem-Pharm Co., Ltd.
China

The following table presents, for the years indicated, the amounts and percentages of revenue of the major line items in our consolidated income statement:

	Year ended December 31,			
	2007		2006	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Revenue	**2,162,757**	**100.0%**	1,363,862	100.0%
Cost of revenue	**(280,113)**	**(13.0)**	(237,625)	(17.4)
Operating expenses	**(1,098,176)**	**(50.7)**	(875,653)	(64.2)
Other operating income	**19,877**	**0.9**	17,912	1.3
Profit from operations	**804,345**	**37.2**	268,496	19.7
Finance income, net	**345,099**	**16.0**	22,892	1.7
Income tax charges	**(181,649)**	**(8.4)**	(71,450)	(5.3)
Profit attributable to equity owners	**967,795**	**44.8%**	219,938	16.1%
Share-based compensation expense	**152,077**	**7.0%**	113,904	8.4%
Profit attributable to equity owners before share-based compensation expense	**1,119,872**	**51.8%**	333,842	24.5%
Earnings per share (HK$)	**20.41 cents**		4.46 cents	

Our Results

Basis of preparation

We completed a reorganization with Alibaba Group in 2007. Pursuant to this reorganization, assets and liabilities comprising Alibaba Group's B2B business were transferred to us. This reorganization was accounted for as a reorganization of business under common control, in a manner similar to a pooling-of-interests. The assets and liabilities transferred to us have been stated at Alibaba Group's historical carrying amounts. Our consolidated financial statements have been prepared as if we and our current corporate structure had been in existence at all dates and during the years presented.

Although our financial statements for the year ended December 31, 2006 did not include the revenue of Alibaba Group that was not related to the B2B business, they included expenses of Alibaba Group not related to the B2B business. These expenses were primarily related to certain marketing and administrative services provided to other businesses controlled by Alibaba Group.

"We thank Alibaba.com for making our dreams come true!"

Ms. Jerry Hoe
Guangdong Gemake Electric Appliance Co., Ltd.
China

"Nowadays, I do not attend tradeshows anymore because we not only find business, but also understand the overseas market on Alibaba.com."

Mr. Sparkle Zhao
Zhejiang Cifu Chemical Fiber Group Co., Ltd
China

The following table presents the breakdown of expenses of Alibaba Group that were not related to our B2B business but were included in our 2006 financial results:

	Year ended December 31,	
	2007	2006
	RMB'000	RMB'000
Sales and marketing expenses	**—**	83,186
Product development expenses	**—**	6,748
General and administrative expenses	**—**	47,573
Total expenses not related to the B2B business	**—**	137,507

Revenue

The following table presents, for the years indicated, a breakdown of revenue as well as the percentage of revenue:

	Year ended December 31,			
	2007		2006	
	RMB'000	**% of revenue**	RMB'000	% of revenue
International marketplace				
Gold Supplier members	**1,503,331**	**69.5%**	967,858	71.0%
International TrustPass members	**32,825**	**1.5**	24,011	1.7
Other revenue	**11,539**	**0.6**	—	—
Sub-total	**1,547,695**	**71.6**	991,869	72.7
China marketplace				
China TrustPass members	**594,098**	**27.5**	369,653	27.1
Other revenue	**20,964**	**0.9**	2,340	0.2
Sub-total	**615,062**	**28.4**	371,993	27.3
Total	**2,162,757**	**100.0%**	1,363,862	100.0%

"Alibaba.com helps a small company like ours do big business."

Mr. Mou-qing Li
Wendi Electric Appliances Manufactures Plant Ltd.
China

"We thought about e-commerce during the SARS outbreak in 2003, and got it started with Alibaba.com. Now our total online business volume has reached over RMB5 million."

Mr. Ting Li
Shanghai Huading Technical Education Equipment Co., Ltd.
China

We generate revenue primarily by selling membership packages and value-added services to suppliers participating in our international and China marketplaces.

Our total revenue increased from RMB1,363.9 million in 2006 to RMB2,162.8 million in 2007, representing a growth of 58.6%. This increase was mainly due to the expansion in the number of paying members in both our marketplaces as well as the increase in the average spending per paying member.

International marketplace

Revenue from our international marketplace primarily consists of:

- Revenue from the sale of Gold Supplier membership packages and value-added services, principally consisting of the sale of keywords and premium placements to Gold Supplier members;

- Revenue from the sale of International TrustPass membership packages; and

- Other revenue, which represents commission income we receive from Alisoft, a wholly-owned subsidiary of Alibaba Group, for cross-selling the software developed by Alisoft to our Gold Supplier members.

Revenue from our international marketplace increased by 56.0% from RMB991.9 million in 2006 to RMB1,547.7 million in 2007, primarily due to an increase in the number of Gold Supplier members, as well as an increase in the sale of value-added services. Furthermore, we commenced cross-selling software developed by Alisoft in 2007 and as a result, we recorded other income of RMB11.5 million, being commission income received from Alisoft.

China marketplace

Revenue from our China marketplace primarily consists of:

- Revenue from the sale of China TrustPass membership packages and value-added services, which mainly consist of keyword bidding and premium placements to China TrustPass members; and

- Other revenue, which principally consists of online placement services that allow companies to display online branded advertisements in our China marketplace.

Revenue from our China marketplace increased by 65.3% from RMB372.0 million in 2006 to RMB615.1 million in 2007, largely due to an increase in the number of China TrustPass members as well as an increase in membership price and the sale of value-added services such as keyword bidding and premium placements. In addition, the roll-out of sales of branded advertisements on our China marketplace during the year also contributed to the increase in revenue.

Revenue recognition

Membership packages. Our paying members typically enter into one-year or two-year membership contracts with us. We typically collect the full amount of our fees at the time we enter into the contract, and we initially record the amounts received as customer advances. After we enter into a membership contract, we begin producing storefronts for our paying members and our paying members are required to go through certain third party authentication and verification procedures. If a paying member does not pass the authentication and verification procedures, we refund the amount we received under the contract less the authentication and verification fees that we pay to the third party service

"We ride on Alibaba.com's influence in the buyer community. We post the latest products on Alibaba.com to attract potential buyers."

Mr. King Jin
Zhejiang Zhuguang Group Linhai Automatic Embroidery Equipment Co., Ltd.
China

provider and other related expenses. After we complete our production processes and the paying member passes the authentication and verification procedures, we display the paying member's storefront in our marketplaces, and the amounts paid by the paying member become non-refundable. When we display the paying member's storefront in our marketplaces, amounts previously recorded as customer advances are transferred to deferred revenue, and the revenue in respect of the membership package is recognized ratably over the term of the membership contract.

Keyword Purchases and Premium Placements. Our Gold Supplier members may purchase keywords to increase the exposure of their listings and storefronts on our international marketplace. We also offer our Gold Supplier members a premium placement service that allows them to promote their listings and storefronts on our international marketplace by displaying links at designated positions on our website. We initially record the fees we receive as customer advances. Once the value-added services becomes activated for the Gold Supplier member, we reclassify the amounts received as deferred revenue, and revenue from value-added services is generally recognized in respect of the service ratably over the term of the relevant Gold Supplier membership contract if the fair value of the membership package cannot be objectively measured. In the event the fair value of the value-added services can be objectively measured, service fees from such value-added services are recognized as revenue ratably over the contracted service period of the value-added services.

Keyword Bidding and Premium Placements. Our China TrustPass members may purchase additional keywords through a monthly program that allows members to bid for keywords at prices that are established by an auction mechanism. We collect fees for keyword bidding in the month the member makes a successful bid, and we recognize the revenue in respect of such service in the following month during which the service of displaying links to the paying member's storefront and listings in the relevant keyword search results is delivered. Similar to our international marketplace, we also offer our China TrustPass members a premium placement service that allows them to promote their listings and storefronts on our China marketplace at designated positions on our website. Fees collected from customers for premium placement are collected upfront and are recognized as revenue ratably over the service period.

Cost of revenue and gross profit

The following table presents, for the years indicated, a breakdown of cost of revenue and its components as a percentage of revenue:

	Year ended December 31,			
	2007		2006	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Revenue	**2,162,757**	**100%**	1,363,862	100%
Cost of revenue				
Business taxes and surcharges	**(110,545)**	**(5.1)**	(69,394)	(5.1)
Authentication and verification expenses	**(20,031)**	**(1.0)**	(15,540)	(1.1)
Bandwidth and depreciation expenses	**(38,771)**	**(1.8)**	(30,983)	(2.3)
Staff costs and other expenses	**(110,766)**	**(5.1)**	(121,708)	(8.9)
Total	**(280,113)**	**(13.0)**	(237,625)	(17.4)
Gross profit	**1,882,644**	**87.0%**	1,126,237	82.6%

Our cost of revenue increased by 17.9% from RMB237.6 million in 2006 to RMB280.1 million in 2007. Included in the cost of revenue was share-based compensation expense of RMB13.7 million and RMB23.3 million in 2007 and 2006, respectively. Our cost of revenue increased mainly as a result of the continued expansion of our business. In particular:

- business taxes and related surcharges, as well as authentication and verification expenses, were higher as a result of the increase in revenue; and
- bandwidth and depreciation expenses were higher mainly because of increased user traffic on our websites (which required us to pay higher bandwidth and co-location fees) and additional servers and related computer equipment acquired.

As a percentage of revenue, cost of revenue decreased from 17.4% in 2006 to 13.0% in 2007 due to the increased economies of scale as well as a non-recurring expense of RMB30.0 million in 2006 which related to technology consultation and advisory fees paid to a subsidiary of Alibaba Group for the installation of an online payment platform on our China marketplace.

As a result of the foregoing, our gross profit margin improved from 82.6% in 2006 to 87.0% in 2007.

Profit from operations

Our profit from operations increased from RMB268.5 million in 2006 to RMB804.3 million in 2007, a growth of 199.6%. The increase was primarily due to the growth in revenue as well as an increase in economies of scale. As mentioned previously, operating expenses in 2006 included expenses of RMB137.5 million of Alibaba Group that did not relate to our B2B business. Excluding these expenses, our operating profit margin in 2006 would have been 29.8%, compared to that of 37.2% in 2007.

The following table presents, for the years ended, a breakdown of operating expenses as well as its components as a percentage of revenue:

	Year ended December 31,			
	2007		2006	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Sales and marketing expenses	**736,813**	**34.0%**	610,198	44.8%
Product development expenses	**131,495**	**6.1**	105,486	7.7
General and administrative expenses	**229,868**	**10.6**	159,969	11.7
Total operating expenses	**1,098,176**	**50.7%**	875,653	64.2%

Sales and marketing expenses

Our sales and marketing expenses increased by 20.7% from RMB610.2 million in 2006 to RMB736.8 million in 2007. Included in the sales and marketing expenses was share-based compensation expense of RMB49.7 million and RMB50.1 million in 2007 and 2006, respectively. Our sales and marketing expenses increased mainly as a result of increased staff costs, advertising and promotional expenses and sales commission. Sales and marketing expenses increased, in particular, in the second half of 2007, as we invested more in promotional activities in new regions that we expanded our business as well as in promotion of new products that we started to offer during the year. Sales and marketing expenses in 2006 included expenses of RMB83.2 million of Alibaba Group not related to our B2B business. Excluding such non-B2B expenses in 2006, sales and marketing expenses as a percentage of revenue decreased from 38.6% in 2006 to 34.0% in 2007, primarily due to economies of scale.

Product development expenses

Our product development expenses increased by 24.7% from RMB105.5 million in 2006 to RMB131.5 million in 2007. Included in the product development expenses was share-based compensation expense of RMB15.0 million and RMB16.3 million in 2007 and 2006, respectively. Product development expenses include a royalty fee paid to Alibaba Group with respect to technology licensed to us from Alibaba Group. The royalty fee is based on a certain percentage of our revenue. In addition, to continuously develop and enhance our products, we have increased the number of our engineers and, as required, the use of external professionals for third party software development. Product development expenses in 2006 included expenses of Alibaba Group not related to our B2B business of RMB6.7 million. Excluding such non-B2B expenses in 2006, product development expenses as a percentage of revenue decreased from 7.2% in the 2006 to 6.1% in 2007, which mainly reflects the increased economies of scale of our business.

General and administrative expenses

Our general and administrative expenses increased by 43.7% from RMB160.0 million in 2006 to RMB229.9 million in 2007. Included in the general and administrative expenses was share-based compensation expense of RMB73.7 million and RMB24.2 million in 2007 and 2006, respectively. Our general and administrative expenses increased mainly as a result of the expansion of our business in the second half of 2007. In particular, in contemplating the listing of our shares on The Stock Exchange of Hong Kong Limited as well as the continued growth of our business, we invested in building a strong management team with extensive industry and management experience and expertise. This increase in the number of administrative and management headcount led to an increase in staff costs, including share-based compensation. General and administrative expenses in 2006 included expenses of Alibaba Group not related to our B2B business of RMB47.6 million. Excluding such non-B2B expenses in 2006, general and administrative expenses as a percentage of revenue increased from 8.2% in 2006 to 10.6% in 2007 for the above-mentioned reasons.

Other operating income

Other operating income, primarily consisting of government grants, increased by 11.0% from RMB17.9 million in 2006 to RMB19.9 million in 2007. In 2007, we received grants from government authorities in the PRC of RMB17.2 million. In 2006, we received government grants of RMB13.5 million in relation to technology development in the PRC.

Finance income, net

Finance income mainly consisted of interest income and foreign currency exchange losses arising from appreciation of Renminbi against our non-Renminbi bank deposits. Interest income increased by 1,654.4% from RMB23.2 million in 2006 to RMB406.3 million in 2007, principally as a result of interest income of RMB350.5 million from the over-subscription proceeds retained by us during our initial public offering in Hong Kong in November 2007. In addition, we incurred a foreign exchange loss of RMB61.2 million (2006: RMB267,000), arising principally from revaluation of non-Renminbi cash proceeds raised from our initial public offering.

Income tax charges

Substantially all of our income tax expenses in 2006 and 2007 were related to PRC income tax incurred by our major operating subsidiary, Alibaba (China) Technology Co., Ltd. ("Alibaba China"). Each of Alibaba China and our other subsidiaries incorporated in China is subject to Enterprise Income Tax on its taxable income as reported in its statutory financial statements prepared under accounting principles generally accepted in China and adjusted in accordance with the relevant tax laws and regulations in China. Pursuant to these laws and regulations, for taxable years prior to January 1, 2008, foreign-invested enterprises incorporated in China are subject to Enterprise Income Tax at a statutory rate of 33% (30% national enterprise income tax plus 3% local income tax) unless they qualify for certain tax exemptions or reductions, such as those available to qualified high and new technology enterprises and software enterprises. In 2006 and 2007, Alibaba China, as a high and new technology enterprise, was entitled to a reduced national enterprise income tax rate of 15% pursuant to the Implementation Rules of the PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises issued on June 30, 1991. In 2006, Alibaba China did not receive any exemption or reduction of the local income tax. As a result, Alibaba China's applicable income tax rate was 18% (15% national enterprise income tax plus 3% local income tax). In 2007, pursuant to PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises, the relevant PRC tax authorities exempted Alibaba China from the 3% local income tax for the year ended December 31, 2007, reducing the applicable tax rate of Alibaba China in 2007 to 15%.

Income tax charges increased by 154.2% from RMB71.5 million in 2006 to RMB181.6 million in 2007. This increase was primarily due to the increase in taxable profit from our operations in China. In 2006 and 2007, our effective tax rates were 24.5% and 15.8%, respectively. Share-based compensation expense arising from equity-based awards is not deductible for tax purposes. If we exclude the effects of such equity-based awards, our effective tax rates would have been 14.0% and 17.6% in 2007 and 2006, respectively.

On March 16, 2007, the National People's Congress approved the new Enterprise Income Tax Law (the "New EIT Law"). The New EIT Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%. In addition, among others, the New EIT Law provides for a preferential tax rate of 15% for enterprises qualified as high and new technology enterprises ("HNTE"). However, the detailed rules on the applicable requirements and procedures to apply for preferential tax treatment as HNTE have not yet been announced. In December 2007, Alibaba China obtained a certificate issued by the Science and Technology Department of Zhejiang Province confirming Alibaba China's status as a high and new technology enterprise. This certificate is valid for a period of two years from the date of issuance. In addition, our management has conducted research and consulted relevant third parties as well as performed certain due diligence procedures to confirm the view of our board of directors that Alibaba China will obtain its formal HNTE designation in 2008 under the New EIT Law upon the completion of certain administrative approval procedures. Consequently, Alibaba China used 15% in the computation of deferred taxes as of December 31, 2007. If Alibaba China does not obtain the formal HNTE designation in 2008, its applicable enterprise income tax rate will become 25% in 2008, which would have a negative effect on our future results.

Depreciation of property and equipment

Our depreciation expenses increased by 9.2% from RMB54.0 million in 2006 to RMB59.0 million in 2007, mainly due to the addition of property and equipment during the year.

The following table presents, for the years ended, the allocation of depreciation expenses and such expenses as a percentage of revenue:

	Year ended December 31,			
	2007		2006	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Cost of revenue	**23,546**	**1.1%**	21,056	1.6%
Sales and marketing expenses	**10,926**	**0.5**	8,349	0.6
Product development expenses	**10,995**	**0.5**	9,931	0.7
General and administrative expenses	**13,549**	**0.6**	14,707	1.1
Total depreciation expenses	**59,016**	**2.7%**	54,043	4.0%

Share-based compensation expense

We seek to structure our employee compensation packages to allow our employees to share the success of our business. Therefore, a large number of our employees have been granted certain equity awards. Alibaba Group also operates equity award plans pursuant to which our employees and the employees of Alibaba Group have been granted options to purchase shares of Alibaba Group or our shares held by Alibaba Group. In our consolidated financial statements, share-based compensation expense arising from the grant of equity-based awards by Alibaba Group to our employees is allocated to and included as part of our expenses. In 2006 and 2007, total share-based compensation expense was RMB113.9 million and RMB152.1 million, respectively. As a percentage of revenue, share-based compensation expense decreased from 8.4% in 2006 to 7.0% in 2007.

The following table presents, for the years ended, the allocation of share-based compensation expense and such expense as a percentage of revenue:

	Year ended December 31,			
	2007		2006	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Cost of revenue	**13,718**	**0.6%**	23,335	1.7%
Sales and marketing expenses	**49,668**	**2.3**	50,068	3.7
Product development expenses	**14,999**	**0.7**	16,344	1.2
General and administrative expenses	**73,692**	**3.4**	24,157	1.8
Total share-based compensation expense	**152,077**	**7.0%**	113,904	8.4%

Profit attributable to equity owners

We recorded a profit attributable to equity owners of RMB967.8 million in 2007, representing a 340.0% increase from RMB219.9 million in 2006. Earnings per share in 2007 was HK$20.41 cents, an increase of 357.6% from HK$4.46 cents in 2006.

LIQUIDITY AND CAPITAL RESOURCES

Treasury management

We have maintained a treasury department, which reports to our chief financial officer, to monitor our current and expected liquidity requirements in accordance with the policies and procedures approved by our board. We have adopted prudent treasury management objectives, which include principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with our strategic plans. In addition, we also aim to achieve a better return on our cash and to hedge against any foreign currency exchange risk. We have not used any derivative financial instruments to hedge foreign currency exchange risk or interest rate risk.

Foreign currency exchange exposure

Foreign currency exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although we operate our businesses in different countries, substantially all of our revenue-generating and expense-related transactions are denominated in Renminbi which is our functional currency and that of most of our subsidiaries. Renminbi is not freely convertible into other foreign currencies. All foreign currency exchange transactions in China must be effected through either the People's Bank of China ("PBOC") or other institutions authorized by the PBOC to buy and sell foreign currencies. Following the completion of our initial public offering in November 2007, we hold a significant portion of our cash and cash equivalents in currencies other than Renminbi. Such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of Renminbi against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of Renminbi against these foreign currencies may result in significant exchange loss which would be recorded in our income statement. In 2007, we incurred a foreign exchange loss of RMB61.2 million (2006: RMB0.3 million) arising principally from translation of non-Renminbi cash proceeds raised from our initial public offering to Renminbi as Renminbi appreciated. We will continue to actively manage our cash and cash equivalents to minimize any foreign exchange exposure.

Interest rate exposure

We have no interest-bearing borrowings. Our exposure to changes in interest rates is mainly attributable to our interest-bearing assets, including term deposits with original maturities of over three months and cash and cash equivalents.

Credit risk exposure

We consider our credit risk to be minimal as a substantial part of our income is prepaid by a diversified group of customers. The extent of our credit exposure is represented by the aggregate cash we hold at banks and at other financial institutions. All of our cash at banks is placed with financial institutions of sound credit quality.

Capital structure

We continue to maintain a strong financial position from healthy growth in recurring free cash flow from operations. This strong financial position is further enhanced by the proceeds raised from our initial public offering. Until now, we have not made any significant use of the proceeds raised from our initial public offering. In addition, as mentioned previously, we have been cautiously managing our cash to maintain a favorable return and to minimize any foreign exchange risk. As of December 31, 2007, we had cash and cash equivalents and term deposits with original maturities of over three months of RMB5,273.6 million, which was RMB3,784.7 million or 254.2% higher than that as of December 31, 2006. As of December 31, 2007, our cash and cash equivalents comprised 66.3% (2006: 98.8%) in Renminbi, 21.2% (2006: 0.4%) in Hong Kong dollars, 12.1% (2006: Nil) in Australian dollars and 0.4% (2006: 0.8%) in other currencies. The weighted average annual return on our cash and cash equivalents was 2.78% in 2007 (2006: 2.01%).

As of December 31, 2007, our total assets were RMB6,053.5 million (2006: RMB2,044.7 million), which were financed by shareholders' funds of RMB3,613.1 million (2006: RMB145.6 million), current liabilities of RMB2,370.2 million (2006: RMB1,862.0 million) and non-current liabilities of RMB70.2 million (2006: RMB37.1 million). Of the total liabilities, RMB1,919.8 million (2006: RMB1,254.0 million) represented deferred revenue and customer advances that we collected upfront from our customers. These upfront payments are included as liabilities because we have not yet provided services to earn the related revenue. Therefore, instead of imposing any obligations on us to pay customers, these liabilities provide an assured base for our future reported revenue. As of December 31, 2007, we had deferred revenue and customer advances of RMB1,919.8 million, which was RMB665.9 million or 53.1% more than that as of December 31, 2006.

Under PRC law, our operating subsidiaries in China are required to set aside a portion of their net income, if any, each year to fund certain non-distributable reserve funds. In 2007, an appropriation of RMB61.7 million (2006: RMB10.9 million) was made to certain statutory reserves by our subsidiaries in China. As of December 31, 2007, our Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to RMB3,107.9 million.

Cash Flow

Net cash generated from operating activities

Net cash generated from operating activities was RMB1,409.2 million in 2007 which represented a 92.9% increase from RMB730.7 million in 2006. The increase in net cash generated from operating activities was principally the result of an increase in our profit from operations and deferred revenue associated with increased sales of our membership packages and value-added services, which were partially offset by an increase in income tax paid, a decrease in amounts due to related companies and an increase in prepayments, deposits and other receivables.

Net cash used in investing activities

Net cash used in investing activities was RMB101.9 million in 2007 compared to RMB794.4 million in 2006. Net cash used in investing activities during this period primarily represented payment to Alibaba Group Holding Limited for transferring the B2B business to us, purchases of property and equipment and prepayment of leasehold land use rights, which was substantially offset by interest income we received from the over-subscription proceeds during our initial public offering in Hong Kong.

In 2007, our capital expenditures increased by 44.6% to RMB139.8 million (2006: RMB96.7 million). The increase in capital expenditures was primarily due to the addition of computer equipment to meet our business growth, payment for leasehold land use rights for the piece of land in Hangzhou, China (RMB29.3 million) as well as the early phase of related construction costs (RMB17.6 million) for our new corporate campus on such land to accommodate our growth. We began the construction of the campus in the second half of 2007 and expect completion in late 2009.

Net cash provided by (used in) financing activities

Net cash provided by financing activities was RMB2,626.9 million in 2007 (2006: net outflow of RMB196.6 million). The increase in net cash from financing activities was mainly due to the proceeds raised from our initial public offering.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2007, we did not have any material off-balance sheet arrangements.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As of December 31, 2007, none of our assets were pledged and we did not have any material contingent liabilities or guarantees.

Employee Relations

One of the most valuable assets of Alibaba.com is our people – we call them "Aliren". In order to support sustainable business growth and the fulfilment of our mission, we strive to build a human resources process and environment that is respected by the industry and loved by our employees.

THE TEAM

As of December 31, 2007, Alibaba.com had a total of 5,292 employees, representing a net increase of 1,720 employees during the year, including nearly 100 overseas employees based in Hong Kong, the United States and Europe.

REMUNERATION

We strongly believe in rewarding performance and sharing success with our employees. In addition to providing a competitive base salary, commission, comprehensive benefits and retirement program, an annual performance-based bonus as well as a long-term share-based incentive plan are also key components of our total compensation mix. Our total employee costs for the year amounted to approximately RMB757 million.

TRAINING & DEVELOPMENT

Alibaba.com can only be as good as its employees. To maintain and further strengthen our competitive advantage in such a competitive market, we are committed to helping our employees grow and develop together with our company.

The training programs at Alibaba.com fall broadly into three major categories: orientation and assimilation for new employees, professional skills training for existing employees of all levels and functions, and management skills training for managerial employees. Top executives are directly involved in offering training programs and sharing best practices.

We are also committed to building a strong succession planning process and a solid talent bench, which is critical for the continuous and sustainable growth of Alibaba.com.

CULTURE DEVELOPMENT

Alibaba.com has a solid and very strong company culture that is built on the foundation of our six core values: Customers First, Teamwork, Embrace Change, Integrity, Passion and Commitment. These core values are the DNA of Alibaba.com as well as key criteria of our employee annual performance evaluation. These six core values also support the development of Alibaba.com and make it a fun place to work.




Corporate Social Responsibility – Alibaba.com in the Community

Alibaba.com co-hosts the AliFest every year, bringing together entrepreneurs and SMEs from China and abroad to share their e-commerce experience.

SUPPORTING SMES AND CREATING BUSINESS OPPORTUNITIES WORLDWIDE

Alibaba.com is playing an important role in helping SMEs in China and around the world participate in global trade and become more competitive. We are creating jobs and opportunities for millions of companies by giving them a cost effective platform to market their products, find quality suppliers and grow their business.

In early 2007, we entered into a partnership with Industrial and Commercial Bank of China and China Construction Bank to provide business loans and financial consulting services to SMEs. Under the program, Alibaba.com provides the online transaction history and trust rating of SMEs to the banks. This online financial solution has helped Chinese companies with limited assets or credit history secure financing to expand their business. Many SMEs have benefited from the program since it was launched.

TRAINING PROGRAMS AND COMMUNITY EDUCATION

As a pioneer of the industry, we have invested substantial resources into teaching people about the power of e-commerce. We established a training institute called Ali-college to provide free training courses to our members in different cities around China on how to use Alibaba.com and the Internet to grow their business. We also organize management training programs for our members, and our executives regularly speak at conferences around the world to share our experience in global sourcing.

Ali-college collaborates with 48 universities across China to run professional e-commerce courses for students and provide them with a “Certificate of Alibaba E-Commerce”. We are currently in talks with another 100 tertiary institutes in China to extend this program.

AliFest features an outdoor festival of exhibitions and booths designed to enhance citizens’ knowledge of e-commerce.

To help bridge the talent gap between companies looking for staff experienced in the Internet business and graduates looking for a job, in November 2007, Alibaba.com launched an “E-Commerce Talent Placement” program. Since the initiative was launched, we have successfully offered job opportunities to more than 400 high school graduates and helped over 200 SMEs fill positions. Following the overwhelmingly positive response we have received from both sides, we will continue this program in 2008.

Every year, Alibaba.com co-hosts the China e-Businessmen Summit (“AliFest”) with Alibaba Group, the Hangzhou municipal government and the China E-Commerce Association in Hangzhou, China. The two-day annual event has become a significant platform for business people to exchange ideas about e-commerce. In 2007, the event brought together over 30,000 entrepreneurs and SMEs from China and abroad. The event culminates in an award ceremony in which 10 e-businessmen are recognized for their contributions to e-commerce and the community. This well-recognized program called the “eBusinessmen of the Year” awards will be expanded to a few different regions around the world in 2008.

COMMUNITY VOLUNTEERING

In November 2006, Alibaba.com launched “Ali-Help” (阿里幫幫), a free, easy-to-use platform for our Chinese members to help each other solve trading problems. Not only has Ali-Help developed into an active exchange for business tips, but it is also a round-the-clock help desk for members to assist others needing business advice.

In August 2007, Alibaba.com joined hands with China Charity Federation to run the “Caring Keyword Bidding Campaign” whereby our members donated one Renminbi for every successful keyword bid on our China marketplace. Our donations helped subsidize medical fees for congenital heart disease sufferers.

Inspired by our corporate culture of giving back to society, Alibaba employees initiated a volunteer campaign in September 2007 called “Giving With Love” (愛心派活動). Close to 300 volunteers from Alibaba Group joined the campaign to help the needy. The campaign volunteers made weekly visits to community care centers for deaf children to help them improve their communication skills. The “Giving with Love” group also visited children welfare centers and organized clothing and medicine donations for rural villages.

Initiated by Alibaba employees, the “Giving With Love” volunteer campaign donated clothes and other necessities to the fire-struck Miao villagers in Yunnan, China in December 2007.

The volunteer activity received overwhelming support from Alibaba employees, successfully collecting 25 bags of relief materials and 10 cartons of clothes, blankets and medicine.

ENVIRONMENTAL PROTECTION

In addition to education and community volunteering, environmental protection is another key focus of our corporate social responsibility efforts. We promote environmental issues from within the organization by running a series of campaigns under the name “Orange Alibaba, Green Earth” (橙色阿里，綠色地球), which are aimed at promoting energy and resource conservation by our employees. We also launched a “Tradeshow Alliance Environmental Protection Fund” in October 2007 to promote environmentally friendly and energy efficient tradeshows. The proceeds were donated to the China Environmental Protection Foundation.

LOOKING FORWARD

Alibaba.com will continue to focus on the above initiatives in 2008 in order to have a positive impact on SMEs around the world and society as a whole. All our employees will be encouraged to incorporate the spirit of corporate social responsibility into their daily operations, making it an inseparable part of our corporate DNA.

Biographical Details of Directors and Senior Management

Chairman and Non-executive Director

Mr. MA Yun, Jack, aged 43, is our chairman and non-executive director. Mr. Ma is the lead founder and a director of Alibaba Group Holding Limited (formerly known as Alibaba.com Corporation, "Alibaba Group"), our holding company and has been its chairman and chief executive officer since its inception in 1999. Mr. Ma is responsible for the overall strategy and focus of Alibaba Group and our company. He is also a director of a number of our subsidiaries. Mr. Ma is a pioneer in the Chinese Internet industry, founding China Pages, one of the first Internet-based directories in China, in 1995. From 1998 to 1999, Mr. Ma headed an information technology company established by the China International Electronic Commerce Center, a department of the Ministry of Foreign Trade and Economic Cooperation. Mr. Ma currently serves on the board of SOFTBANK CORP., a leading digital information company that is publicly traded on the Tokyo Stock Exchange. As a respected business leader, Mr. Ma was chosen by the World Economic Forum as a "Young Global Leader" in 2001, selected by China Central Television and its viewers as one of the "Top 10 Business Leaders of the Year" in 2004, and selected as one of the "25 Most Powerful Businesspeople in Asia" by Fortune Magazine in 2005. Mr. Ma is also a member of APEC Business Advisory Council, which was established by the Asia-Pacific Economic Cooperation, or APEC, in 1995 as the vehicle for formalizing private sector participation in APEC. Mr. Ma holds a Bachelor's degree in English from Hangzhou Teacher's Institute.

Executive Directors

Mr. WEI Zhe, David, aged 37, is an executive director and our chief executive officer. He is also a director of a number of our subsidiaries. Mr. Wei joined Alibaba Group in November 2006 as the president of the B2B business division and as an executive vice-president of Alibaba Group. Mr. Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, a subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr. Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr. Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Ltd. Mr. Wei served as the managing director and head of Investment Banking for Orient Securities Co. from 1998 to 2000, and as a corporate finance manager at Coopers & Lybrand, now part of PricewaterhouseCoopers, from 1995 to 1998. Mr. Wei holds non-executive directorship positions in HSBC Bank (China) Company Limited and the China Advisory Board of IMI plc, a FTSE 250 company. He was appointed as a non-executive director of The Hongkong and Shanghai Banking Corporation Limited on January 1, 2008. Mr. Wei holds a Bachelor's degree in International Business Management from Shanghai International Studies University.

Ms. WU Wei, Maggie, aged 39, is an executive director and our chief financial officer since July 2007. She is also a director of a number of our subsidiaries. Prior to joining our company, Ms. Wu was an audit partner at KPMG's Beijing Office. In her 15 years with KPMG, Ms. Wu was the lead audit partner on audits for the initial public offerings and annual audits of several Chinese companies listed overseas and provided audit, accountancy and advisory services to many multinational corporations. She is a member of the Association of Chartered Certified Accountants (ACCA) and a member of the Chinese Institute of Certified Public Accountants. Ms. Wu holds a Bachelor's degree in Accounting from Capital University of Economics and Business.

Ms. DAI Shan, Trudy, aged 31, is an executive director and senior vice president of business operations of our company and is responsible for managing sales, customer service and marketing. Ms. Dai is one of the founders of Alibaba Group and has been involved in our operations since our inception. She has an intricate knowledge of our business, having held numerous management positions in our customer service, sales and user interface departments from 1999 to 2001. From 2002 to 2005, Ms. Dai served as senior sales director of China Trustpass in our China marketplace division, building up our China telephone sales teams now consisting of more than 800 personnel. She was eventually promoted to general manager of our Guangdong branch in 2005, in charge of both field and telephone sales, marketing and human resources in Guangdong Province. Ms. Dai holds a Bachelor's degree in Engineering from Hangzhou Institute of Electrical Engineering.

Ms. PENG Yi Jie, Sabrina, aged 29, is an executive director and vice president of our company and is responsible for the management of our website operation and development organizations. Ms. Peng has been with our company since 2000 and was the architect behind our China Trustpass product, having successfully led a team which marketed the product to hundreds of thousands of SMEs in China. Prior to her current position, Ms. Peng served as the director of the customer service department in our China marketplace division from 2004 to 2005, and as head of our China web operation department from March 2006 to February 2007. Ms. Peng holds a Bachelor's degree in English for Special Purpose and a Bachelor's degree in International Trading from Xi'an Jiaotong University.

Mr. XIE Shi Huang, Simon, aged 37, is an executive director and senior investment director of our company. Prior to his current position, Mr. Xie served as head of the product development department for our international marketplace division. Mr. Xie is one of the founders of Alibaba Group and has held numerous management positions in the operations of the B2B marketplaces since 1999, including director of business development from 2000 to 2002, director of operations and development for our international marketplace division from 2002 to 2004 and was the senior director in the same division from 2004 to 2006. Before joining Alibaba Group, Mr. Xie worked with our chairman, Jack Ma, at an information technology company established by China International Electronic Commerce Center, a department of Ministry of Foreign Trade and Economic Cooperation, as financial controller. Mr. Xie holds a Bachelor's degree in Engineering from Shenyang University of Technology.

Non-executive Directors

Mr. TSAI Chung, Joseph, aged 44, is a non-executive director. He is also a director of a number of our subsidiaries. Mr. Tsai is one of the founders, as well as a director and the chief financial officer of Alibaba Group. He has been responsible for many milestones of Alibaba Group, including spearheading the establishment of Alibaba Group's Hong Kong operations in 1999 and leading the negotiations for acquisition of Yahoo! China and Yahoo!'s investment in Alibaba Group in 2005. He held the position of chief operating officer of Alibaba Group from 1999 to 2000 before assuming his current role. Prior to joining Alibaba Group, Mr. Tsai was a vice president and senior investment manager focused on Asian private equity from 1995 to 1999 at Investor Asia Limited, a subsidiary of Investor AB, the largest industrial holding company in the Nordic region. From 1994 to 1995, Mr. Tsai served as a vice president and the general counsel of Rosecliff, Inc., a New York-based buy-out firm, and from 1990 to 1993 practiced tax law as an associate with Sullivan & Cromwell LLP in New York. Mr. Tsai is a member of the New York State Bar. He holds a Bachelor's degree in Economics and East Asian Studies from Yale University and a Juris Doctor degree from Yale Law School.

Mr. TSUEI, Andrew Tien Yuan, aged 47, is a non-executive director. He was also a non-executive director of Taobao Holding Limited, a subsidiary of Alibaba Group. Mr. Tsuei was formerly senior vice-president of Wal-Mart Stores, Inc. From 2001 to 2007, he was managing director of Wal-Mart's Global Procurement Division, where he oversaw the global procurement operations of Wal-Mart, which has a presence in over 30 countries. In 2004, Wal-Mart awarded him the Sam M. Walton Hero Award for his accomplishments. Mr. Tsuei has more than 20 years of management experience working across a wide range of industries, including procurement, manufacturing, store retailing and direct marketing. Throughout his career, Mr. Tsuei has held several executive positions, including chairman and chief executive officer of Mecox Lane International Mailorder Co. Ltd. (one of China's first direct marketing businesses with online presence) and chief operating officer of China Everbright Holdings Ltd.

Ms. TSOU Kai-Lien, Rose, aged 42, is a non-executive director. Ms. Tsou is currently senior vice president of Yahoo! Asia where she is responsible for operations in Korea, Hong Kong, Taiwan and Australia/New Zealand as well as facilitating Yahoo!'s relationship with Alibaba Group and joint venture operations in Japan. She joined Yahoo! Taiwan in 2000 and held the position of managing director from 2001 to 2007 during which period she led the acquisition of Kimo, a portal site in Taiwan, which made Yahoo! the largest Internet business in Taiwan after the successful integration of the two companies. In 2007 she led another acquisition of Wretch, a leading blog and photo site in Taiwan, further fortifying Yahoo!'s leading position in Taiwan. Ms. Tsou has 16 years of experience in management, marketing and mass communication. Prior to joining Yahoo!, Ms. Tsou was the general manager of MTV Taiwan for over two years. Ms. Tsou holds an MBA degree from J.L. Kellogg School of Business, Northwestern University and a Master's degree in Mass Communication from Boston University.

Mr. OKADA, Satoshi, aged 49, is a non-executive director. Mr. Okada has been the executive vice president of the SOFTBANK Group's eCommerce Business Planning in Japan since April 2000. Prior to that, he held various management positions within the SOFTBANK Group. Mr. Okada also previously held directorship in Ariba Japan and Deecorp Limited, companies engaging in the businesses of technology and software, respectively. In May 2007, he was appointed to serve on the board of Beijing Digital China BB Limited. Prior to joining the SOFTBANK Group, Mr. Okada was the chief executive officer and president of NetIQ KK, the Japanese subsidiary of NetIQ Corporation, a provider of e-business infrastructure management software. Mr. Okada oversaw the networking management service business and was responsible for establishing Original Equipment Manufacture (OEM) businesses with major Japanese companies such as NEC, Fujitsu and Hitachi. He is also renowned in the storage management industry for his success in establishing Cheyenne Software KK and Computer Associates Japan as industry leaders in the Japanese market.

Independent Non-executive Directors

Mr. LONG Yong Tu, aged 64, is an independent non-executive director. Mr. Long is the secretary-general of Boao Forum for Asia since January 2003, a non-profit organization committed to promoting economic integration among Asian countries. Mr. Long held several positions with PRC Ministry of Foreign Trade and Economic Cooperation (MOFTEC) from 1992 to 2003, including director-general of the Department of International Relations and vice minister and the chief representative for Trade Negotiations. During his tenure at MOFTEC, Mr. Long led the negotiation for China's accession to the World Trade Organization. Mr. Long also served as deputy director-general at China International Center for Economic and Technical Exchanges (CICETE) from 1986 to 1991 and as a diplomat in the United Nations from 1978 to 1986. Mr. Long is currently Dean of the School of International Relations and Public Affairs at Fudan University and an independent non-executive director of China Life Insurance Company Limited, a company with its shares listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange. In addition, Mr. Long is a director of China Nepstar Chain Drugstore Ltd., a company listed on the New York Stock Exchange, and a non-executive director of HSBC Bank (China) Company Limited. Mr. Long holds a Bachelor's degree in British and American Literature from Guizhou University and an honorary degree of Doctor of Science (Economics) from the London School of Economics and Political Science.

Mr. NIU Gen Sheng, aged 50, is an independent non-executive director. Mr. Niu is the chief executive officer of China Mengniu Dairy Company Limited, one of China's leading dairy companies, and has over 29 years of experience in China's dairy industry. He is currently the deputy chairman of the Dairy Association of China and the China Dairy Industry Association, and serves as both a board member and deputy chief executive in charge of production and operations at Inner Mongolia Yili Ltd., a flagship enterprise in China's dairy industry. Mr. Niu was elected as one of "China's Most Influential Business Leaders" from 2003 to 2006 by China Entrepreneur Magazine. He holds a Bachelor's degree in Administration and Management from Inner Mongolia University and a Master's degree in Enterprise Management from the Chinese Academy of Social Sciences Graduate School.

Mr. KWAUK Teh Ming, Walter, aged 55, is an independent non-executive director. Mr. Kwauk is currently a vice president of Motorola and its director of Corporate Strategic Finance and Tax, Asia Pacific. He joined Motorola in January 2003 after 25 years of professional services with KPMG in Vancouver, Hong Kong, Beijing and Shanghai. Between 1987 and 2002, Mr. Kwauk held a number of senior positions in KPMG, including general manager of KPMG's joint accounting firm, managing partner in KPMG's Shanghai office and partner in KPMG's Hong Kong office. He is a member of the Canadian Institute of Chartered Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwauk holds a Bachelor's degree in Science and a Licentiate in Accounting from the University of British Columbia.

Senior Management

Mr. DENG Kang Ming, aged 42, is our senior vice president of human resources and administration. Mr. Deng joined our company in July 2004 as vice president of human resources, and has held various positions within Alibaba Group, including a secondment as vice president of Human Resources and Administration for Yahoo! China, vice president of Channel Sales & Marketing of Yahoo! China, and vice president of Strategic Business Development for Alibaba Group. Mr. Deng brings with him over 16 years of experience in human resources and administration. Prior to joining Alibaba Group, he served as the human resources director for several multinational companies including Microsoft China, Oracle China, Danone China, and Janssen Pharmaceutical, a subsidiary of Johnson & Johnson. Mr. Deng holds a Bachelor's degree in Law from Fudan University.

Mr. LI Ang, Andy, aged 40, is our vice president of technology. Mr. Li joined Alibaba Group in November 2004 as senior director of the research center, where he was responsible for directing Alibaba Group's and our company's technology development, architecture and platform, and web site system operations and backend business systems. Mr. Li has more than a decade of experience in Internet development and engineering management. Prior to joining Alibaba Group, Mr. Li was an independent technology consultant from 1997 to 2000 and founded Angilon, Inc. (a technology consultancy business in Silicon Valley) in 2000 and managed the company for four years. Mr. Li holds a Bachelor's degree in Electrical Engineering from the University of Science and Technology of China and a Master's degree in Electrical Engineering from the University of Arizona.

Mrs. CHOW Lok Mei Ki, Cindy, aged 37, has been our qualified accountant since July 2007. Prior to joining our company, Mrs. Chow was a senior manager at Hutchison Whampoa Limited, where she was responsible for the management reporting and planning of the group from 2001 to 2007. From 1992 to 2000, she served various positions including as a vice president and company secretary of ICG Asia Limited, deputy general manager of Sinolink Mobile Communications Limited and as an auditor at Arthur Andersen in Hong Kong. Mrs. Chow is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. She holds a Bachelor's degree in Business Administration from The Chinese University of Hong Kong and a Master's degree in Business Administration from The Hong Kong University of Science and Technology.

Directors' Report

Our directors are pleased to present the first annual report and the audited consolidated financial statements of Alibaba.com Limited (our "Company") together with its subsidiaries (collectively, our "Group") for the year ended December 31, 2007.

CORPORATE REORGANIZATION AND PUBLIC LISTING

Our Company was incorporated in the Cayman Islands with limited liability as an exempted company on September 26, 2006 under the laws of the Cayman Islands. Pursuant to a reorganization to rationalize the structure of our Group in preparation for the public listing of our shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the corporate entities, assets and liabilities comprising the business-to-business ("B2B") operation of our ultimate holding company, Alibaba Group Holding Limited (formerly known as Alibaba.com Corporation, "Alibaba Group") and its subsidiaries were transferred to our Company, and certain assets and personnel not related to the B2B business were transferred out of our Company.

Details of our reorganization were set out in our prospectus issued on October 23, 2007 and are set out in note 1.1 to our consolidated financial statements on pages 92 to 95 of this Annual Report.

PRINCIPAL ACTIVITIES

Our Company is an investment holding company. Our subsidiaries are principally engaged in the provision of software, technology and other services on the online B2B marketplaces with the uniform resource locators www.alibaba.com and www.alibaba.com.cn and under the trade name "Alibaba". Details of the activities of the subsidiaries are set out in note 17 to our consolidated financial statements on pages 124 to 126 of this Annual Report. There were no significant changes in the nature of our Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

Our results for the year ended December 31, 2007 and the state of our affairs as of that date are set out in our consolidated financial statements on pages 84 to 86 of this Annual Report.

Our directors do not recommend the payment of a final dividend for the year ended December 31, 2007. In 2006, our subsidiaries established in the PRC declared and paid dividends of RMB392.5 million to their then equity owners.

PROPERTY AND EQUIPMENT

Details of movements in our property and equipment during the year are set out in note 16 to our consolidated financial statements on page 123 of this Annual Report.

BANK LOANS AND OTHER BORROWINGS

As of December 31, 2007, we had no interest bearing borrowings.

RETIREMENT SCHEME

We participate in government pension schemes for our employees in Mainland China and operate a mandatory provident fund scheme for our employees in Hong Kong. Particulars of these schemes are set out in note 10 to our consolidated financial statements on pages 114 to 115 of this Annual Report.

CHARITABLE DONATIONS

During the year ended December 31, 2007, we contributed a total of RMB956,000 as charitable donations.

SHARE CAPITAL

Details of our share capital during the year are set out in note 22 to our consolidated financial statements on pages 129 to 130 of this Annual Report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of our Company or the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

FINANCIAL SUMMARY

A summary of our results and of the assets and liabilities for the last four financial years, as extracted from our audited consolidated financial statements, is set out on page 156 of this Annual Report. This summary does not form part of our audited consolidated financial statements.

RESERVES

Details of movements in our reserves of our Group and our Company during the year are set out in the consolidated statement of changes in equity on pages 88 to 89 of this Annual Report and in note 24 to our consolidated financial statements on page 131 of this Annual Report, respectively.

DISTRIBUTABLE RESERVES

As of December 31, 2007, our reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB3,107.9 million.

DIRECTORS

Our directors during the year and up to the date of this Annual Report were:

Chairman and Non-executive Director

MA Yun, Jack	(appointed on October 12, 2007)

Executive Directors

WEI Zhe, David	(appointed on October 12, 2007)
WU Wei, Maggie	(appointed on October 12, 2007)
DAI Shan, Trudy	(appointed on October 12, 2007)
PENG Yi Jie, Sabrina	(appointed on October 12, 2007)
XIE Shi Huang, Simon	(appointed on October 12, 2007)

Non-executive Directors

TSAI Chung, Joseph	
TSUEI, Andrew Tien Yuan	(appointed on October 12, 2007)
TSOU Kai-Lien, Rose	(appointed on October 12, 2007)
OKADA, Satoshi	(appointed on October 12, 2007)

Independent Non-executive Directors

LONG Yong Tu	(appointed on October 12, 2007)
NIU Gen Sheng	(appointed on October 12, 2007)
KWAUK Teh Ming, Walter	(appointed on October 12, 2007)

Director

YEN Ping Ching, Samuel	(resigned on October 12, 2007)

In accordance with article 130 of our articles of association, WU Wei, Maggie, DAI Shan, Trudy, XIE Shi Huang, Simon, TSUEI, Andrew Tien Yuan and KWAUK Teh Ming, Walter will retire from office by rotation at our forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors will continue in office.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive directors, namely LONG Yong Tu, NIU Gen Sheng and KWAUK Teh Ming, Walter an annual confirmation of their respective independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). Our nomination committee also reviewed the annual confirmation of independence of each of these directors. We considered our independent non-executive directors to be independent from the date of their appointment to December 31, 2007 and as of the date of this Annual Report.

DIRECTORS' BIOGRAPHIES

Biographical details of our directors are set out on pages 40 to 44 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with us which is not determinable by us within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

Our directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by our remuneration committee with reference to the directors' duties, responsibilities and our performance and results.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2007, the interests and short positions of our directors and chief executives in the shares, underlying shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code"), were as follows:

(1) Long positions in ordinary shares of HK$0.0001 each of our Company ("Shares"):

Name of Director	Note	Capacity/ nature of interest	Number of Shares/ underlying Shares held	Total	Approximate percentage of our Company's issued share capital
WEI Zhe, David	(a)	Interest of controlled corporation	48,250,000	48,250,000	0.95%
WU Wei, Maggie	(b)	Interest of controlled corporation	9,650,000	9,650,000	0.19%
DAI Shan, Trudy	(c)	Beneficial owner	600,000		
		Interest of spouse	600,000		
		Interest of controlled corporation	3,400,000	4,600,000	0.09%
PENG Yi Jie, Sabrina	(d)	Beneficial owner	1,425,000		
		Interest of controlled corporation	1,000,000	2,425,000	0.05%
XIE Shi Huang, Simon	(e)	Beneficial owner	600,000		
		Interest of controlled corporation	3,500,000	4,100,000	0.08%
MA Yun, Jack	(f)	Beneficial owner	28,369,053	28,369,053	0.56%
TSAI Chung, Joseph	(g)	Interest of spouse	120,000		
		Interest of controlled corporation	11,401,560	11,521,560	0.23%
TSUEI, Andrew Tien Yuan	(h)	Beneficial owner	940,000	940,000	0.02%
LONG Yong Tu		Beneficial owner	100,000	100,000	0.00%
NIU Gen Sheng		Beneficial owner	100,000	100,000	0.00%
KWAUK Teh Ming, Walter		Beneficial owner	100,000	100,000	0.00%

Notes:

(a) These securities represent deemed interests in Shares held by Direct Solutions Management Limited through Maimex Company Limited for the benefit of Mr. Wei under the Pre-IPO Share Incentive Scheme adopted by Alibaba Group (particulars are set out on pages 55 to 56 of this Annual Report).

(b) These securities represent deemed interests in Shares held by Direct Solutions Management Limited through Sheenson Development Limited for the benefit of Ms. Wu under the Pre-IPO Share Incentive Scheme.

(c) These securities represent (i) Shares to be transferred from Alibaba Group pursuant to the relevant terms of the Employee Equity Exchange (particulars are set out in note 25 to the financial statements on pages 132 to 141 of this Annual Report) to the following parties: 600,000 issued Shares to Ms. Dai, 600,000 issued Shares to Mr. Sheng Yi Fei, Ms. Dai's spouse and 2,400,000 issued Shares to Able Island Assets Corp. (a company ultimately owned by Ms. Dai and her spouse); and (ii) deemed interests in 1,000,000 Shares held by Direct Solutions Management Limited through Golden Jade Investment Limited, a company ultimately owned by a trust established by Ms. Dai for the benefit of her family under the Pre-IPO Share Incentive Scheme.

(d) These securities represent (i) 1,425,000 Shares to be transferred from Alibaba Group to Ms. Peng pursuant to the relevant terms of the Employee Equity Exchange; and (ii) deemed interests in 1,000,000 Shares held by Direct Solutions Management Limited through Netyan Enterprises Ltd. for the benefit of Ms. Peng under the Pre-IPO Share Incentive Scheme.

(e) The securities represent (i) Shares to be transferred from Alibaba Group pursuant to the relevant terms of the Employee Equity Exchange to the following parties: 600,000 issued Shares to Mr. Xie and 3,000,000 issued Shares to Navibell Venture Corp. (a company ultimately owned by a trust established by Mr. Xie for the benefit of his family); and (ii) deemed interests in 500,000 Shares held by Direct Solutions Management Limited through Lionyet International Ltd. for the benefit of Mr. Xie under the Pre-IPO Share Incentive Scheme.

(f) These securities represent Shares to be transferred from Alibaba Group to Mr. Ma pursuant to the relevant terms of the Employee Equity Exchange.

(g) These securities represent Shares to be transferred from Alibaba Group pursuant to the relevant terms of the Employee Equity Exchange to the following parties: (i) 3,000,000 issued Shares to Parufam Limited (a company ultimately owned by a trust established by a family member in which Mr. Tsai is a beneficiary); (ii) 8,401,560 issued Shares owned by MFG Limited (a company ultimately owned by a trust established by Mr. Tsai for the benefit of his family); and (iii) 120,000 issued Shares owned by Ms. Clara Wu Ming-Hua, Mr. Tsai's spouse.

(h) These securities represent (i) 840,000 Shares to be transferred from Alibaba Group to Mr. Tsuei pursuant to the relevant terms of the Employee Equity Exchange; and (ii) 100,000 Shares directly owned by Mr. Tsuei.

(2) Long positions in shares and underlying shares of associated corporations:

1. Interests in shares and underlying shares

(i) Alibaba Group

Name of Director	Note	Interests in shares/ underlying shares	Capacity/ nature of interest	Number of shares/ underlying shares held	Total	Approximate percentage of Alibaba Group's issued share capital
WEI Zhe, David	(a)	Share options	Beneficial owner	3,400,000	3,400,000	0.14%
WU Wei, Maggie	(b)	Share options	Beneficial owner	600,000	600,000	0.02%
DAI Shan, Trudy	(c)	Ordinary shares	Beneficial owner	325,000		
			Interest of spouse	587,500		
			Interest of controlled corporation	11,935,250		
		Share options	Beneficial owner	401,260		
			Interest of spouse	36,250	13,285,260	0.53%
PENG Yi Jie, Sabrina	(d)	Ordinary shares	Beneficial owner	475,000		
			Interest of controlled corporation	52,249		
		Share options	Beneficial owner	422,751	950,000	0.04%
XIE Shi Huang, Simon	(e)	Ordinary shares	Beneficial owner	1,397,084		
			Interest of controlled corporation	9,263,236		
		Share options	Beneficial owner	210,964	10,871,284	0.44%
MA Yun, Jack	(f)	Ordinary shares	Beneficial owner	44,182,861		
			Interest of spouse	144,028,496		
		Share options	Beneficial owner	846,667		
			Interest of spouse	69,000	189,127,024	7.61%
TSAI Chung, Joseph	(g)	Ordinary shares	Beneficial owner	2,522,964		
			Interest of spouse	40,000		
			Interest of controlled corporation	71,667,452		
		Share options	Beneficial owner	2,420,000		
			Interest of spouse	160,000	76,810,416	3.09%
TSUEI, Andrew Tien Yuan	(h)	Ordinary shares	Beneficial owner	600,000		
		Share options	Beneficial owner	800,000	1,400,000	0.06%

Notes:

(a) These securities represent outstanding options to purchase shares of Alibaba Group directly owned by Mr. Wei.

(b) These securities represent outstanding options to purchase shares of Alibaba Group directly owned by Ms. Wu.

(c) These securities represent: (i) 401,260 outstanding options to purchase shares of Alibaba Group directly issued to Ms. Dai; (ii) 325,000 issued shares of Alibaba Group directly owned by Ms. Dai; (iii) 36,250 outstanding options to purchase shares of Alibaba Group issued to Mr. Sheng Yi Fei, Ms. Dai's spouse; (iv) 587,500 issued shares of Alibaba Group directly owned by Ms. Dai's spouse; (v) 1,800,000 issued shares of Alibaba Group held by Able Island Assets Corp., a company ultimately owned by Ms. Dai and her spouse; (vi) 4,900,900 issued shares of Alibaba Group held by Golden Jade Investment Limited, a company ultimately owned by a trust established by Ms. Dai for the benefit of her family; and (vii) 5,234,350 issued shares of Alibaba Group held by Nationbright Investment Limited, a company ultimately owned by a trust established by Ms. Dai's spouse for the benefit of his family.

(d) These securities represent: (i) 475,000 issued shares of Alibaba Group directly owned by Ms. Peng; and (ii) 422,751 outstanding options to purchase shares of Alibaba Group directly owned by Ms. Peng; and (iii) 52,249 issued shares of Alibaba Group held by Netyan Enterprises Ltd., a company ultimately owned by Ms. Peng.

(e) These securities represent: (i) 210,964 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Xie; (ii) 1,397,084 issued shares of Alibaba Group directly owned by Mr. Xie; and (iii) 9,263,236 issued shares of Alibaba Group held by Navibell Venture Corp., a company ultimately owned by a trust established by Mr. Xie for the benefit of his family.

(f) These securities represent: (i) 846,667 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Ma; (ii) 44,182,861 issued shares of Alibaba Group directly owned by Mr. Ma; (iii) 91,250,136 issued shares of Alibaba Group held by JC Properties Limited, a company controlled by Ms. Zhang Ying, Mr. Ma's spouse and ultimately owned by a trust of which certain family members of Mr. Ma are beneficiaries; (iv) 69,000 outstanding options to purchase shares of Alibaba Group issued to JSP Investment Limited, a company ultimately owned by a trust of which certain family members of Ms. Zhang Ying are beneficiaries; and (v) 52,778,360 issued shares of Alibaba Group held by JSP Investment Limited.

(g) These securities represent: (i) 2,420,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Tsai; (ii) 2,522,964 issued shares of Alibaba Group directly owned by Mr. Tsai; (iii) 160,000 outstanding options to purchase shares of Alibaba Group directly issued to Ms. Clara Wu Ming-Hua, Mr. Tsai's spouse; (iv) 40,000 issued shares of Alibaba Group directly owned by Mr. Tsai's spouse; (v) 20,361,300 issued shares of Alibaba Group held by MFG Limited, a company ultimately owned by a trust established by Mr. Tsai for the benefit of his family; (vi) 22,345,952 issued shares of Alibaba Group held by Parufam Limited, a company ultimately owned by a trust established by a family member in which Mr. Tsai is a beneficiary; and (vii) 28,960,200 issued shares of Alibaba Group held by PMH Holding Limited, a company ultimately owned by a trust established by Mr. Tsai for the benefit of his family.

(h) These securities represent (i) 600,000 outstanding shares of Alibaba Group directly owned by Mr. Tsuei; and (ii) 800,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Tsuei.

(ii) 杭州阿里巴巴廣告有限公司

Name of Director	Note	Interests in shares/ underlying shares/ amount of registered capital	Capacity/ nature of interest	Number of shares/ underlying shares/ amount of registered capital held	Total	Approximate percentage of our associated corporation's issued share capital/total registered capital
MA Yun, Jack	(a)	Registered capital	Beneficial owner	RMB8,000,000	RMB8,000,000	80%
XIE Shi Huang, Simon	(a)	Registered capital	Beneficial owner	RMB2,000,000	RMB2,000,000	20%

Note:

(a) The total registered capital is RMB10,000,000.

(iii) 北京阿里巴巴信息技術有限公司

Name of Director	Note	Interests in shares/ underlying shares/ amount of registered capital	Capacity/ nature of interest	Number of shares/ underlying shares/ amount of registered capital held	Total	Approximate percentage of our associated corporation's issued share capital/total registered capital
MA Yun, Jack	(a)	Registered capital	Beneficial owner	RMB8,000,000	RMB8,000,000	80%
XIE Shi Huang, Simon	(a)	Registered capital	Beneficial owner	RMB2,000,000	RMB2,000,000	20%

Note:

(a) The total registered capital is RMB10,000,000.

(iv) 杭州口口相傳網絡技術有限公司

Name of Director	Note	Interests in shares/ underlying shares/ amount of registered capital	Capacity/ nature of interest	Number of shares/ underlying shares/ amount of registered capital held	Total	Approximate percentage of our associated corporation's issued share capital/total registered capital
MA Yun, Jack	(a)	Registered capital	Beneficial owner	RMB480,000	RMB480,000	48%

Note:

(a) The total registered capital is RMB1,000,000.

(3) Short positions in shares of associated corporations:

Alibaba Group

Name of Director	Note	Capacity/ nature of interest	Number of shares/ underlying shares held	Total	Approximate percentage of Alibaba Group's issued share capital
DAI Shan, Trudy	(a)	Beneficial owner	200,000		
		Interest of spouse	200,000		
		Interest of controlled corporation	800,000	1,200,000	0.05%
PENG Yi Jie, Sabrina	(b)	Beneficial owner	475,000	475,000	0.02%
XIE Shi Huang, Simon	(c)	Beneficial owner	200,000		
		Interest of controlled corporation	1,000,000	1,200,000	0.05%
MA Yun, Jack	(d)	Beneficial owner	9,456,351	9,456,351	0.38%
TSAI Chung, Joseph	(e)	Interest of spouse	40,000		
		Interest of controlled corporation	3,800,520	3,840,520	0.15%
TSUEI, Andrew Tien Yuan	(f)	Beneficial owner	280,000	280,000	0.01%

Notes:

(a) The short position arising from the Employee Equity Exchange represents (i) 200,000 issued shares of Alibaba Group directly owned by Ms. Dai; (ii) 200,000 issued shares of Alibaba Group directly owned by Mr. Sheng Yi Fei, Ms. Dai's spouse; and (iii) 800,000 issued shares of Alibaba Group held by Able Island Assets Corp., a company ultimately owned by Ms. Dai and her spouse. These securities are exchangeable into 3,600,000 Shares upon expiry of certain lock-up periods pursuant to the Employee Equity Exchange.

(b) The short position arising from the Employee Equity Exchange represents 475,000 issued shares of Alibaba Group directly owned by Ms. Peng. These securities are exchangeable into 1,425,000 Shares upon expiry of certain lock-up periods pursuant to the Employee Equity Exchange.

(c) The short position arising from the Employee Equity Exchange represents (i) 200,000 issued shares of Alibaba Group directly owned by Mr. Xie; and (ii) 1,000,000 issued shares of Alibaba Group held by Navibell Venture Corp., a company ultimately owned by a trust established by Mr. Xie for the benefit of his family. These securities are exchangeable into 3,600,000 Shares upon expiry of certain lock-up periods pursuant to the Employee Equity Exchange.

(d) The short position arising from the Employee Equity Exchange represents 9,456,351 issued shares of Alibaba Group directly owned by Mr. Ma. These securities are exchangeable into 28,369,053 Shares upon expiry of certain lock-up periods pursuant to the Employee Equity Exchange.

(e) The short position arising from the Employee Equity Exchange represents (i) 1,000,000 issued shares of Alibaba Group held by Parufam Limited, a company ultimately owned by a trust established by a family member in which Mr. Tsai is a beneficiary; (ii) 2,800,520 issued shares of Alibaba Group held by MFG Limited, which is ultimately owned by a trust established by Mr. Tsai for the benefit of his family; and (iii) 40,000 issued shares of Alibaba Group directly owned by Ms. Clara Wu Ming-Hua, Mr. Tsai's spouse. These securities are exchangeable into 11,521,560 Shares upon expiry of certain lock-up periods pursuant to the Employee Equity Exchange.

(f) The short position arising from the Employee Equity Exchange represents 280,000 issued shares of Alibaba Group directly owned by Mr. Tsuei. These securities are exchangeable into 840,000 Shares upon expiry of certain lock-up periods pursuant to the Employee Equity Exchange.

Save as disclosed above, as of December 31, 2007, none of our directors or chief executives had registered an interest or short positions in the shares, underlying shares or debentures of our Company or any of our associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to us and the Stock Exchange pursuant to the Model Code.

SHARE-BASED INCENTIVE SCHEMES

(A) Pre-IPO share incentive scheme of Alibaba Group

1. Background

Alibaba Group authorized the adoption of a share incentive scheme (the "Pre-IPO Share Incentive Scheme"), by a resolution of its board on September 15, 2007, further details of which are set out in note 25 to the consolidated financial statements on pages 132 to 141 of this Annual Report. The awards granted pursuant to the Pre-IPO Share Incentive Scheme included options or rights to acquire our Shares held by Alibaba Group. The purpose of the Pre-IPO Share Incentive Scheme was to provide incentives to certain of our employees and executive directors and to recognize the contribution of certain employees of Alibaba Group to our listing.

2. Outstanding Awards Granted

As of December 31, 2007 and the date of the Annual Report, Alibaba Group issued awards under the Pre-IPO Share Incentive Scheme in respect of an aggregate of 72,175,000 Shares.

3. Maturity/Vesting

These awards will not be exercisable or become mature until after the date falling 12 months after the vesting commencement date. The Shares underlying the awards granted pursuant to the Pre-IPO Share Incentive Scheme are subject to a four-year vesting or maturity period. 25% of the total number of Shares underlying the awards will vest or mature on the first anniversary of the vesting commencement date with a further 25% to vest or mature on each subsequent anniversary.

4. Impact on Public Float

Acquisition of any Shares under the Pre-IPO Share Incentive Scheme will not have a dilution effect on the interest of our shareholders because Alibaba Group will transfer these Shares to the participants of the Pre-IPO Share Incentive Scheme from its own holdings. No further award has been or would be granted under the Pre-IPO Share Incentive Scheme upon our listing on November 6, 2007.

5. Principal Terms

The principal terms of the Pre-IPO Share Incentive Scheme are as follows:

(a) the total number of Shares subject to the Pre-IPO Share Incentive Scheme is 72,175,000, equivalent to approximately 1.4% of our issued share capital as of December 31, 2007; and

(b) in relation to options or rights to acquire shares, the exercise or subscription price per Share shall be the fair value of each Share on the date of the grant of the option or right, which is equivalent to HK$6.80 per Share.

Particulars and movements of the options or rights to acquire Shares held by Alibaba Group granted to our directors under the Pre-IPO Share Incentive Scheme during the year are as follows:

	Number of share options/rights to acquire Shares								
Name of Director	Outstanding as of 01/01/2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as of 31/12/2007	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise/ subscription price per Share HK$
WEI Zhe, David	—	48,250,000	—	—	—	48,250,000	18/09/2007	01/07/2008–18/09/2013	6.80
WU Wei, Maggie	—	9,650,000	—	—	—	9,650,000	18/09/2007	01/08/2008–18/09/2013	6.80
XIE Shi Huang, Simon	—	500,000	—	—	—	500,000	24/09/2007	24/09/2008–24/09/2013	6.80
PENG Yi Jie, Sabrina	—	1,000,000	—	—	—	1,000,000	24/09/2007	24/09/2008–24/09/2013	6.80
DAI Shan, Trudy	—	1,000,000	—	—	—	1,000,000	24/09/2007	24/09/2008–24/09/2013	6.80
Total	—	60,400,000	—	—	—	60,400,000			

In addition to the above, Alibaba Group had granted 100,000 Shares to each of our three independent non-executive directors, namely, LONG Yong Tu, NIU Gen Sheng and KWAUK Teh Ming, Walter and one of our non-executive directors, TSUEI, Andrew Tien Yuan during the year ended December 31, 2007. All these Shares became vested immediately upon grant but are subject to a lock up period of one year from the date of grant.

SHARE-BASED INCENTIVE SCHEMES

(B) Restricted share unit scheme

1. Background

We adopted a restricted share unit scheme (the "RSU Scheme") by a resolution of our then sole shareholder and a resolution of our board both on October 12, 2007. The purpose of the RSU Scheme is to attract and retain the best available personnel by providing additional incentives to employees and consultants of our Company and to promote the success of our Company's business. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.

2. Grant of Restricted Share Units

A restricted share unit (a "RSU") is a right to receive a Share granted to a beneficiary (a "Beneficiary") under the RSU Scheme.

Our board (or its duly authorized committee thereof) has the power to administer the RSU Scheme. Our employees and consultants shall qualify for the RSU Scheme at the discretion of our board, and our board shall be entitled at any time during the life of the RSU Scheme to make a grant to any participant, save for connected persons of our Company (as defined under the Listing Rules).

The RSUs granted under the RSU Scheme shall be subject to a vesting period to be determined by our board.

3. Life of the RSU Scheme

The term of the RSU Scheme shall be 10 years commencing from the date of adoption on October 12, 2007.

4. Scheme Limit

At any time during the term of the RSU Scheme, the maximum number of Shares with respect to which RSUs may be granted under the RSU Scheme will be calculated in accordance with the following formula:

$$X = (A+B) - (C+D+E)$$

Where:

X = the maximum aggregate number of Shares over which RSUs may be granted under the RSU Scheme as of the date of annual general meeting;

A = 135,100,000 Shares;

B = the maximum aggregate number of Shares authorized by our shareholders to be issued under other equity incentive plans (if any), other than the RSU Scheme and the Share Option Scheme (as defined in section C below);

C = the maximum aggregate number of Shares underlying options that have been granted previously under the Share Option Scheme;

D = the maximum aggregate number of Shares authorized for issuance assuming the vesting of all RSUs previously granted under the RSU Scheme; and

E = the maximum aggregate number of Shares authorized for issuance assuming the exercise of all other rights to acquire our Shares that have been previously granted pursuant to other equity incentive plans (if any), other than the RSU Scheme and the Share Option Scheme.

Under the RSU Scheme, at each annual general meeting of our Company, our board shall seek from our shareholders in general meeting a separate mandate specifying (i) the maximum number of Shares that may be the subject of RSUs granted under the RSU Scheme during the period between one annual general meeting and the subsequent annual general meeting; and (ii) that our board has the power to deal with, allot and issue the Shares, which are the subject of the RSUs, as and when the RSUs vest.

The separate mandate with respect to grant of RSUs will only remain in effect until the earliest of:

(i) the conclusion of the subsequent annual general meeting;

(ii) the expiration of the period within which the subsequent annual general meeting is required by any applicable laws or our articles of association to be held; and

(iii) the variation of or revocation of such mandate by an ordinary resolution of our shareholders at a general meeting.

Pursuant to the listing approval issued by the Stock Exchange on November 5, 2007, the total number of Shares subject to the Share Option Scheme and the RSU Scheme must not, in aggregate, exceed 135,100,000 Shares, representing approximately 2.67% of the issued share capital of our Company as of December 31, 2007.

For the year ended December 31, 2007, no RSUs were granted under the RSU Scheme.

Subsequent to the balance sheet date and as of the date of this Annual Report, RSUs in respect of a total of 3,806,973 underlying Shares were granted to employees of our Group under the RSU Scheme as performance award, out of which RSUs in respect of 22,096 underlying Shares were subsequently cancelled following the termination or transfer of employment of certain grantees.

(C) Share option scheme

We also adopted a share option scheme (the "Share Option Scheme") by a resolution of our then sole shareholder and a resolution of our board both on October 12, 2007, and the Share Option Scheme became effective on the date of our listing. The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with our Company and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion by providing them with the opportunity to acquire our equity interests.

2. Participants of the Share Option Scheme

Our board may at its discretion grant options to directors (including executive directors, non-executive directors and independent non-executive directors), our employees and any of our advisers or consultants whom our board considers, in its sole discretion, to have contributed or will contribute to our Company.

3. Total number of shares available for issue under the Share Option Scheme

(i) Pursuant to the listing approval issued by the Stock Exchange on November 5, 2007, the total number of Shares subject to the Share Option Scheme and the RSU Scheme of our Company must not, in aggregate, exceed 135,100,000 Shares, representing approximately 2.67% of the issued share capital of our Company as of December 31, 2007.

For the year ended December 31, 2007, no options were granted under the Share Option Scheme.

Subsequent to the balance sheet date, we granted options in respect of a total of 6,000,500 underlying Shares to our directors and employees under the Share Option Scheme as follows:

On-hire award to new employees	1,585,000
Performance award to directors	1,261,000
Performance award to employees	3,154,500
Total:	6,000,500

Taking into account the above grant of options as well as those RSUs granted under the RSU Scheme subsequent to the year, as of the date of this Annual Report, options and RSUs in respect of a total of 125,292,527 underlying Shares are still available for grant under the Share Option Scheme and RSU Scheme, representing approximately 2.48% of the issued share capital of our Company as of the date of this Annual Report.

(ii) Maximum number of Shares available for subscription

The maximum number of Shares that our board shall be entitled to grant options ("Scheme Mandate") shall be calculated in accordance with the following formula:

X = (A+B) – (C+D+E)

Where:

X = the maximum aggregate number of Shares over which our board shall be entitled to grant options;

A = 135,100,000 Shares;

B = the maximum aggregate number of Shares authorized by our shareholders to be issued under other equity incentive plans (if any), other than the Share Option Scheme and the RSU Scheme;

C = the maximum aggregate number of Shares underlying options that have been granted previously under the Share Option Scheme;

D = the maximum aggregate number of Shares authorized for issuance assuming the vesting of all RSUs that have been previously granted under the RSU Scheme; and

E = the maximum aggregate number of Shares authorized for issuance assuming the exercise of all other rights to acquire Shares that have been granted previously pursuant to other equity incentive plans (if any), other than the Share Option Scheme and the RSU Scheme.

For the purpose of calculating the Scheme Mandate, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted.

4. Maximum entitlement of each participant

No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to such person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of our Company other than those options granted pursuant to specific approval by our Shareholders in general meeting with the proposed participant and his associates abstaining from voting) would exceed 1% of the Shares in issue from time to time.

5. Period within which the Shares must be taken up under an option

An option may be exercised at any time during the period to be determined and notified by our board at the time of making an offer of the grant of an option which shall not expire later than 10 years from the date of grant.

6. **Minimum period, if any, for which an option must be held before it can be exercised**
   There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that our board has the discretion to impose a minimum period at the time of grant of any particular option.

7. **Amount payable upon acceptance and the period within which the payments or calls must or may be made or loans for such purposes must be repaid**
   A remittance in favor of our Company of HK$1 or the equivalent amount in any other currency by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance as defined by our board. The remittance is not in any circumstances refundable.

8. **Basis of determining the exercise price**
   The exercise price shall be determined by our board in its absolute discretion but in any event shall not be less than the higher of:

   (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date on which the option is offered which must be a business day;

   (ii) the average closing prices of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date of the option; and

   (iii) the nominal value of the Shares.

9. **Remaining life**
   Subject to the early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme shall remain valid and effective for 10 years commencing on the date of adoption on October 12, 2007.

Further particulars of the Pre-IPO Share Incentive Scheme, Share Option Scheme and RSU Scheme are set out in note 25 to our consolidated financial statements on pages 132 to 141 of this Annual Report. Save as disclosed in this Annual Report, at no time during the year was our Company, or any of our holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable our directors to acquire benefits by means of the acquisition of shares in, or debentures of, our Company or any other body corporate, and none of our directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of our Company or any other body corporate, nor had they exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between us and other companies in which our directors had beneficial interest are set out in note 33 to the consolidated financial statements on pages 148 to 153 of this Annual Report.

Save as disclosed above, no contracts of significance in relation to our business which we, our holding company or any of our subsidiaries or fellow subsidiaries of our holding company was a party to and in which any of our directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of December 31, 2007, the following are the persons, other than the directors or chief executives of our Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by our Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity	Long position/short position	No. and description of Shares or debentures	Approximate percentage of the Company's issued share capital
Alibaba Group	Beneficial owner	Long position	4,079,377,500 Shares (Note a)	80.74%
	Beneficial owner	Short position	515,825,340 Shares (Note b)	10.21%
Yahoo! Inc.	Beneficial owner	Long position	4,136,858,500 Shares (Note c)	81.88%
	Beneficial owner	Short position	515,825,340 Shares (Note b)	10.21%

Notes:

a. Included 515,825,340 Shares held by Alibaba Group which will be transferred to employees pursuant to the Employee Equity Exchange and the Pre-IPO Share Incentive Scheme.

b. Representing Shares subject to the Employee Equity Exchange and the Pre-IPO Share Incentive Scheme.

c. Included 4,079,377,500 Shares beneficially owned by Alibaba Group. As Yahoo! Inc., directly or indirectly through its wholly-owned subsidiaries, owned more than one-third of the shares in Alibaba Group, it was deemed under the SFO to be interested in all the Shares registered in the name of Alibaba Group.

Save as disclosed above, as of December 31, 2007, no person, other than our directors, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short positions in the Shares or underlying Shares that were required to be recorded pursuant to Section 336 of Part XV of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to our Company and within the knowledge of our directors, our Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules as at the date of this Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of our directors has confirmed that he or she (as the case may be) is not interested in any business (apart from our business) which competes or is likely to compete, either directly or indirectly, with our business as at the date of this Annual Report. There are also non-compete undertakings provided by each of the executive directors and non-executive directors in their respective appointment letters for our Group's benefit.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of our Company's compliance with the Code on Corporate Governance Practices are set out in the Corporate Governance Report on pages 71 to 79 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by our Company with the Model Code for Securities Transactions are set out in the Corporate Governance Report on page 71 of this Annual Report.

CONNECTED TRANSACTIONS

We entered into the following non-exempt connected transactions and continuing connected transactions during the year:

(A) Structure contracts

We conduct our B2B business in PRC through 杭州阿里巴巴廣告有限公司 ("Alibaba Hangzhou"), a consolidated affiliate of our Company with 80% of its equity interests held by our chairman, Mr. MA Yun, Jack and 20% by our executive director, Mr. XIE Shi Huang, Simon. Under our operating structure, our wholly-owned subsidiary, Alibaba China Technology Co., Ltd. ("Alibaba China") provides software that enables our customers to upload their company and product information onto our China marketplace operated by Alibaba Hangzhou. Paying members of our China marketplace pay Alibaba China a fee for these services and substantially all of the revenue from our China marketplace is generated through such fees. Pursuant to a cooperation agreement with Alibaba China and Alibaba.com Hong Kong Limited (another wholly-owned subsidiary of us), Alibaba Hangzhou provides information services to enable our customers to publish such information on our China marketplace website and exchanges contents and information on our China marketplace with those on our international marketplace. Alibaba China pays a cost-plus fee to Alibaba Hangzhou for these services. In turn, Alibaba China provides technical services to Alibaba Hangzhou and is paid a fee for these services.

We have also entered into a series of additional contracts that are designed to provide us with effective control over and (to the extent permitted by PRC law) the right to acquire the equity interests in and/or the assets of Alibaba Hangzhou (including the intellectual property rights). These include:

- an option to acquire all the equity interests in and/or the assets of Alibaba Hangzhou, as and when permitted by PRC laws, at a price capped at the amount of the capital contribution to Alibaba Hangzhou by its shareholders (in case of an equity interest acquisition) or the net book value (in the case of an assets acquisition), or such other minimum payment as required by law, whichever is the higher;

- an undertaking from Alibaba Hangzhou not to enter into any material business transaction and an undertaking from its shareholders not to approve any resolution relating to the same, without the prior written consent of our wholly-owned subsidiary in PRC, Alibaba (China) Technology Co., Ltd. ("Alibaba China");

- the right to exercise the rights of shareholders in Alibaba Hangzhou; and

- a pledge in our favor over the entire equity interests in Alibaba Hangzhou.

The above arrangements, which we call the "Structure Contracts", collectively permit us to consolidate the financial results of Alibaba Hangzhou in our financial results as if Alibaba Hangzhou were our wholly-owned subsidiary, because these contractual arrangements effectively transfer the economic risks and benefits of Alibaba Hangzhou to us through: (i) our right (if and when PRC law releases the restriction on foreign investment in value-added telecommunication services) to acquire equity interests and/or assets of Alibaba Hangzhou; (ii) the business structure under which the revenue generated by the cooperation between our Company and Alibaba Hangzhou is mainly retained by us; and (iii) our right to govern the financial and operating policies as well as, in substance, all of the voting rights of Alibaba Hangzhou.

Our directors are of the view that the Structure Contracts are fundamental to our legal structure and business operations, in the ordinary and usual course of our business, on normal commercial terms (or better to us), and are fair and reasonable and in the interests of our Shareholders as a whole. Our directors also believe that the nature of our structure whereby the financial results of Alibaba Hangzhou are fully consolidated under our accounting policies within our financial results as if it were our wholly-owned subsidiary and the financial and economic benefits of its business flow to us, places the Structure Contracts in a special position in relation to the connected transaction rules under the Listing Rules. We have applied for, and the Stock Exchange has granted, a perpetual waiver pursuant to rule 14A.42(3) of the Listing Rules for the Structure Contracts from strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules, on the following conditions:

- No changes to the Structure Contracts will be made without our independent non-executive directors' approval;

- The Structure Contracts continue to enable us to receive the above mentioned economic benefits derived by Alibaba Hangzhou; and

- We will disclose certain details relating to the Structure Contracts on an ongoing basis as required by the Stock Exchange.

For the year ended December 31, 2007, our independent non-executive directors have reviewed the Structure Contracts and confirmed that (a) the transactions carried out during this financial period have been entered into in accordance with the relevant provisions of the Structure Contracts, have been operated so that the revenue generated by Alibaba China and Alibaba Hangzhou has been mainly retained by Alibaba China; (b) no dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests; and (c) any new contracts entered into, renewed or reproduced between our Company and Alibaba Hangzhou during this financial period are fair and reasonable so far as we are concerned and in the interests of our shareholders as a whole.

We have also engaged our auditors to perform certain fact finding procedures on the transactions carried out pursuant to the Structure Contracts on a sample basis in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed upon procedures to our board.

The auditors have reported to our board that the transactions:

(a) were approved by our board;

(b) were entered into in accordance with the relevant Structure Contracts; and

(c) that no dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests.

(B) Non-exempt continuing connected transactions subject to reporting and announcement requirement

Technology services framework agreement

We have entered into a technology services framework agreement dated October 19, 2007 with Alibaba Group (the “Technology Services Framework Agreement”). We have provided, and under the terms of the Technology Services Framework Agreement will continue to provide, to Alibaba Group certain technology services, including:

- technology maintenance services for search engine, system security and architecture support;
- provision of a dedicated transmission network system to improve the connectivity between telecommunication providers and website users;
- website monitoring services;
- sub-licensing of third-party software;
- sharing of servers and server racks;
- development and maintenance of data warehouse;
- quality assurance services and maintenance of quality assurance management systems and project management systems; and
- research and development services including patent development.

The Technology Services Framework Agreement will expire on December 31, 2009 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice.

Under the Technology Services Framework Agreement, fees payable to us for technology services provided are calculated on the basis of our actual costs for providing such services plus a margin of up to 15% by reference to industry practice for comparable transactions. The costs for providing each technology service include operating costs, cost for the aggregate time spent by our staff and any equipment depreciation that we incurred or may incur, in connection with providing such service.

The fee payable for research and development services provided by us to Alibaba Group is computed on a cost-plus basis.

During the year, total amount we received from Alibaba Group under the Technology Services Framework Agreement was RMB522,000.

Cooperation framework agreements

We have entered into certain cooperation framework agreements dated October 19, 2007 with Alibaba Group with respect to the provision of products and services developed by it to us and to users of our marketplaces (the "Cooperation Framework Agreements"). These products and services currently include the provision of the online payment platform operated by Zhejiang Alipay Network Technology Co., Ltd. and Alipay Software (Shanghai) Co., Ltd., each a wholly-owned subsidiary of Alibaba Group, and Zhejiang Alibaba E-Commerce Co., Ltd., a consolidated affiliate of Alibaba Group (collectively "Alipay"), to us and to users of our China marketplace, instant messenger development and maintenance services to users of our marketplaces, as well as the sale of keywords on websites operated by Alibaba Group for the promotion of our marketplaces. The Cooperation Framework Agreement will expire on December 31, 2009 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice.

Fees payable by us under the Cooperation Framework Agreement are based on market rates and on normal commercial terms no less favorable than terms offered to us by independent third-party service providers for similar products and services. Market rates are determined based on the rates offered by independent third-party providers for similar products and services.

During the year, total amount of fees paid by us to Alibaba Group was RMB2.9 million which related to the purchase of keywords on websites operated by Alibaba Group for the promotion of our marketplaces.

(C) Non-exempt continuing connected transactions subject to reporting, announcement and independent shareholders' approval requirements

Cross-selling services framework agreement

We have entered into a cross-selling services framework agreement dated October 19, 2007 with Alibaba Group to govern our existing and future arrangements under which we cross sell the products and services of the other party to our respective customers (the "Cross-Selling Services Framework Agreement"). We have provided, and under the terms of the Cross-Selling Services Framework Agreement will continue to provide, cross-selling services to Alibaba Group, which include the sale to our users of software products of Alibaba Software (Shanghai) Co., Ltd., a wholly-owned subsidiary of Alibaba Group, and Alipay's online payment services for the settlement of transactions between users of our marketplaces.

Alibaba Group has sold, and under the terms of the Cross-Selling Services Framework Agreement will continue to sell, our website inventory to customers of Alibaba Group. "Website inventory" refers to parts of the website pages which are reserved for promotional displays.

The Cross-Selling Services Framework Agreement will expire on December 31, 2009 and is automatically renewable for further periods of no more than three years subject to compliance with applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice.

Under the Cross-Selling Services Framework Agreement, payments will be made in the form of commissions or on the basis of revenue sharing arrangements. In particular:

- we will receive a commission fee of between 20% to 80% or pay a revenue share of 20% to 80% of the transaction amount for cross-selling services provided by us to Alibaba Group; and

- we will pay a commission fee of between 15% to 40% or receive a revenue share of 60% to 85% of the transaction amount for cross-selling services provided to us from Alibaba Group.

The commission fees and revenue share payable and receivable by us vary as they relate to the cross-selling of different products and are therefore at different rates. Commission fees and revenue sharing arrangements for additional cross-selling services are subject to negotiation between the parties, except that commission fees paid to or revenue shared with us shall not be less than the prevailing market rate and commissions or revenue share payable by us shall not exceed the prevailing market rate.

During the year, total amount received by us was RMB29.0 million which included amounts received by us in relation to the same cross-selling arrangements in existence prior to the entering of the Cross-Selling Services Framework Agreement .

Technology and intellectual property framework license agreement

We have entered into a technology and intellectual property framework license agreement dated October 19, 2007 with Alibaba Group (the "Technology and Intellectual Property Framework License Agreement") whereby:

- we have been granted, to the extent relevant to our B2B business, a renewable license to use all patents, pending patents and related know-how in existence, including a license of any future patents the development of which was undertaken by our Company on behalf of Alibaba Group pursuant to the Technology Services Framework Agreement;

- we have the right to be granted, to the extent relevant to our B2B business, a renewable sub-license to use all technology and intellectual property that Alibaba Group has an existing license to use from a third party and which Alibaba Group is permitted to sub-license to us and subject to the other terms of the third-party license to Alibaba Group; and

- we have the right to be granted, to the extent relevant to our B2B business, an option to use all technology and intellectual property that Alibaba Group may license from third parties in the future to the extent Alibaba Group has the right to do so.

The Technology and Intellectual Property Framework License Agreement will expire on December 31, 2009 and is subject to the restrictions in the agreement between Alibaba Group and any third party in respect of the third party's intellectual property including any applicable limitations on the scope of the license, limitations on sub-licensing, termination under certain circumstances (including change of control) and other standard provisions. The license is renewable for further periods of three years at our sole discretion subject to compliance with the applicable provisions of the Listing Rules, by giving Alibaba Group three months' prior written notice before the end of the relevant term.

Under the Technology and Intellectual Property Framework License Agreement:

- the fees payable by us for third-party technology and intellectual property sub-licensed to us will be calculated at the same rate and on the same basis as (but in no case at a rate or on a basis less favorable than) that applicable to Alibaba Group in obtaining such license (i.e. not less preferable than on a pass-through basis);

- the fees payable by us for licenses of patents and inventions subject to patent applications and related know-how currently owned by Alibaba Group, provided each such patent (and patent application) is relevant to our business, licensed to us from Alibaba Group are at rates not more than the prevailing market rates for comparable licenses. The license fee payable for patents and inventions subject to patent applications for each year will be agreed between our Company and Alibaba Group at the end of each year and assessed as a percentage of revenue during the year. The percentage rate will be adjusted based on the size of the portfolio during the course of the year and the level of usage of the patents by our Company in its business during the year; and

- the fees payable by us for licenses of future patents developed by our Company on behalf of Alibaba Group, which will be subsequently licensed by Alibaba Group to us, will be subject to negotiation between the parties and will not exceed the prevailing market rate for comparable licenses.

During the year, total amount of fees paid by us was RMB41.1 million which included amounts received by us in relation to the same licenses in existence prior to the entering of the Technology and Intellectual Property Framework License Agreement.

Disclosure of details pursuant to the conditions of the waivers

The single highest amount or aggregate amounts, as applicable, attributable to each category of the continuing connected transactions for the year ended December 31, 2007 were as follows:

		Single highest amount or aggregate amount, as applicable, for the year ended December 31, 2007 RMB (million)
1	Technology Services Framework Agreement	7
2	Cooperation Framework Agreement	4
3	Cross-Selling Services Framework Agreement	45
4	Technology and Intellectual Property Framework License Agreement	56

The above continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that these connected transactions were entered into (a) in our ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favorable to us than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of our Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, our board engaged the auditors of our Company to perform certain station procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed-upon procedures to our board.

The auditors have reported to our Board that the transactions:

(a) were approved by our board;

(b) were entered into in accordance with the relevant agreements; and

(c) had not exceeded the caps disclosed in the previous announcements relating to the aforesaid transactions.

Save as disclosed above, details of the significant related party transactions undertaken by us during the year in the ordinary course of business are set out in note 33 to our consolidated financial statements on pages 148 to 153 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2007, we did not have a single major customer. Our top five customers accounted for less than 5% of our revenue. Our top five service providers accounted for approximately 29% of our purchases and our largest service provider accounted for approximately 14% of our purchases for the year.

None of our directors or any of their associates or any shareholders (which to the best knowledge of our directors owned more than 5% of our Company's issued share capital) had a material interest in our five largest customers.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2007, neither our Company nor any of our subsidiaries purchased, sold or redeemed any of the listed securities of our Company.

AUDITORS

Our financial statements for the year ended December 31, 2007 were audited by PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for reappointment.

A resolution to re-appoint PricewaterhouseCoopers as our auditors will be submitted for shareholders' approval at our forthcoming annual general meeting.

On behalf of the Board
MA Yun, Jack
Chairman

Hong Kong, March 18, 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The six corporate core values of Alibaba.com Limited ("Alibaba.com" or our "Company") hold no less true, and we apply them with no less determination and care, in the context of our corporate governance practices. We are committed to maintaining and upholding good corporate governance in order to protect the interests of our customers, staff and shareholders. Our board of directors sets high standards for our employees, senior management and directors. We abide strictly by the laws and regulations of the PRC and the other jurisdictions where we operate, and we observe the guidelines and rules issued by regulatory authorities relevant to our business and our Company, such as those issued by the PRC Ministry of Information Industry, the Hong Kong Securities and Futures Commission and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

We have applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period from the date of our listing on the Stock Exchange on November 6, 2007 to the end of our financial year on December 31, 2007 (the "Relevant Period").

Set out below are the corporate governance principles and practices we have adopted:

DIRECTORS' SECURITIES TRANSACTIONS

We have adopted our own Guidelines on Dealing in Securities on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code on Securities Transactions") as set out in Appendix 10 of the Listing Rules in respect of dealings by our directors and employees in the securities of our Company.

According to our specific enquiry, all directors have confirmed their compliance with the required standard set out in the Model Code on Securities Transactions throughout the Relevant Period.

BOARD OF DIRECTORS

Role and functions

Our board is at the core of our corporate governance framework. It is responsible for providing high-level guidance and effective oversight of our management. Our board authorizes the management to execute strategies that it has approved. Our management reports to our board and is responsible for our day-to-day operations.

Composition

We are committed to the view that our board should include a balanced composition of executive and non-executive directors (including independent non-executive directors), so that there is a strong independent element on our board that can effectively exercise independent judgment. Our independent non-executive directors together possess the requisite business knowledge and experience for their views to carry weight. Two out of three of our independent non-executive directors have experience as directors of listed companies and the third independent director is an executive with a multinational corporation and served as a senior audit partner in a "big four" accounting firm, and therefore they will be able to provide impartial and professional advice to protect the interests of our minority shareholders. In the interest of improving our corporate governance and in order to further enhance the capability of our board to operate independently in the case of potential conflicting situations, we plan to appoint an additional independent non-executive director with relevant e-commerce experience. As mentioned in our prospectus issued on October 23, 2007, we have commenced a review of potential candidates and aim to identify a suitable candidate for appointment to our board as soon as practicable, but in any event within six months following our listing. However, as at the date of this Annual Report, we are still in the progress of identifying a suitable candidate and will submit an application to the Stock Exchange for an extension of the aforesaid six-month period to a further of nine months whenever appropriate in order to obtain sufficient time to identify a qualified candidate. Our board currently consists of 13 directors as follows:

Executive directors	5
Non-executive directors	5
Independent non-executive directors	3
Total	13

Full biographical details of our directors are set out on pages 40 to 44 of this Annual Report.

Independence of INEDs

Each of our three independent non-executive directors has confirmed in writing his independence from Alibaba.com in accordance with the guidelines for assessing independence set out in rule 3.13 of the Listing Rules. We are of the view that each of them meets these guidelines and is independent in accordance with the terms of these guidelines.

Board meetings and individual attendances

Our board is scheduled to meet regularly at least four times a year, and directors will receive at least 14 days' prior written notice of such meetings. For any ad hoc board meetings, directors are given as much notice as is reasonable and practicable in the circumstances. All members of our board are given full and timely access to relevant information and may seek independent professional advice at our expense, if necessary, in accordance with pre-approved procedures.

Our company secretary assists in setting the agenda of board meetings. Minutes of board meetings are kept by our company secretary and distributed to each director within a reasonable period.

Board members may submit proposals for inclusion on the agenda for consideration during board meetings. Procedures are in place for all directors to have access to the advice and services of our company secretary.

Since we were listed on November 6, 2007, we convened only one board meeting during the Relevant Period. The attendance record of each member of our board is set out below:

Directors	Attendance	Percentage rate
(Chairman and Non-executive Director)		
MA Yun, Jack	1/1	100%
(Executive Director and Chief Executive Officer)		
WEI Zhe, David	1/1	100%
(Executive Directors)		
WU Wei, Maggie	1/1	100%
DAI Shan, Trudy	1/1	100%
PENG Yi Jie, Sabrina	1/1	100%
XIE Shi Huang, Simon	1/1	100%
(Non-executive Directors)		
TSAI Chung, Joseph	1/1	100%
TSUEI, Andrew Tien Yuan	1/1	100%
TSOU Kai-Lien, Rose	1/1	100%
OKADA, Satoshi	1/1	100%
(Independent Non-executive Directors)		
LONG Yong Tu	1/1	100%
NIU Gen Sheng	1/1	100%
KWAUK Teh Ming, Walter	1/1	100%

Appointment and re-election of directors

Under code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with this code provision and our articles of association, five of our directors, namely WU Wei, Maggie, DAI Shan, Trudy, XIE Shi Huang, Simon, TSUEI, Andrew Tien Yuan and KWAUK Teh Ming, Walter, will retire from office by rotation and, being eligible, will stand for re-election at our forthcoming annual general meeting.

Others

All of our directors have received a comprehensive and tailored induction to ensure full awareness of responsibilities under relevant law, the Listing Rules and other regulatory requirements and our business and governance policies. The same practice will apply to every new director appointed to our board in future.

We have appointed N M Rothschild & Sons (Hong Kong) Limited as our compliance adviser, who shall provide our board with professional advice and guidance in respect of compliance with the Listing Rules and applicable laws. We also provide important updates to all directors when necessary to ensure that they are fully aware of any changes in the business and regulatory environment in places where Alibaba.com conducts its business.

We maintain appropriate directors' and officers' liabilities insurance commensurate with our business operations and assessed exposures.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To avoid the concentration of power in any single individual, the positions of chairman and chief executive officer are held by two different individuals who have distinct and separate roles. Our chairman, MA Yun, Jack is responsible for ensuring that our board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. As the chairman of our board, he is also responsible for making sure that all directors are properly briefed on issues arising at our board meetings, and that all directors receive accurate, timely and reliable information. Our chief executive officer, WEI Zhe, David is responsible for providing leadership for the senior management team and for implementing the policies and development strategies approved by our board.

NON-EXECUTIVE DIRECTORS

Our non-executive directors are appointed for a specific term of not more than three years and are subject to retirement by rotation as provided in our articles of association.

REMUNERATION OF DIRECTORS

Role and function of remuneration committee

Our remuneration committee, established by our board on October 12, 2007, has the following principal responsibilities:

(i) making recommendations to our board on policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing a policy on such remuneration;

(ii) determining the specific remuneration packages of our executive directors and senior management;

(iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the directors from time to time; and

(iv) considering and approving the grant of share options and restricted share units to eligible participants pursuant to our share option scheme and restricted share unit scheme.

We have adopted written terms of reference, which clearly define the role, authority and function of our remuneration committee. We have posted the terms of reference on our website.

Composition of remuneration committee

Our remuneration committee, consisting of NIU Gen Sheng (also the chairman), TSAI Chung, Joseph and KWAUK Teh Ming, Walter (all being non-executive directors), has a majority composition of independent non-executive directors.

Summary of work performed

During the Relevant Period, our remuneration committee reviewed the share-based compensation proposal for providing incentives to staff of Alibaba.com and recommended it to our board for approval. It also reviewed and approved the remuneration packages of our executive directors.

Meetings and individual attendances

Our remuneration committee convened one committee meeting during Relevant Period. The attendance record of each member of the committee is set out below:

Committee Members	Attendance	Percentage rate
(Independent Non-executive Director)		
NIU Gen Sheng	1/1	100%
(Non-executive Director)		
TSAI Chung, Joseph	1/1	100%
(Independent Non-executive Director)		
KWAUK Teh Ming, Walter	1/1	100%

Remuneration policy

The emoluments of our directors are determined with reference to factors including their skills, knowledge and experience, the time commitment, duties and responsibilities required of them and the prevailing market conditions. A performance-based element is considered instrumental in aligning the interests of individuals with ours and will be built into top-management compensation.

NOMINATION OF DIRECTORS

Role and function of nomination committee

Our nomination committee, established by our board on October 12, 2007, is principally responsible for leading the process for board appointments and for identifying and nominating for the approval of our board candidates for appointment. It assesses the independence of independent non-executive directors and makes recommendations to our board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and chief executive officer.

Written terms of reference, which clearly define its role, authority and function, were adopted for our nomination committee and posted on our website.

Composition of Nomination Committee

Our nomination committee consists of non-executive directors, MA Yun, Jack (who is the committee chairman), LONG Yong Tu and NIU Gen Sheng, a majority of whom are independent non-executive directors.

Nomination procedures, process and criteria

The nomination committee reviews the structure, size and composition (including the skills, knowledge and experience of each of the directors) of our board on a regular basis and makes recommendations to our board regarding any proposed changes. It identifies individuals suitably qualified to become board members and select, or make recommendations to our board on the selection of persons nominated for directorships.

Meetings and individual attendances

Our nomination committee did not hold any meeting during the Relevant Period.

AUDITORS' REMUNERATION

PricewaterhouseCoopers has been appointed as our external auditors until the conclusion of the forthcoming annual general meeting.

For the year ended December 31, 2007, the total remuneration in respect of services provided by PricewaterhouseCoopers amounted to RMB5,099,000 which can be analyzed as follows:

	RMB'000
Audit services in respect of:	
– initial public offering(1)	3,037
– annual audit	1,967
	5,004
Non-audit service in respect of:	
– taxation	95
Total:	5,099

Note: (1) This amount represents service fee in connection with our initial public offering which was charged against the share premium account in our consolidated financial statements. Such audit service fee, along with all other listing related expenses, were allocated between our Company and Alibaba Group Holding Limited with reference to the amount of funds raised by the respective parties in the initial public offering.

AUDIT COMMITTEE

Role and function

Our audit committee, established by our board on October 12, 2007, is primarily responsible for assisting our board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by our board. It meets regularly to review financial reporting, internal control and risk management matters and to this end has unrestricted access to both our external and internal auditors.

We have adopted and posted on our website the written terms of reference of our audit committee, which clearly define its role, authority and function.

Composition

Our audit committee consists of non-executive directors, KWAUK Teh Ming, Walter, LONG Yong Tu and TSAI Chung, Joseph, a majority of whom are independent non-executive directors.

Our audit committee is chaired by KWAUK Teh Ming, Walter, a qualified accountant with extensive experience in financial reporting and controls as required by the Listing Rules.

Summary of work performed

During the Relevant Period, our audit committee reviewed the internal control system and internal audit function together with the corresponding work plan, and reviewed and approved the audit work plan and the audit fees proposal for 2007. It also reviewed our Company's cash management policy.

Meetings and individual attendances

During the Relevant Period, our audit committee held one meeting. The attendance record of each member of the committee is set out below:

Committee Members	Attendance	Percentage Rate
(Independent Non-executive Director)		
KWAUK Teh Ming, Walter	1/1	100%
(Independent Non-executive Director)		
LONG Yong Tu	1/1	100%
(Non-executive Director)		
TSAI Chung, Joseph	1/1	100%

Directors' responsibility for the financial statements

Our directors acknowledge their responsibility for preparing our consolidated financial statements of Alibaba.com and of ensuring that the preparation of our consolidated financial statements is in accordance with the relevant requirements and applicable standards.

The statement of our auditors concerning their reporting responsibilities on our consolidated financial statements is set out in the Independent Auditors' Report on pages 82 to 83 of this Annual Report.

INTERNAL CONTROLS

Alibaba.com's internal control system is designed to provide reasonable assurance in safeguarding our assets, preventing and detecting frauds and irregularities, providing reliable financial information as well as ensuring compliance with applicable laws and regulations. Such system is designed to manage, rather than eliminate, the risk of failure to achieve our business objectives, and it aims to provide a reasonable, as opposed to an absolute, assurance in this respect.

Our board acknowledges that it has an overall responsibility for establishing, maintaining and reviewing the effectiveness of Alibaba.com's internal control system.

Our management is responsible for designing and implementing the internal control system of Alibaba.com to achieve the aforesaid objectives.

Under its terms of reference, our audit committee performs review of our internal control system covering financial, operational and compliance controls and risk management procedures. Regular communications are maintained among our board, audit committee and management to address various areas of our internal control system.

Reporting to the audit committee, our internal audit and compliance department ("IAC") provides independent assessment as to the existence and effectiveness of our internal control system, mainly through conducting annual internal audit and various compliance projects on Alibaba.com. Results of such assessment are reported to our audit committee and our senior management concerned. Our IAC also follows up on management actions to ensure that all issues are being addressed and resolved as appropriate. In addition, it maintains regular communications with our external auditors so that both parties are aware of the significant factors that may affect their respective scopes of work.

Reports from our external auditors on internal controls and relevant financial reporting matters are presented to our audit committee, our IAC and, as appropriate, to our relevant senior management teams. These reports are reviewed and appropriate actions are taken.

During the year, the management has reviewed Alibaba.com's internal control system, and have worked with IAC closely in order to get continuing improvement of our internal control. Our management has also reviewed and performed risk assessment on selected aspects of Alibaba.com's activities. Our IAC, using a risk based audit approach, performed an annual assessment on various material control cycles, including sales order to cash receipt, procurement to payment, general accounting, human resource and payroll, treasury, taxation, information system as well as our entity level controls. The IAC works results were communicated to our audit committee, which in turn conducted its review and reported to our board for further review.

In respect of the year, our directors, through our audit committee as well as by themselves, have reviewed and are generally satisfied with the effectiveness of Alibaba.com's internal control systems including all material financial, operational and compliance controls and risk management functions.

SHAREHOLDERS' RIGHTS

Our board endeavors to uphold transparent communications with our shareholders for them to make informed decisions about their investments and the exercise of their rights as shareholders, including voting their shares. We establish and maintain different communication channels with our shareholders through the publication of annual and interim reports, press announcements as well as news releases to provide extensive information on Alibaba.com's activities, business strategies and developments. This information is also available on our website: www.alibaba.com.

Our board welcomes the views of shareholders on matters affecting Alibaba.com and encourages them to attend shareholders' meetings to communicate directly any concerns they might have to our directors. We regard our shareholders' meetings as valuable forum for shareholders to raise comments and exchange views with our board. All directors and senior management will make an effort to be present at the shareholders' meetings to address queries from shareholders. To enable the meeting to be conducted in a transparent manner, the resolutions to be put forward at our annual general meeting will be conducted by way of poll. Poll results will be published and posted on the Stock Exchange's website as well as our website.

INVESTOR RELATIONS

Our senior management is dedicated to maintaining an open dialogue with investment community to ensure thorough understanding of our Company and our business strategies. We proactively reach out to investors, shareholders, analysts, and media through road shows, conference calls, investor conferences, media briefings and news releases. We also welcome and respond to requests for information and queries from the general public.

Corporate governance is a continuing process which calls for collective efforts and commitment from both our board and our management. Although we are relatively new in the public company arena, we are determined to managing our Company in a manner attuned to the times, consistent with all relevant rules and regulations and in accordance with Alibaba.com's mission, vision and values.

Wong Lai Kin, Elsa
Company Secretary

Hong Kong, March 18, 2008

Mr. Todd Sachs
Bamko Promotional Items, Inc.

"There are too many successful online deals to talk about. Nearly all of our sourcing originates from Alibaba.com!"

Mr. Fuxiang Zhang
Jiaxing Rise Plastic Industrial Co., Ltd

"We completed more than US$200,000 of transactions in just eight months on Alibaba.com."

The Leading B2B E-Commerce Company

Alibaba.com – A global business community of over 27 million registered users from over 200 countries and regions

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF ALIBABA.COM LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Alibaba.com Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 84 to 155, which comprise the consolidated and company balance sheets as of December 31, 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS
The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of December 31, 2007 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 18, 2008

Consolidated Income Statement

For the year ended December 31, 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
Revenue			
— International marketplace	6	**1,547,695**	991,869
— China marketplace	6	**615,062**	371,993
Total revenue		**2,162,757**	1,363,862
Cost of revenue		**(280,113)**	(237,625)
Gross profit		**1,882,644**	1,126,237
Sales and marketing expenses		**(736,813)**	(610,198)
Product development expenses		**(131,495)**	(105,486)
General and administrative expenses		**(229,868)**	(159,969)
Other operating income	7	**19,877**	17,912
Profit from operations	8	**804,345**	268,496
Finance income, net	9	**345,099**	22,892
Profit before income taxes		**1,149,444**	291,388
Income tax charges	13	**(181,649)**	(71,450)
Profit attributable to equity owners of the Company		**967,795**	219,938
Dividends	14	**—**	392,521
Earnings per share, basic and diluted (RMB)	15	**RMB19.91 cents**	RMB4.56 cents
Earnings per share, basic and diluted (HK$ equivalent)	15	**HK$20.41 cents**	HK$4.46 cents

The notes on pages 92 to 155 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As of December 31, 2007

	Notes	**2007 RMB'000**	2006 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		**29,088**	—
Property and equipment	16	**158,992**	113,304
Deferred tax assets	30	**260,311**	211,875
Prepayments, deposits and other receivables	18	**27,067**	—
Deferred costs	19	**10,767**	4,988
Total non-current assets		**486,225**	330,167
Current assets			
Amounts due from related companies	33(d)	**26,320**	25,148
Prepayments, deposits and other receivables	18	**48,143**	36,389
Deferred costs	19	**219,229**	163,392
Restricted cash		**—**	781
Term deposits with original maturities of over three months	20	**952,382**	1,051,000
Cash and cash equivalents	21	**4,321,170**	437,804
Total current assets		**5,567,244**	1,714,514
Total assets		**6,053,469**	2,044,681
EQUITY			
Capital and reserves			
Share capital	22	**486**	—
Share premium	22	**2,893,132**	—
Capital reserve	23	**(55,787)**	354,533
Exchange reserve		**20,357**	3,937
Statutory reserves	26	**119,615**	58,223
Retained earnings/(Accumulated deficit)		**635,278**	(271,125)
Total equity		**3,613,081**	145,568

Consolidated Balance Sheet

As of December 31, 2007

	Notes	2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	29	**70,194**	37,146
Current liabilities			
Deferred revenue and customer advances	29	**1,849,655**	1,216,818
Trade payables	27	**12,883**	8,698
Amounts due to related companies	33(d)	**17,039**	161,538
Other payables and accruals	28	**337,085**	172,281
Dividend payable		**—**	195,909
Current income tax liabilities		**153,532**	106,723
Total current liabilities		**2,370,194**	1,861,967
Total liabilities		**2,440,388**	1,899,113
Total equity and liabilities		**6,053,469**	2,044,681
Net current assets/(liabilities)		**3,197,050**	(147,453)
Total assets less current liabilities		**3,683,275**	182,714

WEI Zhe, David
Director

WU Wei, Maggie
Director

Hong Kong, March 18, 2008

The notes on pages 92 to 155 are an integral part of these consolidated financial statements.

Balance Sheet

As of December 31, 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	17	**1,428,791**	—
Current assets			
Prepayments, deposits and other receivables	18	**7,837**	395
Amounts due from subsidiaries	17, 33(d)	**7,801**	—
Cash and cash equivalents	21	**1,751,663**	18
Total current assets		**1,767,301**	413
Total assets		**3,196,092**	413
EQUITY			
Capital and reserves			
Share capital	22, 24	**486**	—
Share premium	22, 24	**2,809,905**	—
Retained earnings/(Accumulated deficit)	24	**298,029**	(22)
Total equity		**3,108,420**	(22)
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	17, 33(d)	**15,594**	—
Amount due to ultimate holding company	33(d)	**1,967**	435
Other payables and accruals	28	**70,111**	—
Total current liabilities		**87,672**	435
Total equity and liabilities		**3,196,092**	413
Net current assets/(liabilities)		**1,679,629**	(22)
Total assets less current liabilities		**3,108,420**	(22)

WEI Zhe, David
Director

WU Wei, Maggie
Director

Hong Kong, March 18, 2008

The notes on pages 92 to 155 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2007

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Statutory reserves RMB'000	Accumulated deficit RMB'000	Total RMB'000
Balance as of January 1, 2006	—	—	240,629	1,471	47,304	(87,623)	201,781
Profit for the year	—	—	—	—	—	219,938	219,938
Currency translation differences	—	—	—	2,466	—	—	2,466
Total recognized income for the year	—	—	—	2,466	—	219,938	222,404
Appropriation to statutory reserves (Note 26)	—	—	—	—	10,919	(10,919)	—
Dividends declared	—	—	—	—	—	(392,521)	(392,521)
Value of employee services under equity award plans	—	—	113,904	—	—	—	113,904
Balance as of December 31, 2006	—	—	354,533	3,937	58,223	(271,125)	145,568

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Statutory reserves RMB'000	Retained earnings/ (Accumulated deficit) RMB'000	Total RMB'000
Balance as of January 1, 2007	**—**	**—**	**354,533**	**3,937**	**58,223**	**(271,125)**	**145,568**
Profit for the year	—	—	—	—	—	967,795	967,795
Currency translation differences	—	—	—	16,420	—	—	16,420
Total recognized income for the year	—	—	—	16,420	—	967,795	984,215
Issue of share capital in preparation for the Global Offering (Notes 1.1 and 22(b)(v))	464	—	—	—	—	—	464
Issue of share capital in connection with the Global Offering (Notes 1 and 22(c))	22	2,934,593	—	—	—	—	2,934,615
Share issuance costs	—	(130,389)	—	—	—	—	(130,389)
Deemed distributions to equity owners (Note 23(c))	—	—	(464,809)	—	—	—	(464,809)
Reclassification arising from deemed disposal of a subsidiary	—	—	—	—	(284)	284	—
Appropriation to statutory reserves (Note 26)	—	—	—	—	61,676	(61,676)	—
Value of employee services under equity award plans	—	88,928	54,489	—	—	—	143,417
Balance as of December 31, 2007	**486**	**2,893,132**	**(55,787)**	**20,357**	**119,615**	**635,278**	**3,613,081**

The notes on pages 92 to 155 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended December 31, 2007

	2007 RMB'000	2006 RMB'000
Cash flows from operating activities		
Profit before income taxes	**1,149,444**	291,388
Adjustments for:		
Depreciation expense of property and equipment	**59,016**	54,043
Amortization of lease prepayment	**244**	—
Share-based compensation expense	**152,077**	113,904
Loss on disposals of property and equipment	**17**	483
Interest income	**(406,307)**	(23,159)
Exchange losses	**61,208**	267
Decrease/(Increase) in amounts due from related companies	**6,468**	(3,348)
(Increase)/Decrease in prepayments, deposits and other receivables	**(28,176)**	35,470
Increase in deferred costs	**(61,616)**	(28,054)
Decrease in restricted cash	**781**	—
Increase in deferred revenue and customer advances	**699,496**	469,251
Increase/(Decrease) in trade payables	**4,185**	(5,477)
Decrease in amounts due to related companies	**(167,944)**	(67,142)
Increase/(Decrease) in other payables and accruals	**122,962**	(24,462)
Net cash provided by operating activities	**1,591,855**	813,164
Income tax paid	**(182,638)**	(82,493)
Net cash generated from operating activities	**1,409,217**	730,671
Cash flows from investing activities		
Decrease/(Increase) in term deposits with original maturities of over three months	**98,618**	(714,000)
Purchase of property and equipment and lease prepayment of land use rights	**(139,812)**	(96,690)
Proceeds from disposals of property and equipment	**342**	270
Deemed distributions to equity owners	**(432,866)**	—
Interest received	**393,718**	16,053
Net cash outflow arising from deemed disposals pursuant to the Reorganization	**(21,947)**	—
Net cash used in investing activities	**(101,947)**	(794,367)

	2007 RMB'000	2006 RMB'000
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**2,935,079**	—
Payments for share issuance costs	**(112,249)**	—
Dividends paid	**(195,909)**	(196,612)
Net cash provided by/(used in) financing activities	**2,626,921**	(196,612)
Net increase/(decrease) in cash and cash equivalents	**3,934,191**	(260,308)
Cash and cash equivalents at beginning of year	**437,804**	698,335
Effect of exchange rate for the year	**(50,825)**	(223)
Cash and cash equivalents at end of year	**4,321,170**	437,804

The notes on pages 92 to 155 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

Alibaba.com Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands on September 20, 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and reissued) of the Cayman Islands. The Company is an investment holding company and was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on November 6, 2007. The registered address of the Company is Fourth Floor, One Capital Place. P.O. Box 847, GT, Grand Cayman, Cayman Islands, British West Indies. As of the date of this report, the ultimate holding company of the Company is Alibaba Group Holding Limited (formerly known as "Alibaba.com Corporation"), a company incorporated in the Cayman Islands.

On October 23, 2007, the Company issued a prospectus (the "Prospectus") and launched a global offering of 858,901,000 ordinary shares, comprising 227,356,500 new shares issued by the Company and 631,544,500 shares offered by the ultimate holding company (the "Global Offering"), at an offer price of HK$13.50 per share ("Offer Price"). The ultimate holding company has also granted an over-allotment option to the underwriters to purchase from it up to 113,678,000 additional shares at the Offer Price. The Company was listed on the Stock Exchange on November 6, 2007 and the over-allotment option was exercised on the same date. Gross proceeds received by the Company and the ultimate holding company amounted to HK$13.1 billion (RMB12.5 billion) in aggregate, of which HK$3.1 billion (RMB2.9 billion) was received by the Company.

The Company and its subsidiaries (the "Group") are principally engaged in the provision of software, technology and other services on the online business-to-business ("B2B") marketplaces with the uniform resource locators www.alibaba.com and www.alibaba.com.cn and under the trade name "Alibaba" (the "B2B services").

These financial statements have been approved for issue by the Board on March 18, 2008.

1.1 Reorganization

Since inception, the B2B services were carried out by the Group, AliPay E-commerce Corp. (formerly known as "Alibaba.com E-commerce Corp.") and Zhejiang Alibaba E-commerce Co., Ltd. (浙江阿里巴巴電子商務有限公司). AliPay E-commerce Corp. is wholly-owned by the ultimate holding company since its incorporation. Zhejiang Alibaba E-commerce Co., Ltd is under the control of the ultimate holding company through structure contracts, which enabled the ultimate holding company to obtain the substantial majority of benefits of Zhejiang Alibaba E-commerce Co., Ltd. The arrangements of the structure contracts gave the Group control over Zhejiang Alibaba E-commerce Co., Ltd.

1 GENERAL INFORMATION (Continued)

1.1 Reorganization (Continued)

Immediately before the Reorganization (as defined below), the Company had a 100% direct interest in Alibaba.com Investment Holding Limited which had a 100% direct interest in Alibaba.com China Limited. In contemplation of the listing of shares of the Company on the Main Board of the Stock Exchange on November 6, 2007, a reorganization was carried out to transfer the B2B services to the Company and its subsidiaries (the "Reorganization"). The steps of the Reorganization were summarized below:

- On January 2, 2007, Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com, Inc. from the ultimate holding company, for a cash consideration of approximately US$3.2 million (RMB25.0 million), which represented the net asset value of the entity as of December 31, 2006.

- On January 2, 2007, Alibaba.com China Limited acquired the entire equity interest in Inter Network Technology Limited from Alibaba.com China Holding Limited, a fellow subsidiary of the Company, for a consideration of US$1 (RMB8). Inter Network Technology Limited is a holding company and its major asset is the entire equity interest in Alibaba (Shanghai) Technology Co., Ltd. (阿里巴巴網絡科技（上海）有限公司).

- On January 2, 2007, Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com Hong Kong Limited from the ultimate holding company, for a consideration of US$1 (RMB8).

- On January 2, 2007, Alibaba.com Hong Kong Limited acquired all the assets, liabilities and operations related to the B2B services owned by AliPay E-commerce Corp., a fellow subsidiary of the Company, for a cash consideration of US$30.0 million (RMB234.3 million), which represented the fair value of the assets acquired related to the B2B services.

- On January 17, 2007, Alibaba.com China Limited acquired the entire equity interests in Alibaba (China) Software Co., Ltd. (阿里巴巴（中國）軟件有限公司) from Alibaba.com China Holding Limited, for a cash consideration of US$6.0 million (RMB46.7 million), which represented the registered capital of the entity at the time of the transfer.

- On April 11, 2007, Alibaba.com China Limited acquired the entire equity interests in Alibaba (China) Technology Co., Ltd. (阿里巴巴（中國）網絡技術有限公司) from Alibaba.com China Holding Limited, for a cash consideration of US$14.0 million (RMB108.2 million), which represented the registered capital of the entity at the time of the transfer.

- On May 14, 2007, Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com Taiwan Holding Limited from the ultimate holding company, for a consideration of US$1 (RMB8).

1 GENERAL INFORMATION (Continued)

1.1 Reorganization (Continued)

- On May 23, 2007, Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com Japan Investment Holding Limited from the ultimate holding company, for a consideration of US$1 (RMB8).

- On June 4, 2007, Alibaba.com Japan Investment Holding Limited acquired the entire equity interest in Alibaba.com Japan Holding Limited from the ultimate holding company, for a consideration of US$1 (RMB8).

- On June 30, 2007, Hangzhou Alibaba Advertising Co., Ltd. (杭州阿里巴巴廣告有限公司) acquired all the assets, liabilities and operations related to the B2B services owned by Zhejiang Alibaba E-Commerce Co., Ltd. (浙江阿里巴巴電子商務有限公司) for a consideration of approximately RMB114,000, which represented the net book value of the assets, liabilities and operations transferred. Subsequently, the financial position and operating results of Zhejiang Alibaba E-Commerce Co., Ltd. are no longer included in the Group's consolidated financial statements.

- On July 10, 2007, Alibaba.com China Limited acquired the entire equity interest in Beijing Sinya Online Information Technology Co., Ltd. (北京新雅在綫信息技術有限公司) from Alibaba.com China Holding Limited, for a consideration of US$1 (RMB8).

In addition, the Group provided certain marketing and administrative services to other businesses controlled by the ultimate holding company during the year ended December 31, 2006 (the function in which the related services were provided is referred to as "Marketing and Administrative Function").

Given that the Marketing and Administrative Function was part of business activities of the companies comprising the Group before the Reorganization, the assets, liabilities and expenses related to the Marketing and Administrative Function were reflected in the consolidated financial statements during the year ended December 31, 2006. The analysis of the expenses attributable to the Marketing and Administrative Function was as follows:

	2007 RMB'000	2006 RMB'000
Sales and marketing expenses	—	83,186
Product development expenses	—	6,748
General and administrative expenses	—	47,573
Total	—	137,507

1 GENERAL INFORMATION (Continued)

1.1 Reorganization (Continued)

The unsettled liabilities of the Marketing and Administrative Function could not be separately identified from the Group's liabilities, and the amount of assets related to the Marketing and Administrative Function was immaterial.

Subsequent to December 31, 2006, the Marketing and Administrative Function was transferred to other subsidiaries of the ultimate holding company. In connection therewith, employees of the Group who provided marketing and administrative services to the ultimate holding company and its subsidiaries (together, "Alibaba Group") after the Reorganization were transferred to other subsidiaries of the ultimate holding company during the year ended December 31, 2007.

Upon the completion of the Reorganization, the ultimate holding company in effect had transferred all of its interests in entities, assets and liabilities which were principally engaged in the B2B services to the Group.

1.2 Basis of preparation

Pursuant to the Reorganization as described in Note 1.1, assets and liabilities comprising the B2B business of Alibaba Group were transferred to the Group. The Reorganization was accounted for as a reorganization of business under common control, in a manner similar to a pooling-of-interests. The assets and liabilities transferred to the Group have been stated at Alibaba Group's historical carrying amounts. The consolidated financial statements have been prepared as if the Company and current corporate structure had been in existence at all dates and during the years presented and AliPay E-Commerce Corp. and Zhejiang Alibaba E-Commerce Co., Ltd. were deemed to be disposed of by the Group upon the completion of the purchase of assets and liabilities during 2007, pursuant to the Reorganization.

The principal accounting policies applied in the preparation of these consolidated financial statements were set out in Note 2 below. These policies have been consistently applied to the years presented.

The financial statements of the Company have been prepared, under the historical cost convention, in accordance with International Financial Reporting Standards ("IFRS").

During the year, the Group adopted IFRS 7 *Financial Instruments: Disclosures* and the complementary amendments to IAS 1 *Presentation of Financial Statements — Capital Disclosures*, which are effective for accounting periods beginning on or after January 1, 2007.

The impact of the adoption of IFRS 7 and the amendments to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital (see Note 3).

1 GENERAL INFORMATION (Continued)

1.2 Basis of preparation (Continued)

In addition, the following standards and interpretations to the existing IFRS are mandatory for accounting periods beginning on or after January 1, 2007:

IFRIC-Int 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment

The adoption of these standards and interpretations did not have any impact on the Group's financial statements and has not led to any changes in the Group's accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements were disclosed in Note 4. Actual results may differ from these estimates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries of the Group, except for those acquisitions which qualify as business combinations under common control which are accounted for using merger accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Consolidation (Continued)

(i) *Purchase method of accounting*

The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired 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 income statement.

(ii) *Business combinations under common control*

The consolidated financial statements incorporate the financial statement items of the combining entities or business in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognized directly in equity as part of the capital reserve.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, the date of the common control combination is disregarded.

The comparative amounts in the consolidated financial statements are presented as if the entities or business had been consolidated at the earliest balance sheet date presented or when they first came under common control, whichever is the later.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Consolidation (Continued)

To comply with laws and regulations of the People's Republic of China (the "PRC") that restrict foreign ownership of companies that operate Internet information services and other restricted businesses, the Group operates its websites and provides such restricted services in the PRC through PRC domestic companies whose equity interests are held by certain directors of the Company. The paid-in capital of these entities was funded by the Group through loans extended to those directors by the Group. These domestic companies have entered into certain business cooperation and technical service agreements with the Group, which make it obligatory for the Group to absorb a substantial majority of the risk of losses from their activities and entitle the Group to receive a substantial majority of their residual returns. In addition, the Group has entered into certain agreements with those directors, including loan agreements for them to contribute paid-in capital to the domestic companies, option agreements for the Group to acquire the equity in the PRC domestic companies subject to compliance with PRC laws, pledge agreements over the equity interests of these PRC domestic companies held by those directors, and proxy agreements irrevocably authorizing individuals designated by the Group to exercise equity owner's rights over these PRC domestic companies, whichever is applicable. Based on these contractual agreements, the Group believes that, notwithstanding the lack of equity ownership, the contractual arrangements described above give the Group control over the PRC domestic companies in substance. Accordingly, the financial position and operating results of these entities are included in the Group's consolidated financial statements.

Inter-company transactions, balances and unrealized gains on transactions between the consolidated entities or businesses are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation and functional currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Foreign currency translation (Continued)

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized within "finance income/loss, net" in the income statement.

(c) *Group companies*

Result and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in exchange reserve as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on disposal.

2.4 Lease prepayment

Lease prepayment represents payments of land use rights to the PRC's land bureau. Land use right is carried at cost less accumulated amortization and impairment losses. Amortization is provided to write off the cost of lease prepayment on a straight-line basis over the period of the right which is 50 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual amounts over their estimated useful lives, as follows:

	Years
Computer equipment	3
Furniture and office equipment	3
Leasehold improvements	2–3 (shorter of remaining lease period or estimated useful life)
Buildings	20

An asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction-in-progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction-in-progress is transferred to property and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other operating income/(losses) in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Other receivables

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the other receivables are impaired. The amount of the provision is the difference between the other receivables' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the other receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When an amount of other receivables is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.8 Deferred costs

Sales commissions paid in respect of service fees received in advance are deferred and are charged ratably to the income statement over the term of the respective service contracts as the services are rendered.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Staff costs

(a) *Short-term employee benefits*

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(b) *Pension obligations*

The Group participates in various defined contribution pension schemes. The schemes are generally funded through payments to insurance companies, trustee-administered funds or the relevant government authorities. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Staff costs (Continued)

(b) *Pension obligations (Continued)*

For defined contribution plans, the Group pays contributions on a monthly basis to publicly or privately administered pension insurance plans or government authorities on a mandatory, contractual or voluntary basis. The contributions are expensed as incurred. Assets of the defined contribution plans are held and managed by publicly or privately administered pension insurance plans or government authorities and are separate from those of the Group.

(c) *Share-based compensation*

Share options and restricted share units

The ultimate holding company operates equity award plans (the “Equity Award Plans”) and a share incentive scheme (“Pre-IPO share incentive scheme”) where employees (including directors) of the Group are granted share options or restricted share units (“RSUs”) to acquire shares of the ultimate holding company or the Company’s shares held by the ultimate holding company at specified exercise prices. The resulting share-based compensation expense is allocated to the Group accordingly.

Share options or RSUs granted on or before November 7, 2002 or vested before January 1, 2005

No expense is recognized in respect of these options.

Share options or RSUs granted after November 7, 2002 and vested on or after January 1, 2005

The fair value of the employee services received in exchange for the grant of the options or RSUs is recognized as staff costs in the income statement with a corresponding increase in the share premium under equity of companies comprising the Group. The fair value of the options granted is measured at grant date using the Black-Scholes valuation model (“Black-Scholes Model”) whereas the fair value of RSUs granted is measured at grant date based on the fair value of the ultimate holding company’s shares, taking into account the terms and conditions upon which the options or RSUs were granted, and amortized over the respective vesting period during which the employees become unconditionally entitled to the options or RSUs. At each balance sheet date, the Group revises its estimates of the number of share options or RSUs that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the income statement over the remaining vesting period. On vesting date, the amount recognized as employee benefit expense is adjusted to reflect the actual number of share options or RSUs that become vested.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Staff costs (Continued)

(c) Share-based compensation (Continued)

Share appreciation rights

Share-based compensation expense related to share appreciation rights granted by the Group to its employees is measured as the amount by which the fair market value, with reference to the quoted market price, of the Company's shares exceeds the exercise price. The expense is amortized to the income statement over the respective vesting period during which the employees become unconditionally entitled to the share appreciation rights. The liability of such accrued expense associated with cash-settled share appreciation rights is re-measured to fair value at each balance sheet date with the effect of changes in the fair value of the liability being charged or credited to the income statement.

2.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and, the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

The Group principally derives its revenue from the provision of B2B services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Revenue recognition (Continued)

(a) *B2B services*

The Group's online B2B marketplaces facilitate e-commerce between suppliers and buyers. The Group earns its revenues from service fees received from suppliers ("paying members") while buyers may use the marketplaces to conduct business at no charge. Service fees are received by the Group in respect of the sale of membership packages which provide priority placement of paying members' storefronts and listings in the industry directory and search results on the Group's marketplaces. Additional revenue is generated from service fees from paying members in respect of the sale of value-added services, including sale of additional keywords to improve the paying member's rankings in search results on the Group's marketplaces and sale of premium placements on the web pages to increase the paying member's exposure to potential buyers.

Service fees are paid in advance in respect of the above services for a specific contracted service period. All service fees are initially deferred when received and revenue is recognized ratably over the term of the respective service contracts as the services are rendered.

Value-added services are normally purchased by paying members together with the membership packages within its contracted service period. In the event the fair value of the respective membership package and the value-added services cannot be objectively measured, the aggregate service fees are recognized as revenue ratably over the term of the membership package.

In the event the fair value of the value-added services can be objectively measured, service fees from such value-added services are recognized as revenue ratably over the contracted service period of the value-added services.

(b) *Barter transactions*

When services are exchanged or swapped for services which are of a similar nature and value, the exchange is not regarded as a revenue generating transaction.

When services are rendered in exchange for dissimilar services, the exchange is regarded as a revenue generating transaction. The revenue is measured at the fair value of the services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the services received cannot be measured reliably, the revenue is measured at the fair value of the services provided in a barter transaction, by reference to non-barter transaction involving similar services, adjusted by the amount of any cash or cash equivalents transferred.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Revenue recognition (Continued)

(c) *Interest income*
Interest income is recognized on a time-proportion basis using the effective interest method.

(d) *Business tax and related surcharges levied on revenue earned in PRC*
The Group is subject to business tax and related surcharges on the revenue earned for services provided in the PRC. The applicable rate of business tax is 5%. In the income statement, business tax and related surcharges for revenue earned by the Group are included in cost of revenue.

2.16 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all conditions to the grant.

Government grants relating to costs are deferred and recognized in the income statement over the year necessary to match them with the costs that they are intended to compensate.

2.17 Product development expenditure

Product development expenditure is recognized as an expense as incurred. Expenditures incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the development of the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits can be demonstrated;

(e) there is adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Product development expenditure (Continued)

Capitalized product development expenditure is recorded as an intangible asset and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life. Product development assets are tested for impairment annually.

Other product development expenditures that do not meet these criteria are recognized as expenses as incurred. Product development expenditure previously recognized as an expense is not recognized as an asset in a subsequent year.

2.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the shareholders or equity owners of the Group is recognized as a liability in the Group's financial statements in the year in which the dividends are approved by the shareholders or equity owners of the Company or Group's subsidiaries.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks in the ordinary course of business, mainly foreign currency exchange risk and interest rate risk on cash and cash equivalents. The Group has maintained a treasury department, which reports to the Chief Financial Officer, to monitor the current and expected liquidity requirements in accordance with the policies and procedures approved by the Board. The Group has adopted prudent treasury management objectives, which include principal protection and maintaining sufficient liquidity to meet various funding requirements in accordance with the strategic plans. In addition, the Group also aims to achieve a better return on cash and to hedge against any foreign currency exchange risk. The Group has not used any derivative financial instruments to hedge foreign currency exchange risk or interest rate risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Foreign currency exchange risk

Foreign currency exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although the Group operates businesses in different countries, substantially all of the revenue-generating and expense related transactions are denominated in RMB which is the functional currency of the Company and most of the Group's subsidiaries. RMB is not freely convertible into other foreign currencies. All foreign currency exchange transactions in China must be effected through either the People's Bank of China ("PBOC"), or other institutions authorized by the PBOC to buy and sell foreign currencies. Following the completion of the Global Offering in November 2007, the Group holds a significant portion of cash and cash equivalents in currencies other than RMB. Such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of RMB against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of RMB against these foreign currencies may result in significant exchange loss which would be recorded in the income statement.

Sensitivity analysis

As of December 31, 2007, if RMB had strengthened/weakened 5% against United States dollars, Hong Kong dollars and Australian dollars with all other variables held constant, profit for the year would have been RMB83,187,000 (2006: RMB513,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Hong Kong dollars and Australian dollars denominated cash and cash equivalents. Profit attributable to equity owners of the Company is more sensitive to movement in RMB/Hong Kong dollars and RMB/Australian dollars in 2007 than 2006 because of the increased amount of Hong Kong dollars and Australian dollars denominated cash and cash equivalents being held by the Group.

Other than exchange differences arising from translation of results and financial positions of certain Group companies from functional currencies to the presentation currency, which are dealt with as a movement in exchange reserve, a change of 5% in exchange rate of each foreign currency against RMB does not affect any components of equity.

(b) Interest rate risk

The Group has no interest-bearing borrowings. The Group's exposure to changes in interest rates is mainly attributable to its interest-bearing assets including term deposits with original maturities of over three months and cash and cash equivalents.

Sensitivity analysis

As of December 31, 2007, if the interest rate increased/decreased by 50 basis-point with all other variables held constant, profit attributable to equity owners of the Company would have been RMB26,333,000 (2006: RMB7,428,000) higher/lower, mainly as a result of higher/lower interest income on bank balances.

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk

The Group's credit risk is considered minimal as a substantial part of the income is prepaid by a diversified group of customers. The extent of the Group's credit risk exposure is represented by the aggregate of cash held at banks and at other financial institutions. All of the Group's cash held at banks is placed with financial institutions of sound credit quality.

The Group's maximum exposure to credit risk without taking account of the value of any collateral held is represented by the carrying amount of each financial asset in the balance sheets.

(d) Liquidity risk

The Group has maintained its own treasury function to monitor the current and expected liquidity requirements and aims to maintain flexibility by keeping sufficient cash and cash equivalents generated from operations. The Group adopts prudent treasury management objectives which include maintaining sufficient cash and cash equivalents to meet its commitment over the foreseeable future in accordance with its strategic plan.

The Group does not have significant financial liabilities except for amounts due to related companies, trade payables, other payables and certain accruals. The contractual maturities of amounts due to related companies are disclosed in Note 33(d). For trade payables and other payables, they are generally on credit terms of one to three months after the invoice date. For accruals, there are generally no specified contractual maturities and are paid upon counterparty's formal notification, of which should be within 12 months from the balance sheet date.

(e) Fair value estimation

The fair values of the Groups' financial instruments are not materially different from their carrying amounts.

The fair values of financial instruments that are not traded in active market is determined by using discounted cash flow valuation techniques.

The carrying values less impairment provision (as applicable) of amounts due from related companies, prepayments, deposits and other receivables are a reasonable approximation of their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3 FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital risk management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to sustain the future development of the Group's businesses.

The Group's capital structure is being reviewed periodically to ensure these objectives are to be achieved. In order to maintain or adjust the capital structure, the Group will consider the macroeconomic conditions, prevailing interest rate and adequacy of cash flows generating from operations and may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares.

Currently, the Group has no external borrowings. The capital structure of the Group solely consists of equity attributable to equity owners of the Company, comprising share capital and reserves. The Group defines the owners' equity as the capital of the Group.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Recognition of share-based compensation expense

Since the inception of business, the Group's employees have participated in Equity Award Plans of the ultimate holding company. Management of the Group have used the Black-Scholes Model to determine the total fair value of the options granted, which is based on fair value and various attributes of the underlying shares of the ultimate holding company. Significant estimates and assumptions are required to be made in determining the parameters for applying the Black-Scholes Model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. The total fair value of RSUs granted is measured on the grant date based on the fair value of the underlying shares of the ultimate holding company. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group at the end of the vesting period. The Group only recognizes an expense for those options or RSUs expected to vest over the vesting period during which the grantees become unconditionally entitled to the options or RSUs. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and RSUs and the amount of such equity awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expense.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(a) Recognition of share-based compensation expense (Continued)

The fair value of options and RSUs at the time of grant is to be expensed over the vesting period of the options and RSUs based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share option or RSUs grant, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

Based on the fair value of options and RSUs granted by the ultimate holding company to the Group's employees and the expected turnover rate of grantees, the corresponding share-based compensation expense recognized by the Group in respect of their services rendered for the year ended December 31, 2007 was approximately RMB143,417,000 (2006: RMB113,904,000) (Note 25).

(b) Recognition of income taxes and deferred tax assets

The Group is mainly subject to income tax in the PRC. In the ordinary course of business, there are many transactions (including entitlement to preferential tax treatment and deductibility of expenses) where the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available in the future against which the temporary differences, the carry forward of unused tax credits and unused tax losses could be utilized. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Where the actual or expected tax positions in future are different from the original estimate, such difference will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Recognition of income taxes and deferred tax assets (Continued)

On March 16, 2007, the National People's Congress approved the PRC Enterprise Income Tax Law (the "New EIT Law"). The New EIT Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%. In addition, among others, the New EIT Law provides for a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises ("HNTE"). However, the detailed rules on the applicable requirements and procedures to apply for preferential tax treatment as HNTE have not yet been announced. In December 2007, Alibaba (China) Technology Co., Ltd. ("Alibaba China") obtained a certificate issued by the Science and Technology Department of Zhejiang Province confirming Alibaba China's status as a high and new technology enterprise. This certificate is valid for a period of two years from the date of issuance. In addition, management has conducted research and consulted relevant third parties as well as performed certain due diligence procedures to confirm the view of the Board of Directors that Alibaba China will obtain its formal HNTE designation in 2008 under the New EIT Law upon the completion of certain administrative approval procedures. Consequently, Alibaba China used 15% in the computation of deferred taxes as of December 31, 2007.

Should the Group have reported deferred taxes at the new unified corporate income tax rate of 25%, the deferred tax assets and profit attributable to equity owners of the Company would have been increased by approximately RMB173,500,000 for the year ended December 31, 2007.

(c) Depreciation

The costs of property and equipment are charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expense in future periods.

5 SEGMENT INFORMATION

In the respective years presented, the Group had one single business segment: the provision of the B2B services. Although the B2B services consist of the operations of the international marketplace and the China marketplace, management considers that these underlying marketplaces are subject to similar risks and returns. Therefore, management has only relied on the reported revenue associated from these underlying marketplaces in making financial decisions and allocating resources, and significant costs incurred associated with the revenue generated cannot be separately identified by marketplaces. In addition, substantially all of the Group's revenue was generated in the PRC. Accordingly, no business or geographical segment information is presented.

6 REVENUE

	2007 RMB'000	2006 RMB'000
International marketplace		
Gold Supplier	**1,503,331**	967,858
International TrustPass	**32,825**	24,011
Other revenue[(i)]	**11,539**	—
	1,547,695	991,869
China marketplace		
China TrustPass	**594,098**	369,653
Other revenue[(ii)]	**20,964**	2,340
	615,062	371,993
	2,162,757	1,363,862

(i) Other revenue received from the international marketplace mainly represents commission income from a fellow subsidiary for cross-selling certain software products (Note 33(b)).

(ii) Other revenue received from the China marketplace mainly represents promotional income from certain third party customers.

7 OTHER OPERATING INCOME

	2007 RMB'000	2006 RMB'000
Government grants[(i)]	**17,215**	13,500
Others	**2,662**	4,412
	19,877	17,912

(i) Alibaba China, a wholly-owned subsidiary of the Company, received grants from government authorities in the PRC of RMB17,215,000 during the year. In 2006, Alibaba China received RMB13,500,000 government grants in relation to technology development in the PRC.

8 PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

	2007 RMB'000	2006 RMB'000
Staff costs (Note 10)	**756,803**	561,058
Operating lease rentals	**40,602**	28,884
Depreciation expense of property and equipment	**59,016**	54,043
Amortization of lease prepayment	**244**	—
Loss on disposals of property and equipment	**17**	483
Auditors' remuneration[(i)]	**1,967**	—

(i) Auditors' remuneration was borne by the ultimate holding company for the year ended December 31, 2006.

9 FINANCE INCOME, NET

	2007 RMB'000	2006 RMB'000
Interest income[(i)]	**406,307**	23,159
Exchange losses	**(61,208)**	(267)
	345,099	22,892

(i) Interest income for the year ended December 31, 2007 included interest income of RMB350,534,000 received from over-subscription proceeds in connection with the initial public offering of the shares of the Company.

10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 RMB'000	2006 RMB'000
Salaries, bonuses and sales commission	**488,373**	368,172
Contributions to defined contribution benefit plans[(i)]	**79,412**	53,025
Discretionary employee benefits	**36,941**	25,957
Share-based compensation expense (Note 25)	**152,077**	113,904
	756,803	561,058

	2007	2006
Number of employees	**5,292**	3,572

10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(i) All local employees of the subsidiaries in the PRC participate in mandatory employee social security plans pursuant to the regulations enacted in the PRC, which cover pension, medical and other welfare benefits. The plans are organized and administered by the government authorities. Except for welfare benefits provided by these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on a percentage of the monthly compensation of employees, subject to certain ceilings, and are paid to the respective labour and social welfare authorities.

The Group also contributes to retirement plans for its employees outside the PRC at percentages in compliance with requirements of the respective governments.

The contributions to the above plans are expensed as incurred. Assets of the defined contribution benefit plans are held and managed by publicly or privately administered pension insurance plans or government authorities and are separate from those of the Group.

11 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments — paid and payable by the Company to directors of the Company were as follows:

	2007 RMB'000	2006 RMB'000
Fees	**315**	—
Salaries, bonuses, allowances and benefits in kind	**7,364**	5,179
Contributions to defined contribution benefit plans	**194**	197
	7,873	5,376
Share-based compensation benefits[(i)]	**45,582**	5,277
	53,455	10,653

(i) Share-based compensation benefits represent fair value of share options issued under the Equity Award Plans and Pre-IPO share incentive scheme of the ultimate holding company allocated to the income statement of the Group as well as the fair value of the shares of the Company directly granted to directors disregarding whether or not the shares were transferred and the options have been vested/exercised.

	2007	2006
Number of directors		
— with emoluments	**11**	6
— without emoluments	**2**	7
Number of directors	**13**	13

11 DIRECTORS' EMOLUMENTS (Continued)

The remuneration of the Company's directors was set out below:

For the year ended December 31, 2007

Name of director	Fees RMB'000	Salaries, bonuses, allowance and benefits in kind(i) RMB'000	Contribution to defined contribution benefit plans RMB'000	Subtotal RMB'000	Share-based compensation benefits(ii) RMB'000	Total RMB'000
Executive directors						
WEI Zhe, David	—	2,730	77	2,807	32,511	35,318
WU Wei, Maggie	—	1,425	24	1,449	4,693	6,142
DAI Shan, Trudy	—	1,452	31	1,483	1,156	2,639
PENG Yi Jie, Sabrina	—	1,008	31	1,039	1,010	2,049
XIE Shi Huang, Simon	—	749	31	780	511	1,291
Non-executive directors						
MA Yun, Jack	—	—	—	—	746	746
TSAI Chung, Joseph	—	—	—	—	763	763
TSUEI, Andrew Tien Yuan	63	—	—	63	1,048	1,111
OKADA, Satoshi	—	—	—	—	—	—
TSOU Kai-Lien, Rose	—	—	—	—	—	—
Independent non-executive directors						
LONG Yong Tu	84	—	—	84	1,048	1,132
NIU Gen Sheng	84	—	—	84	1,048	1,132
KWAUK Teh Ming, Walter	84	—	—	84	1,048	1,132
	315	7,364	194	7,873	45,582	53,455

(i) Bonuses in respect of 2007 was paid in 2008.

(ii) This represents amortization of the fair value of share options or shares measured at the grant dates charged to the income statement, regardless of whether or not the share options have been vested or exercised.

11 DIRECTORS' EMOLUMENTS (Continued)

For the year ended December 31, 2006

Name of director	Fees	Salaries, bonuses, allowance and benefits in kind[i]	Contribution to defined contribution benefit plans	Subtotal	Share-based compensation benefits[ii]	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
WEI Zhe, David	—	291	10	301	1,511	1,812
WU Wei, Maggie	—	—	—	—	—	—
DAI Shan, Trudy	—	1,088	77	1,165	665	1,830
PENG Yi Jie, Sabrina	—	540	20	560	603	1,163
XIE Shi Huang, Simon	—	438	53	491	430	921
Non-executive directors						
MA Yun, Jack	—	1,530	25	1,555	1,036	2,591
TSAI Chung, Joseph	—	1,292	12	1,304	1,032	2,336
TSUEI, Andrew Tien Yuan	—	—	—	—	—	—
OKADA, Satoshi	—	—	—	—	—	—
TSOU Kai-Lien, Rose	—	—	—	—	—	—
Independent non-executive directors						
LONG Yong Tu	—	—	—	—	—	—
NIU Gen Sheng	—	—	—	—	—	—
KWAUK Teh Ming, Walter	—	—	—	—	—	—
	—	5,179	197	5,376	5,277	10,653

(i) Bonuses in respect of 2006 was paid in 2007.

(ii) This represents amortization of the fair value of share options or shares measured at the grant dates charged to the income statement, regardless of whether or not the share options have been vested or exercised.

No director received any emoluments from the Group as an inducement to join or leave the Group or compensation for loss of office (2006: Nil). No director waived or has agreed to waive any emoluments during the year (2006: Nil).

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Group during the year ended December 31, 2007 included three (2006: two) directors whose details have been reflected in the analysis presented in Note 11. The emoluments payable to the remaining two (2006: three) individuals were as follows:

	2007 **RMB'000**	2006 RMB'000
Salaries, bonuses, allowances and benefits in kind	**2,910**	3,633
Contribution to defined contribution benefit plans	**80**	212
Share-based compensation expense	**2,464**	6,540
	5,454	10,385

The emoluments payable to two (2006: three) individuals were within the following bands:

	Number of individuals	
	2007	2006
RMB2,500,001–RMB3,000,000	**2**	2
RMB5,000,001–RMB5,500,000	—	1
	2	3

None of the above individuals received any emoluments from the Group as an inducement to join or leave the Group or compensation for loss of office (2006: Nil).

13 INCOME TAX CHARGES

	2007 **RMB'000**	2006 RMB'000
PRC current tax charge	**230,085**	155,730
Deferred tax credit (Note 30)	**(48,436)**	(84,280)
	181,649	71,450

13 INCOME TAX CHARGES (Continued)

(a) Cayman Islands and British Virgin Islands Profits Tax

Under the current laws of the Cayman Islands and the British Virgin Islands, the Company is not subject to tax on its income or capital gains.

(b) Hong Kong Profits Tax

The Company's subsidiaries that carry on business in Hong Kong are subject to Hong Kong profits tax at a rate of 17.5% (2006: 17.5%). No provision for Hong Kong profits tax has been made as the subsidiaries had no estimated assessable profit for the year (2006: Nil).

(c) PRC Enterprise Income Tax ("EIT")

Current income tax expense primarily represents the provision for EIT for subsidiaries operating in the PRC. These subsidiaries are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to such tax laws and regulations for taxable years prior to January 1, 2008, entities incorporated in the PRC are subject to EIT at a statutory rate of 33% (30% national EIT plus 3% local income tax) or reduced national EIT rates for certain high and new technology enterprises or software development companies, on PRC taxable income. In 2006 and 2007, Alibaba China, the major operating entity of the Group, was qualified for the 15% reduced statutory rate on national EIT as a high and new technology enterprise. In 2006, Alibaba China did not receive any exemption or reduction of the local income tax. As a result, Alibaba China's applicable income tax rate was 18% (15% national EIT plus 3% local income tax). In 2007, pursuant to PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises, the relevant PRC tax authorities exempted Alibaba China from the 3% local income tax for the year ended December 31, 2007, reducing the applicable tax rate of Alibaba China in 2007 to 15%.

For the year ended December 31, 2007, Hangzhou Alibaba Advertising Co., Ltd., a subsidiary of the Group that provides Internet content and advertising services, was exempted from EIT at the statutory rate of 33% according to tax circular Hangguoshuibinfa (2008) 29 as a new company engaging in information industry.

13 INCOME TAX CHARGES (Continued)

(c) PRC Enterprise Income Tax ("EIT") (Continued)

The tax on the Group's profit before income taxes differed from the theoretical amount that would arise using the PRC EIT statutory rate of 33% as follows:

	2007 RMB'000	2006 RMB'000
Profit before income taxes	**1,149,444**	291,388
Tax calculated at a tax rate of 33%	**379,317**	96,158
Effect of different tax rates available to different companies of the Group	**(252,122)**	(56,094)
Effects of tax holiday on assessable profits of subsidiaries incorporated in the PRC	**(739)**	—
Income not taxable for tax purposes	**(99)**	(3,333)
Expenses not deductible for tax purposes(i)	**22,643**	37,650
Utilization of previously unrecognized tax assets/deferred tax assets not recognized	**(3,847)**	(10,058)
Unrecognized tax losses	**1,183**	7,127
Effect on deferred tax assets resulting from the exemption of local income tax(ii)	**35,313**	—
Income tax charges	**181,649**	71,450

(i) Expenses not deductible for tax purposes primarily represent share-based compensation expense.

(ii) A preferential treatment was approved by the relevant tax authority relating to the exemption of local income tax of 3% applicable to one of the Group's major operating subsidiaries in the PRC for the year ended December 31, 2007. The preferential treatment resulted in a reduction of deferred tax assets previously recognized and a charge to the income statement for the year ended December 31, 2007.

13 INCOME TAX CHARGES (Continued)

(c) PRC Enterprise Income Tax ("EIT") (Continued)

On March 16, 2007, the National People's Congress approved the New EIT Law. The New EIT Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%. In addition, among others, the New EIT Law provides for a preferential tax rate of 15% for enterprises qualified as HNTE. However, the detailed rules on the applicable requirements and procedures to apply for preferential tax treatment as HNTE have not yet been announced. In December 2007, Alibaba China obtained a certificate issued by the Science and Technology Department of Zhejiang Province confirming Alibaba China's status as a high and new technology enterprise. This certificate is valid for a period of two years from the date of issuance. In addition, management has conducted research and consulted relevant third parties as well as performed certain due diligence procedures to confirm the view of the Board of Directors that Alibaba China will obtain its formal HNTE designation in 2008 under the New EIT Law upon the completion of certain administrative approval procedures. Consequently, Alibaba China used 15% in the computation of deferred taxes as of December 31, 2007.

14 DIVIDENDS

	2007 **RMB'000**	2006 RMB'000
Dividends	—	392,521

Dividends declared in 2006 represented distributions by certain of the Company's PRC subsidiaries prior to the Reorganization as described in Note 1.1. As such, the rates of dividends and the number of ordinary shares ranking for dividends were not presented for the year ended December 31, 2006 as such information was not meaningful.

Dividends declared by the Company's PRC subsidiaries are based on the distributable profits as reported in the statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC. As such, the distributable profits of these subsidiaries are different from the retained earnings/accumulated deficit reported under IFRS.

15 EARNINGS PER SHARE

	2007	2006
Profit for the year attributable to equity owners of the Company (RMB'000)	**967,795**	219,938
Weighted average number of ordinary shares in issue (thousand shares)	**4,859,882**	4,825,000
Earnings per share, basic and diluted (RMB)	**RMB19.91 cents**	RMB4.56 cents
Earnings per share, basic and diluted (HK$ equivalent)[i]	**HK$20.41 cents**	HK$4.46 cents

(i) The translation of RMB amounts into Hong Kong dollars has been made at the rate of RMB0.9757 to HK$1.0000 (2006: RMB1.0223 to HK$1.0000). No representation is made that the RMB amounts have been, could have been or could be converted into Hong Kong dollars or vice versa, at that rate, or at any rates or at all.

Basic earnings per share is calculated by dividing the profit for the year attributable to equity owners of the Company by the weighted average numbers of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue for the year ended December 31, 2006, a total of 4,825,000,000 ordinary shares were deemed to be in issue since January 1, 2006 as detailed in Note 22.

Basic and fully diluted earnings per share are the same as the Company did not issue any dilutive equity instruments during the year ended December 31, 2007.

16 PROPERTY AND EQUIPMENT

	Computer equipment RMB'000	Furniture and office equipment RMB'000	Leasehold improvements RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended December 31, 2006						
Opening net book amount	64,747	13,169	6,976	—	—	84,892
Additions	60,560	11,489	20,300	2,850	6,975	102,174
Disposals	(15,392)	(644)	(3,349)	—	—	(19,385)
Depreciation	(38,819)	(7,954)	(7,270)	—	—	(54,043)
Exchange differences	(301)	(21)	(12)	—	—	(334)
Closing net book amount	70,795	16,039	16,645	2,850	6,975	113,304
As of December 31, 2006						
Cost	132,180	32,073	27,688	2,850	6,975	201,766
Accumulated depreciation	(61,385)	(16,034)	(11,043)	—	—	(88,462)
Closing net book amount	70,795	16,039	16,645	2,850	6,975	113,304
Year ended December 31, 2007						
Opening net book amount	**70,795**	**16,039**	**16,645**	**2,850**	**6,975**	**113,304**
Additions	**81,002**	**8,561**	**9,363**	**—**	**31,538**	**130,464**
Disposals	**(18,469)**	**(3,364)**	**(242)**	**(2,775)**	**—**	**(24,850)**
Depreciation	**(38,965)**	**(8,704)**	**(11,272)**	**(75)**	**—**	**(59,016)**
Exchange differences	**(767)**	**(86)**	**(57)**	**—**	**—**	**(910)**
Closing net book amount	**93,596**	**12,446**	**14,437**	**—**	**38,513**	**158,992**
As of December 31, 2007						
Cost	**190,317**	**34,199**	**35,715**	**—**	**38,513**	**298,744**
Accumulated depreciation	**(96,721)**	**(21,753)**	**(21,278)**	**—**	**—**	**(139,752)**
Closing net book amount	**93,596**	**12,446**	**14,437**	**—**	**38,513**	**158,992**

17 INTERESTS IN SUBSIDIARIES

	Company 2007 RMB'000	2006 RMB'000
Non-current portion		
Unlisted shares, at cost	—	—
Amount due from a subsidiary	**1,428,791**	—
	1,428,791	—
Current portion		
Amounts due from subsidiaries	**7,801**	—
Amounts due to subsidiaries	**(15,594)**	—
	(7,793)	—
	1,420,998	—

The amount due from a subsidiary included under non-current portion is unsecured, interest-free, and not repayable in foreseeable future.

The amounts due from/to subsidiaries included under current portion are unsecured, interest-free and expected to be settled within one year.

17 INTERESTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries as of December 31, 2007 were set out below:

Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/ registered capital	Effective interest held
Directly held:				
Alibaba.com Investment Holding Limited	British Virgin Islands ("the BVI"), September 20, 2006, limited liability company	Investment holding	US$1	100%
Indirectly held:				
Alibaba (China) Software Co., Ltd.# 阿里巴巴（中國）軟件有限公司	The PRC, August 23, 2004, limited liability company	Provision of software and technology services	US$105,000,000	100%
Alibaba (China) Technology Co., Ltd.# 阿里巴巴（中國）網絡技術有限公司	The PRC September 9, 1999, limited liability company	Provision of software and technology services	US$109,000,000	100%
Alibaba.com China Limited	Hong Kong, October 5, 2006, limited liability company	Investment holding	HK$1	100%
Alibaba.com Hong Kong Limited	Hong Kong, September 29, 1999, limited liability company	Business-to-Business Services, provision of Internet content, software and technology services and other group administrative services	HK$3,900,002	100%
Alibaba.com, Inc.	Delaware, United States of America, February 25, 2000, limited liability company	Technology maintenance, marketing and administrative services	US$2	100%
Alibaba.com Japan Co., Ltd.	Japan, November 30, 2007, limited liability company	Inactive	Japanese Yen 10,000,000	100%

Notes to the Financial Statements

17 INTERESTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/ registered capital	Effective interest held
Alibaba.com Japan Holding Limited	The BVI, March 8, 2000, limited liability company	Investment holding	US$1	100%
Alibaba.com Japan Investment Holding Limited	The Cayman Islands, July 19, 2006, limited liability company	Investment holding	US$1	100%
Alibaba.com Singapore Investment Holding Private Limited	Singapore, November 5, 2007, limited liability company	Investment holding	Singapore $1	100%
Alibaba.com Taiwan Holding Limited	The BVI, August 2, 2000, limited liability company	Inactive	US$1	100%
Alibaba (Shanghai) Technology Co., Ltd.# 阿里巴巴網絡科技（上海）有限公司	The PRC, October 23, 2003, limited liability company	Inactive	US$140,000	100%
Beijing Sinya Online Information Technology Co., Ltd.# 北京新雅在綫信息技術有限公司	The PRC, March 16, 2004, limited liability company	Inactive	US$9,000,000	100%
Hangzhou Alibaba Advertising Co., Ltd. (formerly known as "Hangzhou Alibaba Information Services Co., Ltd.")# 杭州阿里巴巴廣告有限公司（前稱「杭州阿里巴巴信息服務有限公司」）	The PRC, December 7, 2006, limited liability company	Provision of Internet content and advertising services	RMB10,000,000	100%
Inter Network Technology Limited	The BVI, July 1, 2003, limited liability company	Investment holding	US$2	100%

The names of these subsidiaries represent management's translation of the Chinese names of these subsidiaries as no English names have been registered.

18 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2007	2006
	RMB'000	RMB'000
Non-current portion		
Loans to employees (Notes 25 and 33(f))	**27,067**	—
Current portion		
Prepaid advertising and promotion expenses	**1,943**	13,453
Deposits for purchases of property and equipment	**3,857**	2,055
Rental and other deposits	**5,598**	4,150
Prepaid rentals	**6,831**	3,844
Interest income receivables	**20,920**	8,331
Advances to staff	**1,955**	1,568
Others	**7,039**	2,988
	48,143	36,389
Total	**75,210**	36,389

The fair value of loans to employees was determined using discounted cash flows at a market rate of 7.56%, which was equivalent to the effective interest rate on the loans.

	Company	
	2007	2006
	RMB'000	RMB'000
Interest income receivables	**7,131**	—
Others	**706**	395
	7,837	395

19 DEFERRED COSTS

Upon the receipt of service fees from paying members, the Group is obligated to pay certain costs related to the receipt of such service fees which primarily comprise sales commissions. The service fees are initially deferred and recognized in the income statement in the period in which the services are rendered (Note 29), as such, the related costs are also initially deferred and recognized in the income statement in the period the related service fees are recognized.

20 TERM DEPOSITS WITH ORIGINAL MATURITIES OF OVER THREE MONTHS

The effective interest rate of the term deposits of the Group with original maturities of over three months, all of which were denominated in RMB, was 2.97% (2006: 2.14%).

21 CASH AND CASH EQUIVALENTS

	Group	
	2007	2006
	RMB'000	RMB'000
Cash at banks and on hand	**1,566,907**	204,854
Term deposits with original maturities of three months or less	**2,754,263**	232,950
	4,321,170	437,804

	Company	
	2007	2006
	RMB'000	RMB'000
Cash at banks and on hand	**1,751,663**	18

As of December 31, 2007, 66.3% (2006: 98.8%) of the cash and cash equivalents was denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC Government.

The effective interest rate of the term deposits of the Group with original maturities of three months or less was 2.20% (2006: 1.64%).

22 SHARE CAPITAL AND SHARE PREMIUM

	Notes	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorized						
Ordinary share of US$1.00 each upon incorporation on September 20, 2006 and as of January 1, 2007	(a)	50,000	US$50,000	396	—	396
Increase in authorized share capital in HK$	(b)(i) and (b)(ii)	8,000,000,000	HK$800,000	770	—	770
Cancellation of authorized share capital of US$1.00 each	(b)(iv)	(50,000)	(US$50,000)	(396)	—	(396)
As of December 31, 2007		8,000,000,000	HK$800,000	770	—	770
Issued and fully paid						
Issue of ordinary share on date of incorporation on September 20, 2006 and as of January 1, 2007	(a)	1	US$1	—	—	—
Repurchase of issued ordinary share in preparation for the Global Offering	(b)(iii)	(1)	(US$1)	—	—	—
Issue of ordinary shares in preparation for the Global Offering	(b)(v)	4,825,000,000	HK$482,500	464	—	464
Issue of ordinary shares in connection with the Global Offering	(c)	227,356,500	HK$22,736	22	2,934,593	2,934,615
Share issuance costs		—	—	—	(130,389)	(130,389)
Value of employee services under equity award plans		—	—	—	5,701	5,701
At Company level						
As of December 31, 2007	(d)	5,052,356,500	HK$505,236	486	2,809,905	2,810,391
Value of employee services under equity award plans		—	—	—	83,227	83,227
At Group level						
As of December 31, 2007	(d)	5,052,356,500	HK$505,236	486	2,893,132	2,893,618

22 SHARE CAPITAL AND SHARE PREMIUM (Continued)

(a) The Company was incorporated in the Cayman Islands on September 20, 2006 with an authorized share capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each. On the same date, the Company issued and allotted one ordinary share, credited as fully paid at par, to the ultimate holding company.

(b) On October 12, 2007, the ultimate holding company passed a resolution to approve various matters as follows:

(i) change the denomination of the par value of the Company's ordinary shares from United States dollars ("US$") to Hong Kong dollars ("HK$");

(ii) increase the Company's authorized capital by HK$800,000 divided into 8,000,000,000 ordinary shares of par value of HK$0.0001 each;

(iii) repurchase by the Company at par of the one issued ordinary share with par value of US$1.00;

(iv) reduce the authorized share capital of the Company by US$50,000 by cancelling 50,000 authorized but unissued shares of US$1.00 par value each; and

(v) increase the Company's issued capital by HK$482,500 divided into 4,825,000,000 ordinary shares of par value of HK$0.0001 each.

(c) On November 6, 2007, the Company issued 227,356,500 ordinary shares of par value of HK$0.0001 each pursuant to the Global Offering as disclosed in Note 1.

(d) As of December 31, 2007, total issued and fully paid share capital amounted to HK$505,236, which was divided into 5,052,356,500 ordinary shares of par value of HK$0.0001 each.

23 CAPITAL RESERVE

(a) Capital reserve as of December 31, 2006

The Company was incorporated during the year ended December 31, 2006 and the Reorganization was not completed prior to December 31, 2006. For the purpose of the consolidated financial statements, the capital reserve in the consolidated balance sheet as of December 31, 2006 represented the consolidated share capital and share premium of the companies comprising the Group.

(b) Capital reserve as of December 31, 2007

Capital reserve as of December 31, 2007 primarily represented the difference between (i) the aggregate of the consideration for the acquisitions under common control upon the Reorganization as detailed in Note 1.1; and (ii) the aggregate of the share capital and share premium (including share-based compensation expense credited to the share premium account prior to the Reorganization) of the entities transferred to the Group pursuant to the Reorganization.

(c) Deemed distribution to equity owners

Deemed distributions to equity owners represented the amounts paid by the Group to Alibaba Group in exchange for the interests in subsidiaries and assets and liabilities related to the B2B services transferred to the Group pursuant to the Reorganization (Note 1.1).

24 EQUITY — COMPANY

	Share capital RMB'000	Share premium RMB'000	Retained earnings/ (Accumulated deficit) RMB'000	Total RMB'000
Balance as of January 1, 2006	—	—	—	—
Loss for the year	—	—	(22)	(22)
Total recognized loss for the year	—	—	(22)	(22)
Balance as of December 31, 2006	—	—	(22)	(22)
Balance as of January 1, 2007	**—**	**—**	**(22)**	**(22)**
Profit for the year	**—**	**—**	**298,051**	**298,051**
Total recognized income for the year	**—**	**—**	**298,051**	**298,051**
Issue of ordinary shares in preparation for the Global Offering (Notes 1.1 and 22(b)(v))	**464**	**—**	**—**	**464**
Issue of ordinary shares in connection with the Global Offering (Notes 1 and 22(c))	**22**	**2,934,593**	**—**	**2,934,615**
Share issuance costs	**—**	**(130,389)**	**—**	**(130,389)**
Value of employee services under equity award plans	**—**	**5,701**	**—**	**5,701**
Balance as of December 31, 2007	**486**	**2,809,905**	**298,029**	**3,108,420**

The profit attributable to equity owners of the Company was dealt with in the financial statements of the Company to the extent of RMB298,051,000 (2006: loss of RMB22,000).

25 SHARE-BASED COMPENSATION

The Group's employees participate in Equity Award Plans and a Pre-IPO share incentive scheme of the ultimate holding company. Share options and RSUs under such Equity Award Plans and the Pre-IPO share incentive scheme are granted to the directors and employees of the Group to acquire shares of the ultimate holding company or the Company's shares held by the ultimate holding company and they are in general subject to a four-year vesting schedule whereby the share options and RSUs vest 25% upon the first anniversary of the vesting commencement date, and ratably monthly or annually thereafter. The exercisable period of the share options and RSUs ranges from 6 years to 10 years from the date of grant. Neither the ultimate holding company nor the Company have legal or constructive obligation to repurchase or settle these options and RSUs in cash.

In 2007, the Group's employees also participated in the share appreciation rights award plan of the Company. The share appreciation rights award plan provided for a "one-time" award of cash-settled share appreciation rights ("SARs") to certain employees of the Group prior to the Global Offering.

For the purpose of financial reporting of the Group, share-based compensation expense arising from the granting of share options and RSUs by the ultimate holding company to the directors and employees of the Group, to the extent of services rendered to the Group, is deemed to have been allocated to the Group as its expense with the corresponding increase in the share premium under equity in the relevant companies comprising the Group.

25 SHARE-BASED COMPENSATION (Continued)

(a) Equity Award Plans operated by ultimate holding company

Share options granted under the Equity Award Plans

Movements in the number of share options outstanding and their related weighted average exercise prices attributable to the directors and employees of the Group as grantees of the Equity Award Plans of the ultimate holding company were as follows:

	2007		2006	
	Weighted average exercise price(i) US$	**Number of options(ii) ('000)**	Weighted average exercise price (i) US$	Number of options(ii) ('000)
Outstanding as of January 1	**0.5568**	**101,509**	0.2794	78,275
Granted	**2.1295**	**14,102**	1.4381	25,339
Transfer-in(iii)	**0.4742**	**3,875**	0.2939	8,894
Exercised	**0.3297**	**(50,650)**	0.1755	(1,375)
Transfer-out(iii)	**0.4148**	**(13,110)**	0.3057	(7,094)
Cancelled/forfeited/expired	**1.4995**	**(4,160)**	0.7877	(2,530)
Outstanding as of December 31	**1.1638**	**51,566**	0.5568	101,509
Exercisable as of December 31	**0.6531**	**19,129**	0.2322	49,702

(i) Exercise price is expressed in the currency in which the shares of the ultimate holding company are denominated.

(ii) Number of options represents the aggregate number of shares of the ultimate holding company and number of shares of the Company, pursuant to the terms of the Employee Equity Exchange as described below, into which the options are exercisable.

(iii) Transfer-in and transfer-out represent movement of share options owned by grantees who transferred from other subsidiaries of the ultimate holding company to the Company, or vice versa.

Notes to the Financial Statements

25 SHARE-BASED COMPENSATION (Continued)

(a) Equity Award Plans operated by ultimate holding company (Continued)

Share options granted under the Equity Award Plans (Continued)

The above share options outstanding as of December 31 had the following remaining contractual lives and exercise prices:

	2007		2006	
Exercise price (US$)(i)	**Number of options outstanding(ii) ('000)**	**Weighted average remaining contractual life**	Number of options outstanding(ii) ('000)	Weighted average remaining contractual life
0.0000–0.0375	**707**	**2.1**	1,200	3.1
0.0500–0.0750	**1,917**	**5.6**	21,030	6.4
0.1250–0.2030	**3,954**	**6.4**	17,672	7.3
0.3125–0.5625	**10,315**	**3.1**	25,848	4.2
0.8750–1.2500	**13,842**	**4.3**	23,179	5.1
1.6250–1.8500	**12,210**	**4.9**	12,580	5.7
2.0000–2.4700	**7,791**	**5.5**	—	—
2.6500–3.6500	**450**	**5.8**	—	—
4.0600–7.7100	**380**	**5.8**	—	—
	51,566	**4.6**	101,509	5.6

(i) Exercise price is expressed in the currency in which the shares of the ultimate holding company are denominated.

(ii) Number of options represents the aggregate number of shares of the ultimate holding company and number of shares of the Company, pursuant to the terms of the Employee Equity Exchange as described below, into which the options are exercisable.

25 SHARE-BASED COMPENSATION (Continued)

(a) Equity Award Plans operated by ultimate holding company (Continued)

Share options granted under the Equity Award Plans (Continued)

The significant inputs into the Black-Scholes Model in determining the fair value of the share options granted by the ultimate holding company under the Equity Award Plans during the years presented were as follows:

	2007	2006
Risk-free annual interest rate	**3.46% to 5.01%**	4.42% to 5.08%
Dividend yield	**0%**	0%
Expected life (years)	**4**	4
Expected volatility[(i)]	**45.1% to 47.6%**	50.4% to 51.1%
Weighted average fair value of each share option	**US$0.8924**	US$0.8622

(i) Expected volatility is assumed based on the historical volatility of the comparable companies in the period that has the same length of the expected life of each grant.

25 SHARE-BASED COMPENSATION (Continued)

(a) Equity Award Plans operated by ultimate holding company (Continued)

RSUs granted under the Equity Award Plans

Movements in the number of RSUs outstanding and the respective weighted average grant date fair value attributable to the employees of the Group as grantees of the Equity Award Plans of the ultimate holding company were as follows:

	2007		2006	
	Weighted average grant date fair value(i) US$	**Number of RSU(ii) ('000)**	Weighted average grant date fair value(i) US$	Number of RSUs(ii) ('000)
Outstanding as of January 1	**—**	**—**	—	—
Granted	**2.0**	**3,139**	—	—
Transfer-out	**2.0**	**(59)**		
Cancelled/forfeited	**2.0**	**(25)**	—	—
Outstanding as of December 31	**2.0**	**3,055**	—	—

(i) Grant date fair value represents the fair value of the shares of the ultimate holding company.

(ii) Number of RSUs represents the aggregate number of shares of the ultimate holding company and number of shares of the Company, pursuant to the terms of the Employee Equity Exchange as described below, into which the RSUs are vested.

None of the above RSUs were vested as of December 31, 2007.

Employee Equity Exchange

In connection with the Global Offering, the ultimate holding company restructured its Equity Award Plans to allow a proportion of the share options and RSUs granted by the ultimate holding company prior to the listing date of the Company's shares to be exchanged for share options to purchase the Company's shares held by the ultimate holding company and RSUs relating to the Company's shares held by the ultimate holding company, and a certain number of the shares of the ultimate holding company to be exchanged for the Company's shares held by the ultimate holding company ("Employee Equity Exchange"). Participants of Employee Equity Exchange included only existing employees but not other shareholders of the ultimate holding company.

25 SHARE-BASED COMPENSATION (Continued)

(a) Equity Award Plans operated by ultimate holding company (Continued)

Employee Equity Exchange (Continued)

Approximately 4,900 existing employees of the ultimate holding company (including those from the Group) participated in the Employee Equity Exchange. Those who participated in the Employee Equity Exchange (other than certain senior management of the Company) were permitted to exchange between 20% and 50% of their respective holdings of the securities of the ultimate holding company under the Employee Equity Exchange. Certain senior management of the ultimate holding company and the Company were only permitted to exchange an aggregate of 5% to 15% of their collective holdings.

The number of the Company's shares, the options to acquire the Company's shares and RSUs relating to the Company's shares under Employee Equity Exchange was derived by applying an exchange ratio that was determined and approved by the board of directors of the ultimate holding company based on the relative values of the Company and the ultimate holding company having considered analysis provided by an independent consultant. Similarly, the exercise price of the share options exercisable for the Company's shares was also adjusted in accordance with the same ratio so that the aggregate exercise price of such options remained the same. Other than the above, the vesting schedules and other terms applicable to the original options and RSUs of the ultimate holding company remained the same for the new options and RSUs with respect to the Company's shares held by the ultimate holding company.

Under the Employee Equity Exchange, the Company's shares transferable from the ultimate holding company to participants amounted to 407,697,978 shares whereas the Company's shares underlying options and RSUs exchangeable by the ultimate holding company in connection with the Employee Equity Exchange amounted to 36,207,990 shares. These amounts of security holding in aggregate represented approximately 8.8% of the outstanding shares of the Company as of December 31, 2007.

The Company's shares that are transferred to the participants under the Employee Equity Exchange (including the underlying shares of the Company or the options and the RSUs) are subject to lock up periods, with 40% of the Company's shares (including the underlying shares of the options and the RSUs) to be released from the lock up after the expiry of six months from the completion of the Global Offering ("first lock-up period"). The remaining 60% is to be released from the lock-up after a further six months ("second lock-up period"). These shares will be transferred to the participants accordingly after the expiry of the first lock-up period and the second lock-up period. The Employee Equity Exchange has become unconditional upon the completion of the Global Offering.

25 SHARE-BASED COMPENSATION (Continued)

(a) Equity Award Plans operated by ultimate holding company (Continued)

Employee Equity Exchange (Continued)

Prior to the Employee Equity Exchange, employees of the Group holding options granted by the ultimate holding company exercisable for its shares which have already vested had the choice of: (i) having a percentage of such options exchanged for options exercisable for the Company's shares under the Employee Equity Exchange ("Option Entitlement"); or (ii) exercising their Option Entitlement for shares of the ultimate holding company, all of which would then qualify for exchange for the Company's shares under Employee Equity Exchange.

In connection with (ii) above, the Group made available full recourse interest-bearing loans to its employees in order to allow them to pay individual income tax due upon exercise of the Option Entitlement. The loans advanced to employees bear interest at two-year term deposit base rate as published by PBOC from time to time and with a term of two years. A number of the employees took the loans and the outstanding loans, together with accrued interest, amounted to RMB27,067,000 as of December 31, 2007 (Note 18). The participating employees have charged the shares of the Company and the ultimate holding company that they beneficially owned as security for these loans.

25 SHARE-BASED COMPENSATION (Continued)

(b) Pre-IPO share incentive scheme operated by ultimate holding company

Share options granted under the Pre-IPO share incentive scheme

Movements in the number of share options outstanding and their related weighted average exercise prices attributable to the employees of the Group as grantees of the Pre-IPO share incentive scheme of the ultimate holding company were as follows:

	2007		2006	
	Weighted average exercise price(i) HK$	**Number of options(ii) ('000)**	Weighted average exercise price(i) HK$	Number of options(ii) ('000)
Outstanding as of January 1	**—**	**—**	—	—
Granted	**6.8**	**68,990**	—	—
Outstanding as of December 31	**6.8**	**68,990**	—	—
Exercisable as of December 31	**—**	**—**	—	—

(i) Exercise price is expressed in the currency in which the Company's shares are denominated.

(ii) Number of options represents the number of the Company's shares, held by the ultimate holding company, into which the options are exercisable.

None of the above share options outstanding as of December 31, 2007 were vested and exercisable. The weighted average remaining contractual life of the above share options was 5.7 years.

25 SHARE-BASED COMPENSATION (Continued)

(b) Pre-IPO share incentive scheme operated by ultimate holding company (Continued)

Share options granted under the Pre-IPO share incentive scheme (Continued)

The significant inputs into the Black-Scholes Model in determining the fair value of the share options granted by the ultimate holding company under the Pre-IPO share incentive scheme during the years presented were as follows:

	2007	2006
Risk-free annual interest rate	**3.91% to 3.98%**	—
Dividend yield	**0%**	—
Expected life (years)	**4**	—
Expected volatility(i)	**46.2%**	—
Weighted average fair value of each share option	**HK$2.8**	—

(i) Expected volatility is assumed based on the historical volatility of the comparable companies in the period that has the same length of the expected life of each grant.

Shares granted under the Pre-IPO share incentive scheme

In addition to the above, the ultimate holding company has granted 100,000 shares of the Company to each of the three independent non-executive directors and one of the non-executive directors during the year ended December 31, 2007. All these shares were vested immediately upon grant but are subject to a lock up period of one year after the date of grant.

(c) Share option and restricted share unit schemes of the Company

On October 12, 2007, the Company adopted a share option scheme and a RSU scheme in which a total of 135,100,000 unissued ordinary shares of the Company has been reserved and are available for grant of share options or RSUs. Such number of shares represented approximately 2.67% of the issued share capital of the Company on a fully diluted basis as of December 31, 2007. These schemes are valid and effective for a period of ten years. Up to December 31, 2007, no share options and RSUs were yet granted by the Company. Subsequent to December 31, 2007, the Company granted a total of 6,000,500 share options and 3,806,973 RSUs to the directors and employees of the Group.

25 SHARE-BASED COMPENSATION (Continued)

(d) Share appreciation rights award plan of the Company

The Company has implemented a share appreciation rights award plan to provide for a "one-time" award of cash-settled share appreciation rights to certain employees prior to the Global Offering. Such share appreciation rights will be settled in two installments of which 40% upon the expiration of the first six months following the Global Offering and the remaining 60% after a further six months. Upon each settlement date, the employees are entitled to receive for each right an amount equal to the difference, if any, between the Offer Price and the average market price of the shares of the Company in the five trading days prior to the relevant vesting date. If the average market price of the shares of the Company is lower than the Offer Price, no amount is payable to the employees. No shares of the Company are to be issued under the share appreciation rights award plan.

The total share appreciation rights granted to the employees and remained outstanding as of December 31, 2007 represented share-equivalent units that were tied to 687,650 shares of the Company. During the year ended December 31, 2007, a total amount of RMB8,660,000 was recognized as share-based compensation expense in the income statement.

(e) Share-based compensation expense by function

Share-based compensation expense by function was analyzed as follows:

	2007			2006
	Options and RSUs RMB'000	**SARs RMB'000**	**Total RMB'000**	Total RMB'000
Cost of revenue	**11,791**	**1,927**	**13,718**	23,335
Sales and marketing expenses	**44,994**	**4,674**	**49,668**	50,068
Product development expenses	**13,798**	**1,201**	**14,999**	16,344
General and administrative expenses	**72,834**	**858**	**73,692**	24,157
	143,417	**8,660**	**152,077**	113,904

26 STATUTORY RESERVES

In accordance with the relevant regulations and their articles of association, the Company's subsidiaries incorporated in the PRC are required to allocate at least 10% of their after-tax profit according to PRC accounting standards and regulations to the general statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors of the subsidiaries. These reserves can only be used for specific purposes and are not distributable or transferable in the form of loans, advances, or cash dividends. During the year ended December 31, 2007, appropriations to the general statutory reserve amounted to RMB61,676,000 (2006: RMB10,919,000).

27 TRADE PAYABLES

The aging analysis of trade payables was as follows:

	2007 **RMB'000**	2006 RMB'000
0–30 days	**8,034**	6,394
31 days–60 days	**2,753**	2,218
61 days–90 days	**1,634**	79
Over 90 days	**462**	7
	12,883	8,698

28 OTHER PAYABLES AND ACCRUALS

	Group	
	2007	2006
	RMB'000	RMB'000
Accrued salaries, bonuses, welfare expenses, sales commissions and payables related to share appreciation rights	**151,900**	127,764
Other taxes payable	**23,750**	20,737
Accrued costs related to Global Offering	**68,530**	—
Accrued advertising and promotion expenses	**41,379**	9,339
Accrued professional fees	**9,120**	54
Accrued purchases of property and equipment	**24,128**	2,559
Accrued office expenses and others	**13,912**	11,828
Deposits received from contractors in relation to the construction of corporate campus	**4,366**	—
	337,085	172,281

	Company	
	2007	2006
	RMB'000	RMB'000
Accrued costs related to Global Offering	**68,530**	—
Accrued professional fees	**917**	—
Accrued office expenses and others	**664**	—
	70,111	—

29 DEFERRED REVENUE AND CUSTOMER ADVANCES

Deferred revenue and customer advances represent service fees prepaid by paying members for which the relevant services have not been rendered. The respective balances were as follows:

	2007 **RMB'000**	2006 RMB'000
Customer advances	**475,391**	291,290
Deferred revenue	**1,444,458**	962,674
	1,919,849	1,253,964
Less: current portion	**(1,849,655)**	(1,216,818)
Non-current portion	**70,194**	37,146

All service fees received in advance are initially recorded as customer advances. These amounts are transferred to deferred revenue upon the commencement of the rendering of services by the Group. In general, service fees received in advance are non-refundable after such amounts are transferred to deferred revenue.

30 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The offset amounts were as follows:

	2007 **RMB'000**	2006 RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**17,303**	6,515
— Deferred tax assets to be recovered within 12 months	**288,319**	245,962
	305,622	252,477
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after more than 12 months	**(1,620)**	(1,203)
— Deferred tax liabilities to be settled within 12 months	**(43,691)**	(39,399)
	(45,311)	(40,602)
Deferred tax assets, net	**260,311**	211,875

30 DEFERRED TAX ASSETS (Continued)

The movement of deferred tax assets, net was as follows:

	2007 RMB'000	2006 RMB'000
As of January 1	**211,875**	127,595
Transfer to income statement (Note 13)	**48,436**	84,280
As of December 31	**260,311**	211,875

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred tax assets

	Deferred revenue and customer advances RMB'000	Depreciation RMB'000	Others[i] RMB'000	Total RMB'000
As of January 1, 2006	131,786	3,099	16,981	151,866
Credited to the income statement	88,160	3,762	8,689	100,611
As of December 31, 2006	219,946	6,861	25,670	252,477
Credited to the income statement	58,674	296	(5,825)	53,145
As of December 31, 2007	278,620	7,157	19,845	305,622

(i) Others primarily represent accrued expenses which are not deductible until paid under PRC tax laws.

30 DEFERRED TAX ASSETS (Continued)

Deferred tax liabilities

	Deferred costs RMB'000
As of January 1, 2006	(24,271)
Charged to the income statement	(16,331)
As of December 31, 2006	(40,602)
Charged to the income statement	(4,709)
As of December 31, 2007	(45,311)

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group's major operating subsidiary, Alibaba China, used a tax rate of 15% in the computation of deferred tax assets as of December 31, 2007 (Note 13). In addition, the Group did not recognize deferred income tax assets of RMB34,220,000 (2006: RMB33,422,000) in respect of the accumulated tax losses of subsidiaries incorporated in Hong Kong and the United States, subject to the agreement of the relevant tax authorities, amounting to RMB168,785,000 (2006: RMB161,020,000). These tax losses are allowed to be carried forward to offset against future taxable profits. Carry forward of tax losses in Hong Kong has no time limit, while the tax losses in United States will expire, if unused, in the years ending December 31, 2020 through 2021.

The Group did not recognize deferred income tax assets of RMB26,776,000 (2006: RMB36,802,000) in respect of the accumulated tax losses of subsidiaries incorporated in the PRC, subject to the agreement of the PRC tax authorities, amounting to RMB108,756,000 (2006: RMB111,520,000). Carry forward of these tax losses will expire, if unused, in the years ending December 31, 2008 through 2012.

31 CONTINGENCIES

As of December 31, 2007, the Group did not have any material contingent liabilities or guarantees (2006: Nil).

32 COMMITMENTS

(a) Capital commitments

(i) Capital expenditures contracted for were analyzed as follows:

	2007 RMB'000	2006 RMB'000
Contracted but not provided for:		
Purchase of property and equipment	**11,501**	5,214
Construction of a corporate campus	**83,587**	—
	95,088	5,214

(ii) Pursuant to the agreements signed between Alibaba China and The Bureau of State Land and Resources of Hangzhou Municipality, Binjiang Branch on June 26, 2006, Alibaba China paid approximately RMB29,332,000 in connection with the prepayment of an operating lease for land use rights in the PRC for a period of 50 years for the corporate campus to be constructed. Alibaba China has committed that the total investment for the construction would not be less than RMB300 million by June 26, 2009.

(b) Operating lease commitments

The Group leases offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2007 RMB'000	2006 RMB'000
No later than 1 year	**35,621**	19,463
Later than 1 year and no later than 5 years	**22,861**	18,769
	58,482	38,232

32 COMMITMENTS (Continued)

(c) Other commitments — sales and marketing expenses

	2007 **RMB'000**	2006 RMB'000
No later than 1 year	**1,981**	4,633

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Except as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties:

(a) Deed of indemnity

On October 19, 2007, a deed of indemnity was entered into between the ultimate holding company and the Company whereby the ultimate holding company has undertaken to the Company that it will indemnify and at all times keep the Company fully indemnified on demand in connection with, among others, (i) any taxation falling on the Group prior to the listing of the shares of the Company on the Stock Exchange to the extent that specific provision has not been made nor disclosed in the Prospectus and/or other conditions as specified in the deed of indemnity; (ii) all losses, damages, costs and expenses of any nature arising out of or related to liabilities not expressly assumed by the Group upon the transfer of the assets and liabilities of the B2B business from AliPay E-commerce Corp. and Zhejiang Alibaba E-commerce Co., Ltd. to the Group pursuant to the Reorganization (Note 1.1); and (iii) all losses, damages, costs, expenses and liabilities of any nature, in excess in aggregate of US$2.0 million (RMB15.0 million), related to legal proceedings arising at any time relating to the conduct of a fellow subsidiary's business prior to the listing date of the shares of the Company on the Stock Exchange on November 6, 2007. As of December 31, 2007, no indemnity was effected.

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Recurring transactions

	2007 RMB'000	2006 RMB'000
Royalty fee expense paid or payable to ultimate holding company (Note i)	**41,069**	25,762
Purchase of advertising and promotion services from (Note ii):		
— a fellow subsidiary	**2,909**	1,632
— subsidiaries of a substantial shareholder of the ultimate holding company	**3,945**	1,327
	6,854	2,959
Cross-selling of promotion and related services with a fellow subsidiary (Note iii)	**17,500**	800
Commission income received from a fellow subsidiary (Note iv)	**11,539**	—
Reimbursement from fellow subsidiaries for the provision of administrative services (Note v)	**1,661**	—
Reimbursement from a fellow subsidiary for the sharing of office space (Note vi)	**107**	—
Reimbursement from fellow subsidiaries for the provision of technology services (Note vii)	**522**	—
House brand head license fee paid or payable to ultimate holding company (Note viii)	**306**	—

33 RELATED PARTY TRANSACTIONS (Continued)

(c) Non-recurring transactions

	2007 RMB'000	2006 RMB'000
Purchase of advertising and promotion services from a company related to certain directors of the Group (Note ix)	**—**	30,000
Purchase of property and equipment from fellow subsidiaries (Note x)	**369**	793
Sales of property and equipment to fellow subsidiaries (Note x)	**24,491**	18,632
Technology consultation and advisory services fees paid to a fellow subsidiary (Note xi)	**—**	30,000
Removal and compensation expenses charged by a fellow subsidiary (Note xii)	**1,995**	—

(i) During the year, royalty fee expense of approximately RMB41,069,000 (2006: RMB25,762,000) plus relevant withholding tax of RMB6,947,000 (2006: RMB4,441,000) was paid or payable by the Group for the use of certain technology and intellectual property of the ultimate holding company. The royalty fee expense was calculated based on a mutually agreed basis.

(ii) These represented charges paid or payable by the Group to various fellow subsidiaries and related companies in relation to the purchase of keywords on websites operated by various fellow subsidiaries and related companies. These charges were calculated based on market rates of the related services.

(iii) This represented charge received or receivable by the Group from a fellow subsidiary for the cross-selling of the Group's website inventory. The charge was calculated based on a pre-determined percentage of the underlying transaction amount.

(iv) This represented commission income received or receivable by the Group for cross-selling certain software products developed by a fellow subsidiary to the Group's paying members. The commission income for such services was determined based on a pre-determined percentage of the underlying transaction amount.

(v) This represented charge received or receivable by the Group for the provision of administrative services to fellow subsidiaries. The charge was determined on a cost basis.

33 RELATED PARTY TRANSACTIONS (Continued)

(c) Non-recurring transactions (Continued)

(vi) This represented charge received or receivable by the Group for the sharing of certain office space with a fellow subsidiary. The charge was calculated based on actual cost incurred in renting and maintaining the office space and allocated according to the headcount attributable to such fellow subsidiary over the total headcount in such office.

(vii) This represented charge received or receivable by the Group for the provision of technology services to fellow subsidiaries. The charge was calculated based on actual cost incurred in providing such services plus a margin of 15%.

(viii) This represented license fee paid or payable by the Group to ultimate holding company at a fixed fee of RMB2 million per annum.

(ix) This represented charge paid by the Group for certain advertisements and marketing activities. The charge was determined based on a mutually agreed basis. The Company considered this transaction as a related party transaction as two directors of the Company own certain minority interests in this service provider and one of them is also a non-executive director of this service provider.

(x) These represented amounts paid and received by the Group for purchase and sale of certain property and equipment to fellow subsidiaries. These charges were based on the net book value of the property and equipment transferred.

(xi) This represented charge paid by the Group for a non-recurring technical consultation and advisory fees relating to the installation of an online payment platform of RMB30,000,000 to a fellow subsidiary in 2006. The charge was determined based on a mutually agreed basis.

(xii) This represented charge paid by the Group for the removal and compensation expenses of RMB1,995,000 to a fellow subsidiary. The charge was determined with reference to the costs it incurred for the rationalization of the office premises.

The Group also exchanged certain advertising, promotion and related services, such as hyperlinks on respective websites, with fellow subsidiaries. As such reciprocal services provided by the Group and such fellow subsidiaries to each other were considered to have similar nature and value, such transactions were not regarded as a revenue generating transaction and thus no revenue or expense was recognized.

33 RELATED PARTY TRANSACTIONS (Continued)

(c) Non-recurring transactions (Continued)

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

(d) Balances with related parties

	Group	
	2007	2006
	RMB'000	RMB'000
Amounts due from related companies:		
Ultimate holding company	**46**	976
Fellow subsidiaries	**26,274**	24,172
	26,320	25,148
Amounts due to related companies:		
Ultimate holding company	**15,101**	93,528
Fellow subsidiaries	**449**	67,199
Subsidiary of a substantial shareholder of the ultimate holding company	**1,489**	811
	17,039	161,538

	Company	
	2007	2006
	RMB'000	RMB'000
Amounts due from related companies:		
Subsidiaries	**7,801**	—
Amounts due to related companies:		
Ultimate holding company	**1,967**	435
Subsidiaries	**15,594**	—
	17,561	435

Amounts due from/(to) ultimate holding company, fellow subsidiaries, subsidiaries and other related parties are unsecured, interest-free and expected to be recovered within one year. The carrying amounts of the balances approximate to their fair value.

33 RELATED PARTY TRANSACTIONS (Continued)

(e) Key management personnel compensation

Remuneration for key management personnel represented amounts paid to the Company's directors as disclosed in Note 11.

(f) Loans to officers

The loans advanced to officers had the following terms and conditions:

Name of borrower	Position	Original loan amount RMB'000	Maximum balance outstanding during the year and as of December 31, 2007 RMB'000
Deng Kang Ming	Senior vice president	2,054	2,069
Li Ang, Andy	Vice president	721	726

The loans advanced to officers bore interest at two-year term deposit base rate as published by PBOC from time to time and with a term of two years. There was no amount due but unpaid, nor any provision made against the principal amount of or interest on these loans as of December 31, 2007. The officers have charged the shares of the Company and the ultimate holding company that they beneficially owned as security for these loans.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT ARE EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON OR AFTER JANUARY 1, 2008

Up to the date of issue of these financial statements, the following amendments, new standards and interpretations have been issued and are effective for accounting periods beginning on or after January 1, 2008 but have not been adopted in these financial statements. Of these developments, the following relate to matters that may be relevant to the Group's consolidated results and cash flows.

		Effective for accounting periods beginning on or after
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	January 1, 2008
IFRS 13	Customer Loyalty Programmes	July 1, 2008
IFRS 8	Operating Segments	January 1, 2009
IAS 1 (Revised)	Presentation of Financial Statements	January 1, 2009
IAS 23 (Revised)	Borrowing Costs	January 1, 2009

IFRIC 11 clarifies that certain types of transaction are accounted for as equity-settled or cash-settled transactions under IFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group.

IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. It is not relevant to the Group's operations because none of the Group's companies provide public sector services.

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension assets or liability may be affected by a statutory or contractual minimum funding requirement. It is not relevant to the Group's operations as the Group does not operate defined benefit pension scheme.

IFRIC 13 addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. It also explains the accounting requirements for the obligations of the entities arising from providing free or discounted goods or services to customers who redeem award credits.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT ARE EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON OR AFTER JANUARY 1, 2008 (Continued)

IFRS 8 supersedes IAS 14, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting.

IAS 1 (Revised) requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revisions also include changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed a statement of financial position). The new titles will be used in accounting standards, but are not mandatory for use in financial statements.

IAS 23 (Revised), under which the option to expense borrowing costs on qualifying assets was removed. Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset form part of the cost of that asset.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far, the Group has concluded that while the adoption of these amendments, standards and interpretations may result in new or amended disclosures, they are unlikely to have a significant impact on the Group's results of operations and financial position.

35 COMPARATIVES

Certain comparative figures have been reclassified to conform to the presentation of current year.

Financial Summary

CONSOLIDATED INCOME STATEMENTS

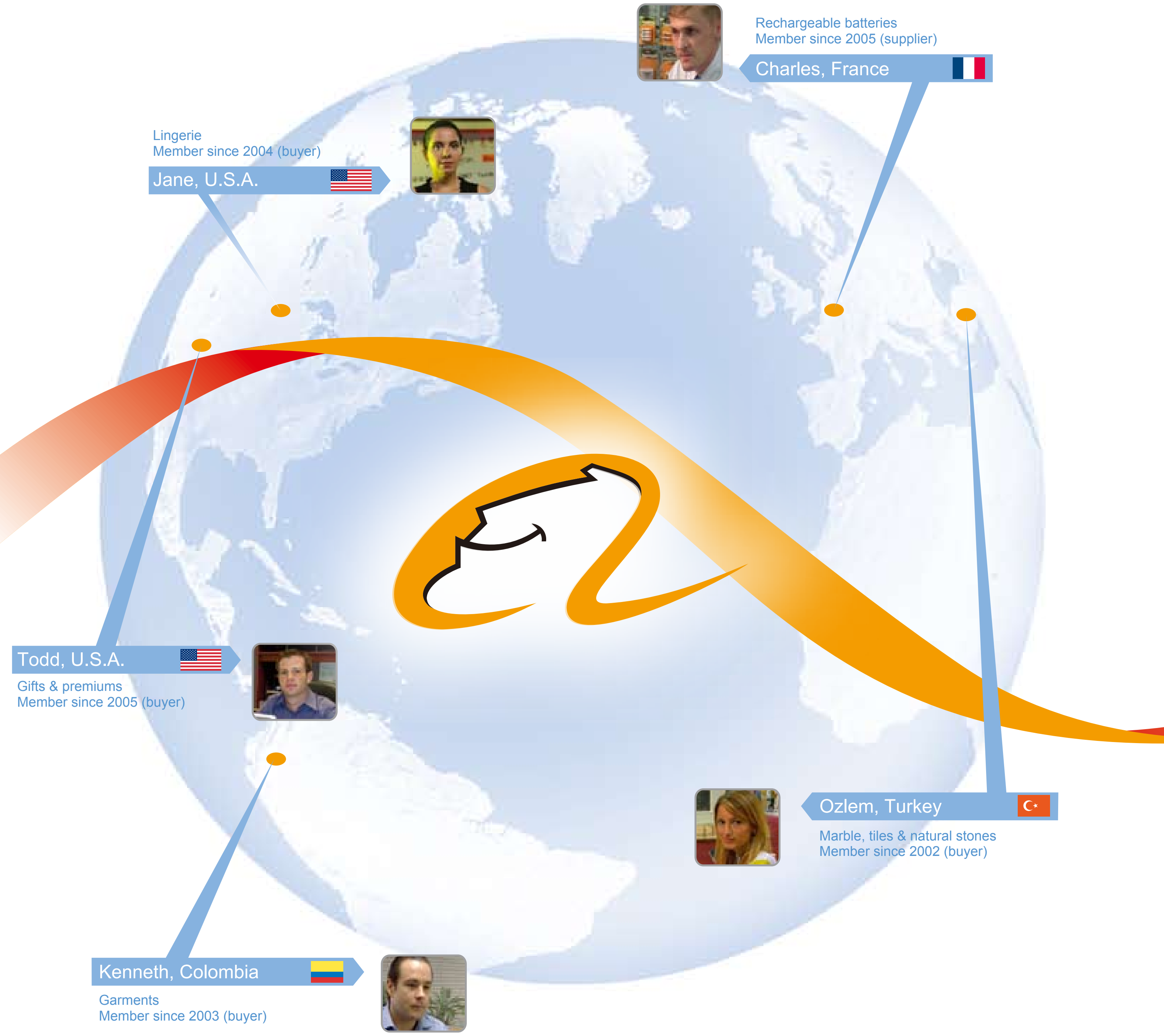
	For the year ended December 31,			
	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	359,435	738,297	1,363,862	**2,162,757**
Gross profit	296,866	611,788	1,126,237	**1,882,644**
Profit from operations	25,037	97,572	268,496	**804,345**
Profit before income taxes	28,468	103,419	291,388	**1,149,444**
Profit attributable to equity owners of the Company	73,861	70,454	219,938	**967,795**

CONSOLIDATED BALANCE SHEETS

	As of December 31,			
	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets				
Non-current assets	99,828	218,837	330,167	**486,225**
Current assets	527,852	1,260,434	1,714,514	**5,567,244**
Total assets	627,680	1,479,271	2,044,681	**6,053,469**
Equity and liabilities				
Equity	119,796	201,781	145,568	**3,613,081**
Non-current liabilities	14,046	35,509	37,146	**70,194**
Current liabilities	493,838	1,241,981	1,861,967	**2,370,194**
Total liabilities	507,884	1,277,490	1,899,113	**2,440,388**
Total equity and liabilities	627,680	1,479,271	2,044,681	**6,053,469**

2101

2070


Rechargeable batteries
Member since 2005 (supplier)
Charles, France
Lingerie
Member since 2004 (buyer)
Jane, U.S.A.
Todd, U.S.A.
Gifts & premiums
Member since 2005 (buyer)
Ozlem, Turkey
Marble, tiles & natural stones
Member since 2002 (buyer)
Kenneth, Colombia
Garments
Member since 2003 (buyer)

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