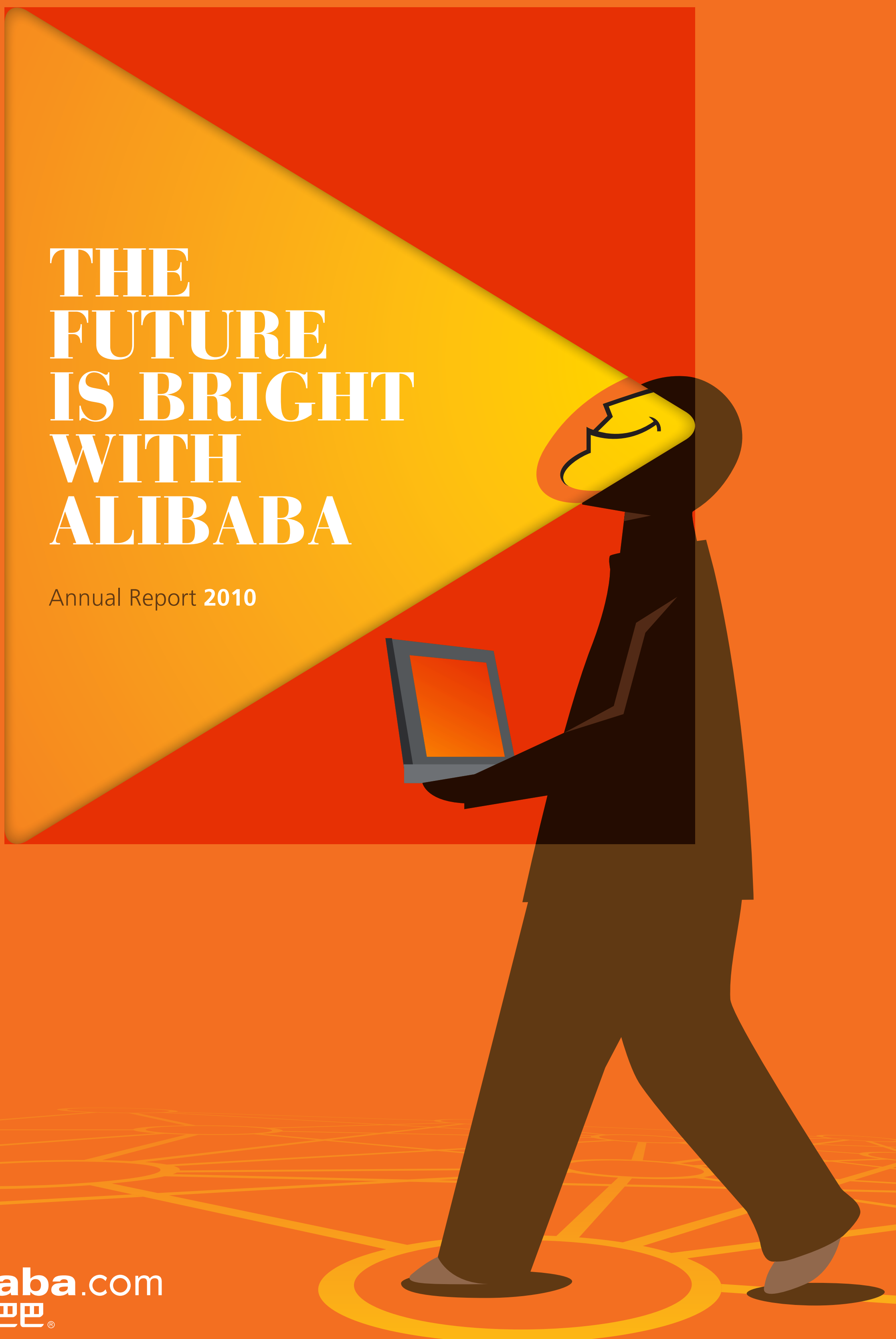
Alibaba.com Limited
阿里巴巴網絡有限公司

Incorporated in the Cayman Islands with limited liability
Stock Code: 1688



THE FUTURE IS BRIGHT WITH ALIBABA

Annual Report **2010**

Alibaba.com
阿里巴巴®

YOUR PATHWAY TO SUCCESS

About Alibaba.com Limited

Alibaba.com (HKSE: 1688) (1688.HK) is the global leader in e-commerce for small businesses and the flagship company of Alibaba Group. Founded in 1999 in Hangzhou, China, Alibaba.com makes it easy for millions of buyers and suppliers around the world to do business online through three marketplaces: a global trade platform (www.alibaba.com) for importers and exporters; a Chinese platform (www.1688.com) for domestic trade in China; and, through an associated company, a Japanese platform (www.alibaba.co.jp) facilitating trade to and from Japan. In addition, Alibaba.com offers a transaction-based wholesale platform on the global site (www.aliexpress.com) geared for smaller buyers seeking fast shipment of small quantities of goods. Together, these marketplaces form a community of more than 61 million registered users in more than 240 countries and regions.

As part of its strategy to transition into a holistic platform where small companies can build and manage their online business more easily, Alibaba.com also offers Chinese traders a wide array of business management software, Internet infrastructure services and export-related services directly or through companies it has acquired including HiChina and One-Touch, as well as educational services to incubate enterprise management and e-commerce professionals. Alibaba.com also owns Vendio and Auctiva, leading providers of third-party e-commerce solutions for online merchants. Alibaba.com has offices in more than 70 cities across Greater China, India, Japan, Korea, Europe and the United States.

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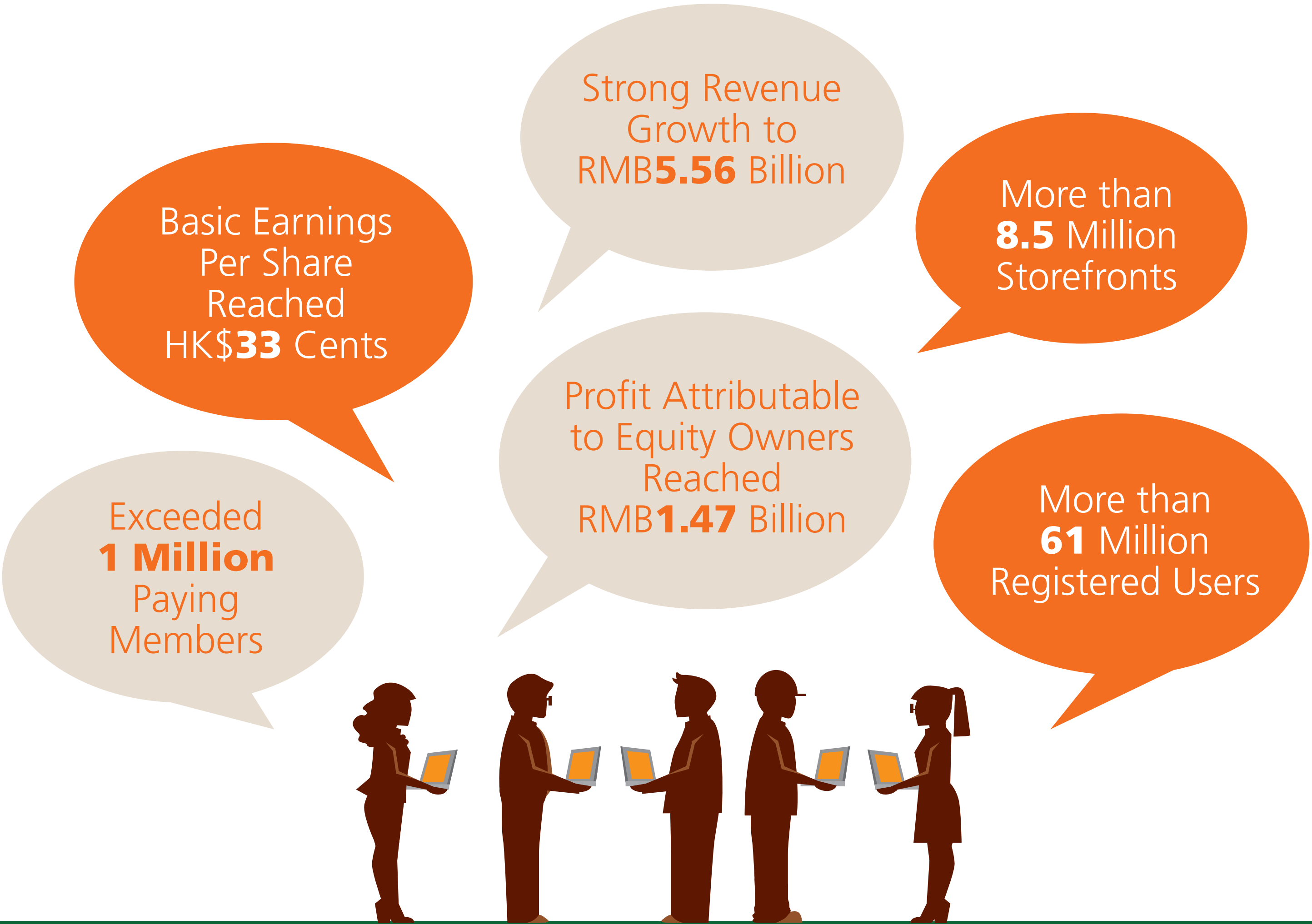
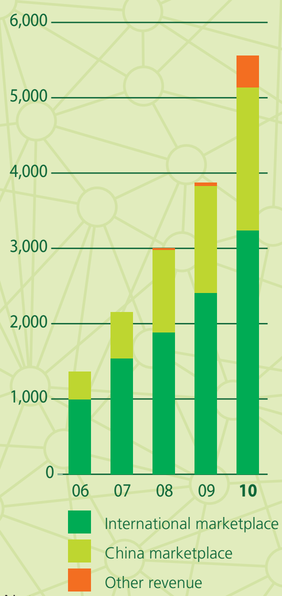
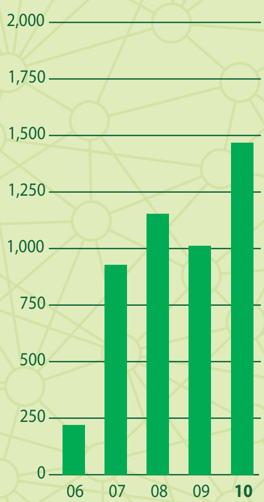
FINANCIAL AND OPERATIONAL HIGHLIGHTS



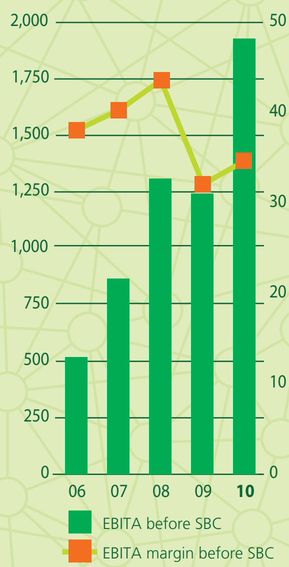
Revenue
(RMB million)



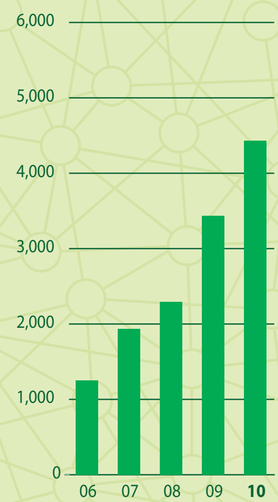
Profit attributable to equity owners
(RMB million)



EBITA before share-based compensation expenses[1]
(RMB million) (%)



Deferred revenue and customer advances
(RMB million)



Note:
[1] EBITA before share-based compensation expense represents profit before interest, taxes and amortization and share-based compensation expense for all years and exclude expenses relating to non-B2B business in 2006. This financial metric is not a measure of financial performance under International Financial Reporting Standards ("IFRS") but is considered by us an important financial measure.

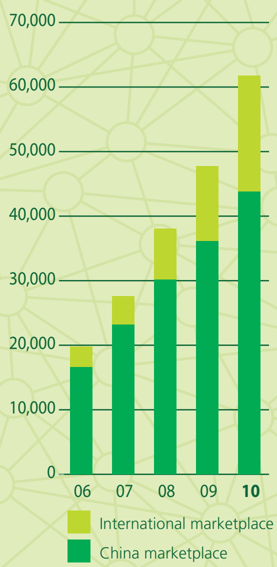
FINANCIAL HIGHLIGHTS

	2009 RMB million	2010 RMB million	Change
Revenue	3,874.7	5,557.6	+43%
Profit attributable to equity owners	1,013.0	1,469.5	+45%
Earnings before interest, taxes and amortization ("EBITA")	1,043.1	1,587.3	+52%
Share-based compensation expense	200.4	341.0	+70%
Deferred revenue and customer advances	3,437.0	4,434.4	+29%
Recurring free cash flow	1,816.2	2,840.8	+56%
EBITA margin (before share-based compensation expense) (%)	32.1%	34.7%	+2.6%pts
Earnings per share, basic and diluted (HK$)	23 cents	33 cents	+44%

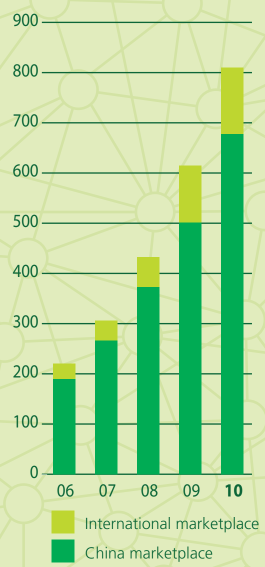
OPERATIONAL HIGHLIGHTS

	2009	2010	Change
Registered users	**47,732,916**	**61,801,281**	+30%
International marketplace	11,578,247	18,024,993	+56%
China marketplace	36,154,669	43,776,288	+21%
Storefronts	**6,819,984**	**8,544,544**	+25%
International marketplace	1,400,326	1,696,905	+21%
China marketplace	5,419,658	6,847,639	+26%
Paying members[2]	**615,212**	**809,362**	+32%
China Gold Supplier	96,110	121,274	+26%
Global Gold Supplier	17,786	10,434	–41%
China TrustPass	501,316	677,654	+35%

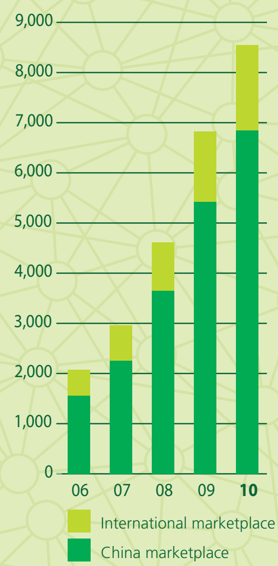
Total registered users
('000)



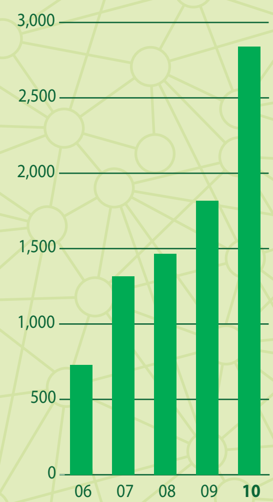
Total paying members[2]
('000)



Total storefronts
('000)



Recurring free cash flow[3]
(RMB million)



[2] Paying members include members on our international and China marketplaces only. If including paying members for HiChina, the total paying members exceeded 1 million.

[3] Recurring free cash flow represents net cash flow generated from operating activities as presented in our consolidated cash flow statements less purchase of property and equipment, and exclude non-recurring receipts or payments. This financial metric is not a measure of financial performance under IFRS but is considered by us an important financial measure.

KEY EVENTS

2010

MARCH

Announced a new domain name, 1688.com, for our China marketplace and a strategic upgrade of the site to support wholesale transactions

Announced the creation of the first Small Business Credit Rating System and the establishment of the Business Integrity Insurance Fund on the China marketplace

Formed partnerships with Ludatrade, a Brazilian company specializing in business information systems, and COMEXPeru in Peru

APRIL

Introduced China TrustPass Basic on the China marketplace to make the benefits of TrustPass membership more widely accessible

Launched the Alibaba.com Entrepreneur Abroad Program to teach students first-hand how to build their own businesses using international sourcing and exporting

Officially launched AliExpress on the international marketplace to serve smaller international buyers seeking fast shipment of small quantities of goods, and introduced payment with PayPal, Mastercard, Visa and bank transfer on the platform

MAY

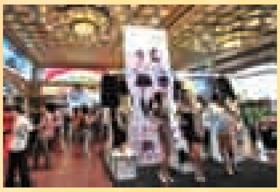
Formed a strategic alliance with UPS to integrate UPS shipping technology into AliExpress and reduce shipping costs for our customers

Joined Alibaba Group and our sister companies to announce a plan to earmark 0.3% of our annual revenue starting in 2010 to fund environmental efforts

JUNE

Organized a big buyer sourcing event in Delhi – our first offline business matching event in India – to promote products from our Indian Gold Supplier members

JULY



Organized the fourth Alibaba.com-Taobao Net Products Trade Fair in Guangzhou, China

Acquired Vendio to integrate AliExpress and Vendio's e-commerce services into a complete solution for small businesses in the U.S.

AUGUST

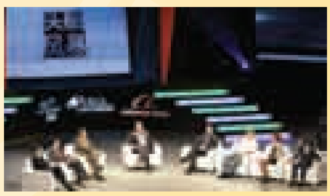
Organized a big buyer sourcing event in Taipei – our first offline business matching event in Taiwan – to promote products from our Taiwanese Gold Supplier members

Acquired Auctiva to strengthen our position as a go-to supply source for U.S. e-commerce entrepreneurs

SEPTEMBER

Launched our local customer service operations in India to better serve the vast Indian small business community

Co-hosted with Alibaba Group our annual e-commerce summit AliFest in Hangzhou, China, which comprised the Global Netrepreneur of the Year award ceremony and the fifth Alibaba.com-Taobao Net Products Trade Fair



Signed a Memorandum of Understanding with the Korea Small and Medium Business Administration to promote Korean exports via e-commerce

Announced the Schwarzenegger Emerging Entrepreneur Initiative, which aims to foster jobs in California and equip Californian youth with skills to succeed in the digital economy

Introduced a new sales structure in India by which Alibaba.com assumed all direct membership sales and support for the Indian market

NOVEMBER

Announced the acquisition of One-Touch, a provider of one-stop services for exporters in China

DECEMBER

Organized the sixth Alibaba.com-Taobao Net Products Trade Fair in Chengdu, China

Announced a HK$1.1 billion special cash dividend

AWARDS AND RECOGNITION

2010

Awardee	Month
Alibaba.com	February
	April
	July
	August
	September
	November
Jack Ma	March
	July
	October
	December
Maggie Wu	April

Award / Recognition	Awarding Organization(s)
Named one of the 27 Great Brands of Tomorrow	Credit Suisse Research
Ranked among the Forbes Global 2000	Forbes magazine
Asia's Best Managed Companies – China: • Best Managed Company (No. 4) • Best Corporate Governance (No. 4) • Best Investor Relations (No. 2) • Best Corporate Social Responsibility (No. 4)	FinanceAsia magazine
Most Trusted Export Service Provider in China 2010	Imp-Exp Executive magazine (China)
University Students' Best Employer Survey: Named one of the Top 10 Best Employers	ChinaHR.com
Top 100 Chinese E-commerce Enterprises: Integrated B2B E-commerce Enterprise Award	China Electronic Commerce Association
Most Admired Chinese Company 2010	Fortune magazine Chinese edition and Hay Group
Asia 200 2010: Named one of China's Top 10	The Wall Street Journal
Ranked in Asia's Heroes of Philanthropy list	Forbes magazine Asia edition
Named one of the 50 Smartest People in Tech	Fortune magazine
Asian Business Leaders Award	Asia House (U.K.)
Inducted into the 2011 World Retail Hall of Fame	World Retail Congress
Named one of the Chinese Businesspeople of the Year 2010	Forbes magazine Chinese edition
Ranked in the 2010 Power 50 list	Counselor magazine
Asia's Best Managed Companies – China: Best CFO (No. 1)	FinanceAsia magazine

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director

MA Yun, Jack

Executive Directors

LU Zhaoxi, Jonathan *(chief executive officer)*
WU Wei, Maggie *(chief financial officer)*
SHAO Xiaofeng
PENG Yi Jie, Sabrina

Non-executive Directors

TSAI Chung, Joseph
TSOU Kai-Lien, Rose
OKADA, Satoshi

Independent Non-executive Directors

NIU Gen Sheng
KWAUK Teh Ming, Walter
TSUEI, Andrew Tien Yuan
KWAN Ming Sang, Savio

COMPANY SECRETARY

WONG Lai Kin, Elsa

AUTHORIZED REPRESENTATIVES

WU Wei, Maggie
WONG Lai Kin, Elsa
CHOW Lok Mei Ki, Cindy *(alternate to WU Wei, Maggie)*

BOARD COMMITTEES

Audit Committee

KWAUK Teh Ming, Walter *(chairman)*
TSAI Chung, Joseph
KWAN Ming Sang, Savio

Remuneration Committee

NIU Gen Sheng *(chairman)*
KWAUK Teh Ming, Walter
TSAI Chung, Joseph

Nomination Committee

MA Yun, Jack *(chairman)*
NIU Gen Sheng
KWAN Ming Sang, Savio

Investment Management Committee

TSAI Chung, Joseph *(chairman)*
MA Yun, Jack
WU Wei, Maggie
TSUEI, Andrew Tien Yuan

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Freshfields Bruckhaus Deringer *(as to Hong Kong 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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

25th Floor, Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS FOR MAJOR SUBSIDIARIES IN CHINA

No. 699, Wangshang Road
Binjiang District
Hangzhou 310052
China

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

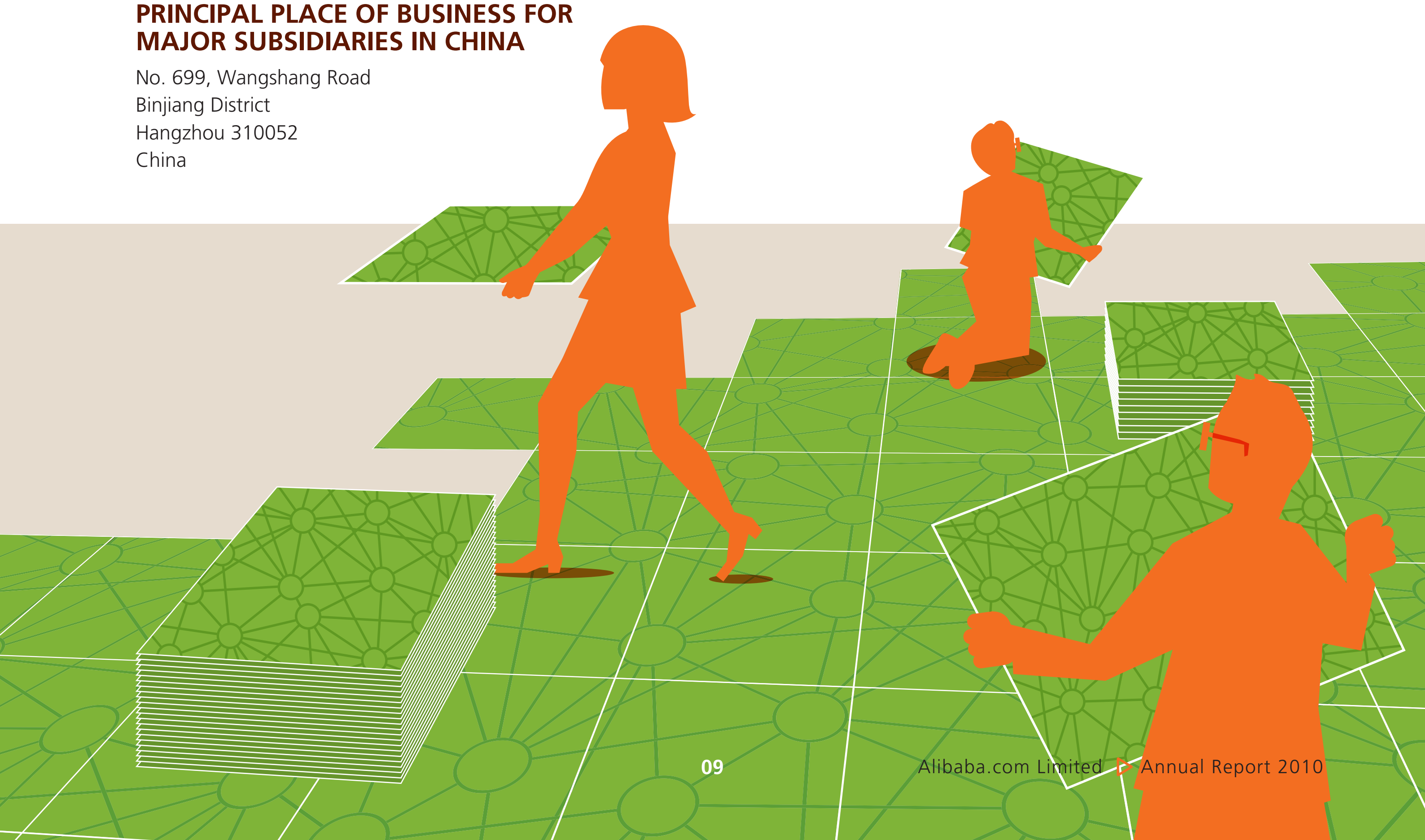
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE WEBSITE

http://www.alibaba.com/about

STOCK CODE

Hong Kong Stock Exchange	1688
Bloomberg	1688 HK
Reuters	1688.HK



CHAIRMAN'S STATEMENT

IN OUR WORLD, SAYING
"WE PUT THE CUSTOMER FIRST"
IS NOT A MERE CATCH-PHRASE:
IT IS JOB NUMBER ONE IN OUR COMPANY.

Dear Alibaba.com shareholders,

For years you've heard me talk about the importance of small businesses as the real engines of every major economy on earth, and why as a result we all must do what we can to foster their growth and development. In addition to being strong contributors to job creation and international trade over the next few years, small businesses also will play a significant role in boosting domestic demand.

As the global economy inches toward recovery, more and more voices are starting to take notice of the importance of small businesses. Recently, Valerie Jarrett, a senior adviser to US President Barack Obama, said that two of every three new jobs will come from small businesses.

She's right. Since our founding, Alibaba.com has recognized that it is our mission to help small businesses leverage the Internet to reach their potential. We have found ourselves now squarely in the future: where small business entrepreneurs have discovered the power of the Internet to become nimble and outmaneuver the big-box companies that dominated the late 20th century. We call these smart small businesses, our customers, "Netrepreneurs."

Alibaba.com will continue to help play a big role in this transition. We will continue to innovate in order to help millions of Netrepreneurs get the most out of the Alibaba.com platform. On Alibaba.com, small businesses will be enabled with the tool to not just "Meet at Alibaba" but also "Work at Alibaba."

This means that, in addition to helping our customers find new markets and suppliers whether internationally or in their own domestic markets, we will also offer small businesses useful services including trade financing, logistics, customs clearance and quality inspection and so on. Many of these services can be more readily available because the Internet is an efficient service delivery platform.

Alibaba.com will also collaborate more closely with other Alibaba Group companies with the goal of streamlining the supply chain through e-commerce. For example, efforts are under way to marry the suppliers trading on Alibaba.com with millions of consumers shopping on China's largest online retail site and our sister company Taobao.

The rules for commerce are changing. The playing field is leveling for the small guys. Because of the Internet, we are entering what we call a "new business paradigm," and all Alibaba Group companies hope to play a part in fostering and accelerating this trend. Netrepreneurs will be the major engine of global job creation – the livelihoods of literally hundreds of millions of people around the world will depend almost exclusively on being a part of the new business paradigm. As I've said before, we are well on our way to realizing the dream of having an online business world where 10 million Netrepreneurs will employ 100 million people and serve the needs of 1 billion consumers.

Last year, Alibaba.com surpassed the 1 million paying member milestone! These customers are placing an enormous amount of faith and trust in us and hoping we help them fulfill their dreams of survival and growth. We will not let them down.

In closing, a word about the importance of trust and the need for a strong set of values and sense of mission. In our world, saying "We put the customer first" is not a mere catch-phrase: it is job number one in our company. Saying we value integrity, passion and commitment are not hollow ideals. Likewise, we have held firm on our mission "to make it easy to do business anywhere." When it comes to these fundamentals, we will never cut corners. Our principles will not be compromised in the face of temptation.

The road to success is neither straight nor level. And the line between right and wrong can seem sometimes paper thin. But the test of the character of an organization, like a person, is not in words, but in deeds. Our mission and values will be our compass as we help guide small business customers, be they sellers or buyers, to navigate the torrential cross-currents of the next few years. Our values are what made our company what it is today, and they are sacrosanct.

Jack Ma

Chairman

To drive the creation of a new business paradigm that embodies openness, transparency, sharing and responsibility.
In the traditional commercial world, businesses are isolated entities that interact with their suppliers and customers in ways that maximize their own profits. It's a zero-sum game. But we believe the Internet is changing this game. The Internet has democratized access to information and allows small businesses to collaborate globally in real time, putting them on a more equal footing with large companies that have dominated and controlled markets for decades. We believe the Internet can help resolve longstanding challenges that SMEs face in procurement, sales, management and financing – and that by working together online, SMEs can achieve the same economies of scale as big companies.
This is a new commercial reality where the interests of participants in the value chain – from producers to suppliers to distributors to consumers – are more closely intertwined than ever. The Internet enables win-win solutions that enlarge the opportunity for all businesses to allow everyone to share in the rewards. In this new business paradigm, short-term profiteers, protected monopolies, nontransparent middlemen, unscrupulous producers and rip-off artists will eventually be driven from the market. Those who thrive will be people who take a long-term view, share and collaborate within the ecosystem, and take responsibility for the well-being of customers, employees and the environment.
By harnessing the power of technology and our platforms, Alibaba Group is working with small businesses, entrepreneurs and consumers to promote this new business paradigm. Our approach is based on openness to new ideas, transparency of operation, willingness to share knowledge and information, and a sense of responsibility to key stakeholders.

A WINDOW ON THE GLOBAL MARKET

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

The global economy has been held back over the past few years by major adjustments following the credit crisis and extended recession. Although we have started to see signs of gradual recovery, not all economies are moving out of recession yet and there is mixed sentiment as far as some seriously indebted European countries are concerned. We have seen that China still remains as the engine of global economic growth among all economies. China's GDP grew by 10.3% in 2010, even faster than the 8.7% in 2009.

Chinese exports jumped 31% in 2010 from the previous year while imports leapt nearly 39%, indicating strong domestic demand expansion in China. However, the enthusiasm about economic growth figures could not allay concerns about China's economy such as inflation, Renminbi appreciation and rising labor costs, which have made it tougher for small businesses to survive. In addition, uncertainties around the pace of global recovery could weigh on China's key export sector.

Against this economic backdrop, small businesses in China are eager to explore new business opportunities, and enhance their own competitiveness. As always, small businesses, particularly those using e-commerce, are more nimble in running their businesses and adapting to changing business environments. For instance, small Chinese exporters are now endeavoring to move up the global value chains and are placing more emphasis on quality than volume. To expand their businesses and hedge against global economic swings, they have also started to turn to the domestic market. In particular, they are extending their business model from purely B2B to B2B2C, or in other words, they are expanding their businesses by tapping into the strong domestic retail market.

Small business evolution in the value chain usually leads to a greater demand for management upgrade and financing, as well as increased pressure to upgrade and innovate their services and technologies. As such, we have seen that a breakthrough in e-commerce is imperative. In 2010, we embarked on several initiatives on both our international and China marketplaces to help small businesses use e-commerce to further grow in scale, upgrade their position in the value chain, and build resilience in the face of a challenging environment. In an environment with increasing cost pressure, e-commerce is the best way to demonstrate cost-efficiency. Our conviction remains unchanged that e-commerce will become a mainstream channel with a leading role in economic restructuring.

BUSINESS REVIEW

Alibaba.com designated 2010 as a "Year of Customer Service." Therefore, while we continued to grow our membership base, we went back to basics to address user needs and concerns. We invested in developing our services, improving quality of suppliers, building a network of trustworthy buyers and suppliers, and providing a secure and user-friendly online transaction platform.

During the year, we continued to uphold our "membership plus value-added services (VAS)" strategy for our long-term business development. We continued to evolve our business model by enriching values related to our "Meet at Alibaba" strategy and at the same time started to implement the "Work at Alibaba" strategy to create value for our small business customers. The upgrade of our business model impacts our value proposition for our customers, as well as our revenue structure and our monetization model. Alibaba.com today is a significantly different company than what we were at the time of our initial public offering three years ago. We have seen key changes in the following areas:

- **More balance between export-related business and non-export-related business:**

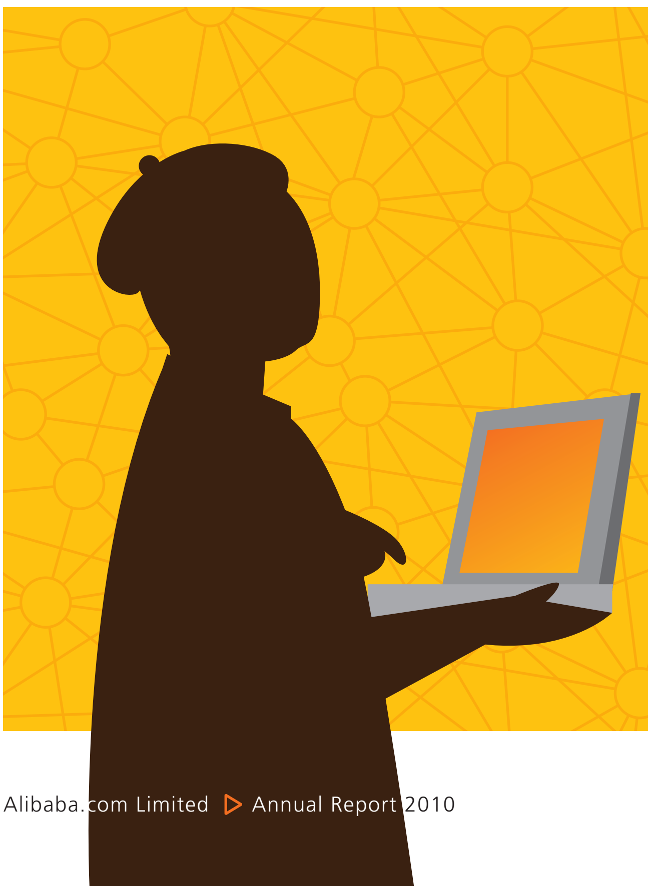
  To diversify our revenue sources and reduce the risk of over-exposure to the global trade environment, we have been proactively balancing our business structure. Driven mainly by growing revenue contributions from our China marketplace and the addition of HiChina, non-export-related revenue increased from 29% of total revenue in 2007 to 42% in 2010. This more balanced business stance has allowed Alibaba.com to capture opportunities from the rapid growth of domestic demand in China and from e-commerce activities beyond traditional SME online marketing.

- **More balance between membership sales and VAS sales:**

  Although the fixed membership fee model is easy for small business users to understand and gives Alibaba.com a stable and predictable revenue stream, it tends to be less flexible in the services offered, limits our ability to benefit from the growth in overall online traffic and makes our company less performance driven. By listening to our customers' needs and introducing a variety of VAS to meet those needs, we increased our non-membership-fee revenue from 21% of total revenue in 2007 to 33% in 2010. Since VAS in general has not involved additional customer acquisition costs – an increasing number of customers have been purchasing our VAS offerings on a self-service basis – the margin we enjoyed from VAS was higher than that from membership fee packages.

- **Introduction of transaction-based platforms:**

  Before 2009, Alibaba.com was purely a platform for the exchange of information between buyers and sellers to facilitate their online marketing activities. However, we have been exploring the value we can bring to our customers by enabling them to complete online transactions via Alibaba.com. Our first effort in this area is AliExpress, our small-order online wholesale transaction platform. Our second online transaction platform was initiated in China when we launched 1688.com with a transaction channel built-in. Both transaction platforms



WE INVESTED IN DEVELOPING OUR SERVICES, IMPROVING QUALITY OF SUPPLIERS, BUILDING A NETWORK OF TRUSTWORTHY BUYERS AND SUPPLIERS, AND PROVIDING A SECURE AND USER-FRIENDLY ONLINE TRANSACTION PLATFORM.

were officially launched in the second quarter of 2010. We have started monetization on AliExpress. We are confident that the annualized gross merchandize value (GMV) will continue to increase with ongoing high growth potential.

- **Expansion to include a wide array of services, laying foundation for "Work at Alibaba":**

  Over the years, our services have grown both in breadth and in depth. In terms of marketing-related features, the more sophisticated "pay-for-performance" model for keyword search, Ali-ADvance, was introduced on both marketplaces. The significant growth in traffic on the websites can now be monetized through the performance-driven Ali-ADvance. In addition to deepening the value related to "Meet at Alibaba," we started to offer a wide selection of export-related services for the small exporters in China. Besides the existing export-related services such as Factory Audit and Japan Link, we expect to provide more comprehensive services, for instance, customs clearance, tax refund and trade financing. On the front of helping our customers more effectively grow and manage their businesses, we offered more SaaS (software-as-a-service) tools and applications. Thousands of customers have purchased these offerings through our website.

- **Establishment of channels to provide small businesses with access to capital:**

  We addressed the financing needs of small businesses through the Ali-Loan program. Since its launch, we have seen strong demand for this product and we have recently started to monetize the significant value we create for our members.

While we were focusing on evolving our business model in 2010, we continued the three-phased strategy set in late 2008 when we announced our plan for the Year of Investment. At that time, we guided our shareholders to look for returns from these three things during these three stages:

- accelerated growth in paying members and increased market share
- increased revenue driven by more paying members and VAS sales
- expanded economies of scale and margin enhancement

Over time, we have delivered on our promises. The business initiatives and investments we made in 2010 all centered on this core roadmap, which has remained unchanged and we consistently made progress. First, we expanded our customer base. In 2010, we added 14.1 million registered users, more than 1.7 million storefronts and 194,150 paying members on the two marketplaces. Total number of paying members, including on our marketplaces and from HiChina, surpassed the milestone of 1 million. As of December 31, 2010, we had a total of 61.8 million registered users, 8.5 million storefronts and 809,362 paying members on our international and China marketplaces. Second, we increased our revenue through increased sales of memberships and VAS. Our total GAAP revenue grew by 43.4% year-over-year to RMB5.6 billion as a result of membership and VAS growth. We are delighted to see that VAS revenue contribution grew faster than anticipated. Third, we started to see signs of margin enhancement through economies of scale, and we outperformed

our expectations on the margin enhancement in 2010. Our EBITA margin before share-based compensation for 2010 was 34.7%, 2.6 percentage points better than that in 2009 due to the accelerated growth of revenue from VAS and operating leverage.

Overall, we are pleased with our business performance and growth momentum. And our financial position remained robust. The continuous growth in paying members drove a year-on-year growth of 29.0% in our deferred revenue and customer advances to RMB4.4 billion as of December 31, 2010. We also generated RMB2.8 billion of recurring free cash flow in 2010, representing a significant increase of 56.4% year-over-year. Our cash position increased 32.8% from previous year to RMB9.6 billion as of December 31, 2010, notwithstanding a few acquisition initiatives completed in 2010.

International marketplace

In 2010, we continued healthy growth in the user base of our international marketplace. As of December 31, 2010, we had 18,024,993 registered users, representing a 55.7% year-on-year growth on our international marketplace. The number of storefronts grew by 21.2% to 1,696,905. By constantly enhancing user experience and providing a safer and more trusted e-commerce environment, we continued to reinforce our position as the leading online marketplace for small businesses.

International marketplace operating data

	As of December 31				
	2006	2007	2008	2009	**2010**
Registered users	3,115,153	4,405,557	7,914,630	11,578,247	**18,024,993**
Storefronts	514,891	697,563	965,747	1,400,326	**1,696,905**
Paying members [(1)]	29,525	39,536	59,164	113,896	**131,708**
China Gold Supplier	18,682	27,384	43,028	96,110	**121,274**
Global Gold Supplier [(2)]	10,843	12,152	16,136	17,786	**10,434**

(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 yet been activated.

(2) Product upgraded from International TrustPass to Global Gold Supplier in July 2009.

Country or region	Number of registered users in country or region	**Percentage of total registered users on our international marketplace**
1. United States	2,941,509	**16.3%**
2. European Union [(1)]	1,878,322	**10.4%**
3. India	1,866,244	**10.4%**
4. United Kingdom	988,273	**5.5%**
5. Australia	497,944	**2.8%**

(1) Excludes the United Kingdom

China Gold Supplier

In 2010, the pace of growth of our China Gold Supplier customer base was relatively moderate as compared with the tremendous growth in 2009. Overall, the growth momentum was in line with our expectation. During the year, we took proactive steps to focus on existing members. We improved our paying members' experience on and stickiness to our platform through VAS, and we took action to terminate our members who committed fraud or were very likely fraudulent to increase trust and safety on our platform. Against this backdrop, there were net additions of 25,164 paying members during the year, bringing the total of China Gold Supplier members to 121,274 as of December 31, 2010. In the fourth quarter, there were net additions of 12,702 China Gold Supplier members, representing an 11.7% quarter-on-quarter growth. The surge in customer acquisition recorded in the fourth quarter was partially triggered by the announcement that we would upgrade and increase the price of our China Gold Supplier membership package in 2011 ("CGS 2011 edition") and partially due to our business seasonality.

At the end of September 2010, we announced our plan to introduce the CGS 2011 edition on January 1, 2011. The CGS 2011 edition aims to improve our customer experience and incorporate enhanced features on the international marketplace to help customers "Work at Alibaba." Key changes in the new product include an upgraded customer work platform and enhanced functionality of existing features as part of the membership. CGS 2011 edition is priced at RMB29,800 per annum. Compared with the Gold Supplier Starter Pack, the increase in price merely reflects the increased value associated with the upgrade in functionality, not additional VAS bundled into this new membership package. To foster VAS penetration, the enhanced platform facilitates self-service purchase of VAS by our paying members. By providing more services tailored to our members' needs, we have created new dimensions of user experience to help them improve their competitiveness. To support this upgrade, our sales and service teams are jointly responsible for customer acquisition, customer retention and VAS sales. This new structure will help enhance user experience while steadily expanding our customer base and, most importantly, strengthening our relationship with customers.

VAS development was our key business focus on our international marketplace in 2010. We are pleased with the progress of our VAS development achieved in 2010, which resulted in the strong growth of VAS revenue contribution and increased VAS penetration. VAS revenue contribution exceeded 25% of China Gold Supplier revenue in 2010 compared with the high-teens contribution in 2009. VAS growth was faster than what we anticipated, and VAS also helped improve our members' renewal rate in recent quarters.

Going forward, we aim to create new services on the Alibaba.com platform to help our customers migrate their other business processes – beyond sales and marketing – online. We believe that by offering various kinds of VAS, we can create a platform so our customers can truly "Work at Alibaba." To jump-start "Work at Alibaba" on our international marketplace, we announced the acquisition of Shenzhen One-Touch Enterprise Service Limited ("One-Touch") in November 2010. One-Touch is a leading provider of comprehensive export-related services tailored to the needs of small businesses in China, including, among others, customs clearance, cargo insurance, currency exchange, tax refund and trade financing. In 2011, we plan to extend One-Touch's export-related services to our existing customer base. We expect One-Touch will help us enhance user experience and paying member stickiness. In addition, after the successful launch in 2009 of Ali-ADvance on our China marketplace, which is a "pay-for-performance" model for keyword search, we recently introduced Ali-ADvance on our international marketplace. While we have retained our existing keyword-based VAS product, the new Ali-ADvance creates new value for members who opt for a pay-for-performance model and traffic. It is an incremental monetization opportunity for us to leverage on the ever-increasing buyer traffic on our marketplace while better serving suppliers.

Global Gold Supplier and overseas expansion

As of December 31, 2010, we had 10,434 Global Gold Supplier members. The total number of Global Gold Supplier members declined due to the expected impact of price increase of our new Global Gold Supplier membership launched in the second half of 2009. Although the total number of paying members declined in 2010, revenue from Global Gold Supplier membership continued to grow, compensating for the decline in customer base.

During the year, we achieved significant progress in India, our second largest supplier market in the world. In the second half of 2010, we set up our own operations in four major cities in India including Mumbai and Delhi in order to better serve our vast Indian small business community. We now have our own direct sales and customer support for the Indian market, and we will continue to expand and localize our Indian operation in 2011. For other countries, including Japan, Korea, Turkey and Malaysia, our progress was on track in 2010. We will continue to customize our sales and customer service to raise productivity and service quality for our global markets in 2011.

AliExpress

In April 2010, we officially launched AliExpress, an online wholesale transaction platform that facilitates small-order transactions online. We have also sharpened our focus on four areas: 1) expanding product offerings and product categories, 2) increasing buyer traffic, 3) streamlining the process of placing orders and arranging logistics and 4) enhancing safety and trust levels of AliExpress and its payment process.

We are pleased with the progress made by AliExpress in every respect so far. Within less than 12 months since its launch, AliExpress has achieved the highest level of traffic among all international B2B online transaction platforms and has become the leading player in terms of product categories and number of listed products, among other measures. Although the revenue contribution by AliExpress is currently not significant, and we do not see transaction fee it generates as a near-term revenue driver, we have conviction that this segment of the e-commerce market will boom in the future.

As a means to grow the buyer base of AliExpress in major buyer markets, in 2010, we acquired two U.S.-based e-commerce companies, Vendio and Auctiva, which provide e-commerce solutions for sellers on eBay and Amazon and other platforms. Vendio and Auctiva together bring more than 250,000 online retailers who are potential buyers of products offered by suppliers on our AliExpress. Business integration is underway with satisfactory progress. We expect that the connection of these two businesses with our marketplaces will help integrate the e-commerce value chain between B2B and B2C, fully realizing the B2B2C model.

In conjunction with our development of buyers and sellers on AliExpress, we have done a significant amount of work to develop its payment options, suppliers' quality and credibility, and logistics – all these aspects are key to user experience and hence, our long-term development. During the year, we expanded online payment methods available on this platform from three to more than ten popular international payment means, including Visa, MasterCard, bank transfers and PayPal. For logistics, we established a strategic partnership with UPS to provide our users with favorable international logistics rates. In January 2011, we launched fulfillment services on AliExpress.

In summary, we are enthusiastic about the growth momentum of AliExpress. Going forward, we will continue to invest in AliExpress in order to grow its awareness, traffic and transaction volume. We see opportunity for AliExpress not only to penetrate further into developed buyer markets, but also to tap new emerging markets.

China marketplace

Our China marketplace achieved significant growth in 2010. Registered users increased by 7,621,619 during the year to 43,776,288 as of December 31, 2010. During the same period, the number of storefronts increased by 1,427,981 to 6,847,639.

	As of December 31				
	2006	2007	2008	2009	**2010**
Registered users	16,649,073	23,194,402	30,160,705	36,154,669	**43,776,288**
Storefronts	1,557,874	2,259,283	3,648,503	5,419,658	**6,847,639**
Paying members (1)	189,573	266,009	372,867	501,316	**677,654**

(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 yet been activated.

With our conviction that Chinese domestic consumption is a key growth driver to China's economy in the long term, we stepped up our investment in the China marketplace, announcing a number of new initiatives to help small businesses use e-commerce to grow their businesses.

China TrustPass

In April 2010, we officially launched the new "China TrustPass Basic." Following the successful introduction of the Gold Supplier Starter Pack on our international marketplace, we positioned China TrustPass Basic as an entry-level product priced at RMB1,688 per year. Overall, the market responded well, with customer growth in 2010 in line with our expectation. By December 31, 2010, our China TrustPass members reached 677,654, a net increase of 176,338 members, or 35.2%, during the year. At the end of the year, about 42% of our China TrustPass membership base were China TrustPass Basic members.

The significant customer growth was accompanied by a positive trend in VAS revenue, which grew to more than 20% of China TrustPass revenue in 2010, compared with the mid-teens level in 2009. We saw increased VAS usage and penetration among China TrustPass members, particularly with Ali-ADvance and Premium Placement. It was encouraging to see that the growth of Ali-ADvance in terms of penetration and usage kept increasing quarter-over-quarter in 2010. By the end of 2010, we had more than 100,000 paying members using Ali-ADvance, which helped them enjoy quality search result rankings and generally increase their exposure on our China marketplace. During the year, we enriched our VAS offerings for China TrustPass members and launched SaaS-based applications such as smart marketing wizard and inquiry management to help customers manage their businesses. The stickiness of VAS helped reinforce renewal rates. Overall, our members' renewal rate has been stable.

1688.com

In the first quarter of 2010, we announced the overhaul of our China site and the use of a new domain, 1688.com. As part of this campaign, we highlighted the new channels with online wholesale transaction features which we added to our China marketplace in 2009. 1688.com aims to connect retailers, both online and offline, to factories and suppliers directly online. During the period, we increased product categories from apparel and small commodities to home decoration, industrials and raw materials. We leveraged synergies with Alibaba Group companies such as Taobao and Alipay to increase traffic and provide reliable online payment services. It is encouraging to see that traffic and transaction volume continued to trend up. By the end of 2010, daily transaction volume, measured by GMV, quadrupled on 1688.com. We have started to benefit from the increased traffic by monetizing 1688.com through pay-for-performance search offerings. Our priority remains to make 1688.com an easy-to-use, safe and convenient online wholesale transaction platform to connect the online B2B2C value chain in the domestic China market.

Trust and safety

With tens of millions of buyers and suppliers visiting our marketplaces, the development of a safe and trustworthy platform is pivotal to Alibaba.com and our users. To this end, we have taken a number of initiatives over the years to promote safe trading and to fight online fraud. Indeed, as we continued to expand our user base and the number of transactions conducted on our transaction platforms increased, we have seen a pressing need to further build confidence among both buyers and suppliers in the safety and trustworthiness of online transactions. Therefore, in 2010, our "Year of Customer Service," we took unprecedented steps in terms of our policies and enforcement efforts to foster trust and safety on our platforms. New programs to help protect both buyers and suppliers fall into three areas: 1) making trade safer, 2) combating e-commerce fraud and 3) helping the victims.

First, we strengthened our dedicated teams for both our international and China marketplace operations who are charged with ensuring that Alibaba.com is a safe and trusted platform for e-commerce businesses. We took a number of initiatives to make trade safer, including the introduction of an escrow service for payment, the establishment of the first Business Integrity Insurance Fund to protect buyers, and the introduction of dynamic, transparent trust profiles for suppliers. We began offering VAS such as Factory Audit on suppliers conducted by an independent third party. The factory audit reports were made available online, allowing buyers to better evaluate the trading and/or production capability of suppliers.

Our second area of initiatives is in combating fraud. In 2010, we significantly stepped up our efforts on this front. In particular, with respect to China Gold Supplier members, we devoted additional resources in investigating buyers' complaints against them. We proactively monitored and de-listed problematic storefronts and terminated fraudulent members as well as those who, based on our analysis of a variety of data, exhibited a high risk of fraud. In early 2011, we also set up a special task force led by an independent non-executive director to further look into buyers' complaints and our internal quality control systems, sales incentive system and reporting structure in order to address the systemic nature of fraud problem. The task force identified 2,326 China Gold Supplier members who engaged in fraud against buyers on our international marketplace, and these suppliers were terminated by Alibaba.com in 2009 and 2010. The investigation identified that about 100 sales people as well as a number of supervisors and sales managers were directly responsible in either intentionally or negligently allowing the fraudsters to evade our authentication and verification measures and systematically establish fraudulent storefronts on our international marketplace. These employees were dismissed. Investigations are ongoing, and we will continue to evaluate and monitor the situation closely. Although this action may create a short-term pressure on membership growth, we believe it is crucial for us to maintain a trustworthy environment which allows our buyers and suppliers to engage in international trade with confidence.

Third, we tried to help victims in fraud cases recoup their losses. In late 2009, we established the Fair Play Fund, the first program of its kind to take membership fees forfeited from terminated Gold Supplier members and use that money to offset a portion of losses suffered by buyers in substantiated fraud cases. Buyers who are defrauded by a Gold Supplier member with adequate substantiation may apply to receive a payout from the Fair Play Fund based on the amount of the transaction.

HiChina

In 2010, the performance of HiChina's domain name services remained strong, making a significant contribution to HiChina's revenue. As of December 31, 2010, HiChina had about 2.1 million domain names in service and the total number of paying members for non-domain name services was around 270,800. This customer base is largely distinct from that of Alibaba.com, which presents potential synergies for long-term development. In late 2010, HiChina started to develop "A-li-A-wai," an Internet infrastructure service package that helps Alibaba.com users and other wholesale e-commerce users design and develop their own websites through seamless connection with Alibaba.com's back-end system for efficient e-commerce management on the A-li-A-wai website and Alibaba.com platform.

Targeting an increasing demand for corporate websites in China, in the fourth quarter of 2010, HiChina launched a new open-platform business model for website design and development as well as an online transaction platform. This new model provides an advanced, efficient and automated "do-it-yourself" website technology while enhancing quality and standardized services for website development. In addition, we saw increasing collaboration between HiChina and Alibaba Cloud Computing on the development of web-hosting services and enhancing data storage capabilities using cloud computing technology.

Ali-Loan program

The Ali-Loan program, which we introduced in 2007 in partnership with Alibaba Group and various banks to address our small business customers' financing needs, continued to gain traction. As of December 31, 2010, the aggregate amount of loans issued by our partner banks to our paying members was more than RMB24 billion. About RMB18 billion of these loans were outstanding as of the end of 2010. We also continued to broaden the geographical reach of the Ali-Loan program to benefit more small businesses. We offer the Ali-Loan program in four provinces – Zhejiang, Jiangsu, Guangdong and Fujian and two major cities – Beijing and Shanghai. In 2011, we plan to enhance the service of the Ali-Loan program. Meanwhile, we started to trial-monetize the Ali-Loan program by charging our paying members a service fee based on the size of the loans.

Sales and customer service

In 2010, Alibaba.com continued to expand the number of our sales offices to cover a wider geographical area. We now have sales and customer services offices in more than 65 cities across mainland China, Hong Kong, Taiwan and India. As of December 31, 2010, we had more than 4,800 people in our Gold Supplier sales force, and about 2,500 China TrustPass salespeople.

In addition to our sales team, who mainly focus on actively servicing our paying members, we also had about 1,100 people in customer service team as of December 31, 2010. This team is dedicated to handling inbound customer inquiries.

Employees

As of December 31, 2010, we had 13,674 employees (11,716 employees as of December 31, 2009), including employees in the companies we acquired. Of the entire staff force, about 2,000 people were related to product development. The related staff costs, including directors' emoluments, were RMB2,371.7 million (2009: RMB1,698.1 million) for 2010. We review our employees' performance on a quarterly basis and adjust compensation annually based on performance and with reference to market rates.

FINANCIAL REVIEW

In 2010, our combined marketplaces enjoyed a robust growth in paying members. As of December 31, 2010, we had in total over 1 million paying members which, comprising 809,362 on our international and China marketplaces and 270,800 from HiChina. The number of paying members, excluding HiChina members, increased by 31.6% during the year.

Total revenue grew by 43.4% to RMB5,557.6 million, as compared with RMB3,874.7 million in 2009, as a result of the increase in paying members. Driven by our strong growth in revenue, profit attributable to equity owners increased by 45.1% to RMB1,469.5 million, as compared with RMB1,013.0 million in 2009. Basic earnings per share increased 43.5% from 23 Hong Kong cents in 2009 to 33 Hong Kong cents in 2010.

Financial performance summary

	Year ended December 31, 2009 RMB'000	2010 RMB'000	Variance RMB'000	%
Revenue	3,874,728	**5,557,586**	1,682,858	+43.4%
Cost of revenue	(534,438)	**(931,016)**	(396,578)	+74.2%
Operating expenses	(2,417,886)	**(3,199,058)**	(781,172)	+32.3%
Other operating income, net	150,566	**109,026**	(41,540)	-27.6%
Profit from operations	1,072,970	**1,536,538**	463,568	+43.2%
Finance income, net	140,941	**176,398**	35,457	+25.2%
Share of losses of associated companies and a jointly controlled entity, net of tax	(37,492)	**(6,479)**	31,013	-82.7%
Income tax charges	(163,393)	**(236,445)**	(73,052)	+44.7%
Profit for the year	1,013,026	**1,470,012**	456,986	+45.1%
Profit for the year attributable to equity owners	1,013,026	**1,469,464**	456,438	+45.1%
Earnings per share, basic and diluted (HK$)	23 cents	**33 cents**	10 cents	+43.5%
Other non-GAAP metrics				
Profit attributable to equity owners before share-based compensation expense	1,213,411	**1,810,435**	597,024	+49.2%
EBITA before share-based compensation expense	1,243,526	**1,928,314**	684,788	+55.1%
Diluted earnings per share before share-based compensation expense (HK$)	27 cents	**41 cents**	14 cents	+51.9%
Recurring free cash flow per share, diluted (HK$)	41 cents	**64 cents**	23 cents	+56.1%

Revenue

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

	2009 RMB'000	2010 RMB'000	Change RMB'000	% of total revenue
International marketplace				
China Gold Supplier	2,344,475	**3,148,498**	804,023	60.5% **56.7%**
Global Gold Supplier	62,329	**89,745**	27,416	1.6% **1.5%**
Sub-total	2,406,804	**3,238,243**	831,439	62.1% **58.2%**
China marketplace				
China TrustPass	1,344,029	**1,812,991**	468,962	34.7% **32.6%**
Other revenue	70,868	**80,908**	10,040	1.8% **1.5%**
Sub-total	1,414,897	**1,893,899**	479,002	36.5% **34.1%**
Others	53,027	**425,444**	372,417	1.4% **7.7%**
Total	3,874,728	**5,557,586**	1,682,858	

2009
2010

We generate revenue primarily from selling membership packages and VAS to suppliers on our international and China marketplaces. We also render other comprehensive Internet based services such as software applications, domain name registration, website hosting and solutions, email hosting and technology-related consulting services on our marketplaces and platforms.

Our total revenue was RMB5,557.6 million in 2010, representing a 43.4% increase from RMB3,874.7 million in 2009, mainly due to the increase in the number of paying members on both of our marketplaces.

International marketplace

Revenue from our international marketplace primarily consists of:

- Revenue from the sale of China Gold Supplier membership packages and VAS, such as keywords, Premium Placement and Product Showcase, to our suppliers in China; and
- Revenue from the sale of Global Gold Supplier membership packages to our suppliers outside China.

Revenue from our international marketplace was RMB3,238.2 million in 2010, representing a 34.5% increase from RMB2,406.8 million in 2009, primarily due to the increase in revenue from sales of membership and VAS to our China Gold Supplier members as well as the consolidation of revenue from Vendio and Auctiva. Our China Gold Supplier members increased by 25,164 during the year, reaching 121,274 as of December 31, 2010, representing a 26.2% growth from 96,110 as of December 31, 2009. Revenue from the sale of VAS also increased due to the increase in paying members and the VAS coverage which exceeded 25% of the revenue generated during the year. The total number of Global Gold Supplier members, as expected, declined to 10,434 as of December 31, 2010 due to the impact of our launch in the second half of 2009 of a new Global Gold Supplier membership, which is an upgraded and higher priced version of the International TrustPass membership. However, the revenue impact of the decrease in Global Gold Supplier members was more than compensated for by the price increase.

China marketplace

Revenue from our China marketplace primarily consists of:

- Revenue from the sale of China TrustPass membership packages and VAS, mainly comprising Ali-ADvance and Premium Placement, to China TrustPass members; and
- Other revenue, principally comprising online placement services that allow companies to display online branded advertisements on our China marketplace.

Revenue from our China marketplace was RMB1,893.9 million in 2010, representing a 33.9% increase from RMB1,414.9 million in 2009. The growth was largely due to an increase in the number of China TrustPass members as a result of the various new business initiatives we introduced at the beginning of the year, which led to an increase in revenue from VAS such as Ali-ADvance and Premium Placement. Our China TrustPass members increased by 176,338 during the year, reaching 677,654 as of December 31, 2010, representing a 35.2% growth from 501,316 as of December 31, 2009. On the VAS front, revenue from Ali-ADvance and Premium Placement continued to see healthy growth during the year.

Other revenue

Other revenue was RMB425.5 million in 2010, representing a 702.3% increase from RMB53.0 million in 2009. The increase was mainly due to the first full-year contribution by HiChina, which we acquired in December 2009.

Cost of revenue and gross profit

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

	2009 RMB'000	**2010 RMB'000**	Change RMB'000	% of total revenue 2009	**% of total revenue 2010**
Business taxes and related surcharges	190,052	**259,982**	69,930	4.9%	**4.7%**
Cost of acquiring domain name and other expenses	84,443	**252,576**	168,133	2.2%	**4.6%**
Staff costs and related expenses	166,606	**240,435**	73,829	4.3%	**4.3%**
Bandwidth and depreciation expenses	93,337	**178,023**	84,686	2.4%	**3.2%**
Total	534,438	**931,016**	396,578	13.8%	**16.8%**

2009
2010

Our cost of revenue increased to RMB931.0 million in 2010, representing a 74.2% increase from RMB534.4 million in 2009. Included in the cost of revenue was share-based compensation expense of RMB26.4 million and RMB15.9 million in 2010 and 2009, respectively. Key components in cost of revenue increased as our revenue grew. The increase was primarily the result of the following changes:

- Cost of acquiring domain names for customers of HiChina's business was much higher because we acquired HiChina only in December 2009;
- Business taxes and related surcharges, as well as authentication and verification expenses, were higher as a result of the increase in revenue and customer numbers;
- Bandwidth and depreciation expenses were higher mainly because of the increased user traffic on our websites (which required us to pay higher bandwidth and co-location fees) and for acquisition of additional servers and related computer equipment; and
- Staff costs were higher mainly because we expanded our website operations and our customer support services during the year to serve our expanding customer base as well as to prepare for our future business expansion.

Gross profit increased to RMB4,626.6 million in 2010, up 38.5% from RMB3,340.3 million in 2009. Gross profit margin declined slightly to 83.2% in 2010, as compared with 86.2% in 2009. The decline was primarily a result of the higher cost of revenue stemming from the consolidation of financial results of HiChina and Vendio, which have relatively lower gross profit margins due to their different business models.

The following table and chart present, for the years indicated, a breakdown of operating expenses and its components as a percentage of revenue:

	2009 RMB'000	**2010 RMB'000**	Change RMB'000	% of total revenue
Sales and marketing expenses	1,623,845	**2,050,561**	426,716	41.9% / **36.9%**
Product development expenses	384,333	**580,173**	195,840	9.9% / **10.4%**
General and administrative expenses	409,708	**568,324**	158,616	10.6% / **10.2%**
Total	2,417,886	**3,199,058**	781,172	62.4% / **57.5%**

2009
2010

Sales and marketing expenses

Our sales and marketing expenses were RMB2,050.6 million in 2010, representing a 26.3% increase from RMB1,623.8 million in 2009. Included in sales and marketing expenses was share-based compensation expense of RMB95.1 million and RMB55.7 million in 2010 and 2009, respectively. Our sales and marketing expenses increased mainly as a result of increased sales commission expense, staff costs and advertising and promotional expenses. The increase in sales commission expense was mainly due to the increase in revenue and our strategy of expanding market leadership by growing paying member base, and as a result, we increased performance-based incentive compensation to drive this initiative. As a percentage of revenue, however, commission expenses decreased by 2.0% year-over-year as a result of higher revenue from VAS which are subject to a lower commission rate. Staff costs increased mainly as a result of the expansion of our sales force to better serve our increasing number of customers. As a percentage of revenue, however, staff costs decreased by 0.5% year-over-year as a result of realized scale benefits. Advertising and promotional expenses decreased, as a percentage of revenue, by 2.2% year-over-year because 2010 was our "Year of Customer Service" and we focused less on brand marketing than in 2009, our "Year of Investment". As a result of the foregoing, sales and marketing expenses as a percentage of revenue decreased to 36.9% in 2010, as compared with 41.9% in 2009.

Product development expenses

Our product development expenses were RMB580.2 million in 2010, representing a 51.0% increase from RMB384.3 million in 2009. Included in product development expenses was share-based compensation expense of RMB71.5 million and RMB32.8 million in 2010 and 2009, respectively. Our product development expenses increased mainly because of an increase in staff costs as we hired more engineers and enhanced IT infrastructures to develop new initiatives and products, such as Ali-ADvance, to upgrade our Gold Supplier services. Consequently, product development expenses, as a percentage of revenue, increased to 10.4% in 2010, as compared with 9.9% in 2009.

General and administrative expenses

Our general and administrative expenses were RMB568.3 million in 2010, representing a 38.7% increase from RMB409.7 million in 2009. Included in general and administrative expenses was share-based compensation expense of RMB148.0 million and RMB96.0 million in 2010 and 2009, respectively. Our general and administrative expenses increased year-over-year mainly due to an increase in staff costs and other general expenditure during the year. The increase in staff costs was mainly resulted from an increase in share-based compensation expenses. As a percentage of revenue, staff costs decreased by 0.7% year-over-year. The increase in other general expenditure was mainly due to our donations of 0.3% revenue under our announced environmental protection fund and an increase in professional fee as a result of the various acquisitions we made during the year. As a result of the foregoing, general and administrative expenses as a percentage of revenue declined slightly to 10.2% in 2010, as compared with 10.6% in 2009.

Other operating income, net

Other operating income, net was RMB109.0 million in 2010, representing a 27.6% decrease from RMB150.6 million in 2009, mainly due to the decrease in government subsidy which amounted to RMB84.0 million as compared with RMB113.5 million in 2009.

Profit margin before interest, taxes and amortization ("EBITA margin")

Our profit margin before interest, taxes and amortization ("EBITA margin") (non-GAAP) was 28.6% for the year, an increase from 26.9% in 2009. EBITA margin before share-based compensation expense (non-GAAP) was 34.7% for the year, an increase from 32.1% in 2009. The increase in EBITA margin before share-based compensation expense was mainly due to lower sales and marketing expenses as a percentage of revenue, partially offset by a lower gross profit margin and other operating income, net due to the reasons discussed in previous sections.

Finance income, net

Finance income mainly consisted of interest income and foreign currency exchange differences. Interest income was RMB158.3 million in 2010, representing a 12.7% increase from RMB140.5 million in 2009, principally due to the strong cash position maintained during the year.

Share of losses of associated companies and a jointly controlled entity, net of tax

Share of losses of associated companies and a jointly controlled entity, net of tax was RMB6.5 million for 2010, an 82.7% decrease from RMB37.5 million in 2009. In accordance with prescribed accounting rules, the share of losses of associated companies was limited to our original investment costs. Current year losses represented the write-off of the remaining amount of our investment costs in our associated companies in Japan carried on our balance sheet and our share of losses of a newly acquired associated company and a jointly controlled entity.

Income tax charges

Current income tax charges mainly represent the provision for PRC Enterprise Income Tax for subsidiaries operating in the PRC. These subsidiaries are subject to PRC Enterprise Income Tax 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.

Under the PRC Enterprise Income Tax Law, corporate entities may qualify for various preferential corporate tax rates. In 2009 and 2010, Alibaba China Technology Co., Ltd. ("Alibaba China") was recognized as a Key Software Enterprise that qualified for a 10% PRC Enterprise Income Tax rate.

Another major PRC operating subsidiary, Alibaba China Software Co., Ltd. ("Alibaba Software") was recognized as a Software Enterprise in 2008, entitling it to full exemption from PRC Enterprise Income Tax for its first two profit-making years and a fifty percent reduction in the subsequent three years. Since 2008 was the first profit-making year of Alibaba Software, it was subject to PRC Enterprise Income Tax at 12.5% in 2010 (2009: 0%), half of the standard rate of 25%.

Most of our remaining PRC entities were subject to the standard PRC Enterprise Income Tax at a rate of 25% in 2010 (2009: 25%) in accordance with the PRC Enterprise Income Tax Law.

Income tax charges were RMB236.4 million in 2010, representing a 44.7% increase from RMB163.4 million in 2009. Our effective tax rate was 13.9% in 2010, which was higher than the preferential tax rate of 10% applicable to Alibaba China because our share-based compensation expense is not tax deductible. Excluding the effect of share-based compensation expense, our effective tax rate would have been 11.5% for the year, as compared with 11.9% in 2009.

Share-based compensation expense

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

	2009 RMB'000	**2010 RMB'000**	Change RMB'000	% of total revenue
Cost of revenue	15,874	**26,365**	10,491	0.4% **0.5%**
Sales and marketing expenses	55,667	**95,096**	39,429	1.4% **1.7%**
Product development expenses	32,805	**71,476**	38,671	0.9% **1.3%**
General and administrative expenses	96,039	**148,034**	158,616	2.5% **2.6%**
Total	200,385	**340,971**	781,172	5.2% **6.1%**

2009
2010

We seek to structure our employee compensation packages to allow our employees to share in the success of our business. Therefore, a large number of our employees have been granted share-based awards. Alibaba Group Holding Limited also operates share-based award schemes under which some of our employees and employees of Alibaba Group Holding Limited and its subsidiaries have been granted options to purchase shares of Alibaba Group Holding Limited or our shares held by Alibaba Group Holding Limited. In our consolidated financial statements, share-based compensation expense arising from the grant of share-based awards by us and Alibaba Group Holding Limited to our employees is allocated to and included as part of our expenses. In 2010, total share-based compensation expense was RMB341.0 million, a 70.2% increase compared with RMB200.4 million in 2009 mainly due to the subscription of certain rights relating to shares of Alibaba Group Holding Limited under the senior management equity incentive scheme by certain of our employees whereby deemed share-based compensation expense was allocated to us during the year. As a result, share-based compensation expense as percentage of revenue also increased to 6.1% in 2010, as compared with 5.2% in 2009.

Profit attributable to equity owners

We recorded a profit attributable to equity owners of RMB1,469.5 million in 2010, representing a 45.1% increase from RMB1,013.0 million in 2009. The increase was a result of the strong growth in our revenue driven by our new business initiatives introduced in the beginning of the year.

Earnings and recurring free cash flow per share

Earnings per share, both basic and diluted, were 33 Hong Kong cents in 2010, compared with 23 Hong Kong cents, for both basic and diluted, in 2009. Diluted earnings per share before share-based compensation expense (non-GAAP), was 41 Hong Kong cents in 2010, compared with 27 Hong Kong cents in 2009.

Since we collect membership fees upfront on contracting with customers, we believe that recurring free cash flow per share (non-GAAP) is also a useful metric to measure our performance. In 2010, recurring free cash flow per share, diluted (non-GAAP) was 64 Hong Kong cents in 2010, compared with 41 Hong Kong cents per share in 2009.

Deferred revenue and customer advances

As of December 31, 2010, deferred revenue and customer advances were RMB4,434.4 million, representing a 29.0% increase from RMB3,437.0 million as of December 31, 2009. The increase was mainly due to the continued growth of our paying customers and revenues from VAS, in particular, the strong acquisition of paying members in the fourth quarter of 2010 due to our announcement during the quarter that we would increase the price of our China Gold Supplier membership in 2011. During the year, the deferred revenue of RMB15.7 million related to our fraudulent members was forfeited and transferred to our Fair Play Fund, of which RMB11.2 million was paid out to defrauded buyers as compensation.

LIQUIDITY AND CAPITAL RESOURCES

Treasury management

Our treasury department, which reports to our chief financial officer, monitors our current and expected liquidity requirements in accordance with policies and procedures approved by our board. We have adopted prudent treasury management objectives, which include maintaining sufficient liquidity to meet our various funding requirements in accordance with our strategic plans while aiming to achieve a better return on our cash and hedging against foreign currency exchange risk. It is not our policy to invest our cash in financial products with significant underlying leverage or derivative exposure.

Foreign currency exchange exposure

Currency risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although we operate businesses in different countries, substantially all of our revenue-generating and expense-related transactions are denominated in Renminbi, which is the functional currency of our key operating subsidiaries. Renminbi is not freely convertible into other currencies. All foreign currency exchange transactions in the PRC must be effected through the State Administration of Foreign Exchange. As of December 31, 2010, 98.6% of our cash and bank balances were denominated in Renminbi.

Interest rate exposure

Our exposure to changes in interest rates is mainly attributable to our interest-bearing assets, including all cash and cash equivalents, term deposits with original maturities of over three months and short-term United States dollars denominated bank loans obtained during the year.

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 risk exposure is represented by the aggregate of cash and other investments we hold at banks and other financial institutions. All of our cash and other investments are placed with financial institutions of sound credit quality and most of these investments bear maximum original maturities of less than 12 months.

Capital structure

We continue to maintain a strong financial position as a result of our healthy growth in recurring free cash flow from operations. We have been cautiously managing our cash to maintain a favorable return and to minimize any foreign exchange risk. As of December 31, 2010, we had cash and bank balances of RMB9,583.5 million, which was RMB2,367.1 million or 32.8% higher than that as of December 31, 2009. As of December 31, 2010, our cash and bank balances comprised 98.6% (2009: 95.5%) in Renminbi and 1.4% (2009: 4.5%) in other currencies, mainly United States dollars. The weighted average annual return on our cash and bank balances was 2.0% in 2010 (2009: 2.1%).

We further strengthened our balance sheet during the year. As of December 31, 2010, our total assets were RMB12,705.1 million (2009: RMB9,456.7 million), which were financed by shareholders' funds of RMB5,803.0 million (2009: RMB5,018.1 million), current liabilities of RMB6,384.6 million (2009: RMB4,097.1 million) and non-current liabilities of RMB517.5 million (2009: RMB341.5 million). Of the total liabilities, RMB92.7 million was funded from short-term United States dollars denominated bank loans, which we obtained during the year mainly for financing of our overseas business growth and expansion. As of December 31, 2010, our deferred revenue and customer advances amounted to RMB4,434.4 million, up 29.0% from RMB3,437.0 million as of December 31, 2009. These upfront payments are reflected as liabilities until we provide services to earn the related revenue. Therefore, these liabilities do not represent actual obligations to pay customers but instead they provide an assured base for our future reported revenue.

As of December 31, 2010, our reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to RMB3,340.1 million (2009: RMB3,190.5 million).

Cash flow

Net cash generated from operating activities

Net cash generated from operating activities was RMB3,039.4 million in 2010, representing a 35.7% increase from RMB2,240.2 million in 2009. The increase in net cash generated from operating activities was principally because of the strong growth in deferred revenue and customer advances as a result of the increase in cash revenue as compared with 2009, due to the strong acquisition of customers, in particular, in the fourth quarter of 2010.

Net cash used in investing activities

Net cash used in investing activities was RMB2,747.0 million in 2010 compared with RMB1,222.2 million in 2009. Net cash used in investing activities during the year primarily represented an increased placement of cash in time deposits with original maturities of over three months of RMB2,029.8 million, payments for the acquisitions of the Auctiva and Vendio, net of cash, amounting to RMB217.6 million (gross cash paid amounted to RMB233.2 million) and capital expenditures to RMB288.1 million.

In 2010, our capital expenditures decreased by 29.9% to RMB288.1 million (2009: RMB410.7 million). The decrease in capital expenditures was primarily due to the completion of our new corporate campus in the Binjiang District of Hangzhou in September 2009. Excluding the effect of our investment in our Binjiang campus, capital expenditure decreased by 10.2% as compared with 2009 as we acquired more servers in 2009 to enhance our IT infrastructures to support the development of new initiatives and products, such as Ali-ADvance and to upgrade our Gold Supplier services.

Net cash generated from financing activities

Net cash generated from financing activities was RMB51.3 million in 2010, compared with cash outflow of RMB958.0 million in 2009. The cash inflow in 2010 mainly represented a RMB93.6 million drawdown on bank facilities, partially offset by a combined outflow of RMB52.8 million to purchase our shares on the market for a newly established share award scheme as well as for part of our continuing share buy-back program. The new share award scheme is intended to incentivize directors of our Group and is substantially similar to our existing restricted share unit scheme. During the year, the trust that we set up solely for this share award scheme paid RMB32.3 million to purchase our shares on the market. We originally announced the plan to buy back up to HK$2 billion (approximately RMB1.8 billion) worth of our shares in November 2008. The plan was valid through the end of 2010 and buy-backs under plan were to be made at the discretion of our directors subject to market conditions. In 2010, we paid RMB20.5 million to buy back our shares on the market. Net cash used in financing activities in 2009 was RMB958.0 million, mainly representing the distribution of a special dividend of RMB888.3 million in September 2009.

Recurring free cash flow

Recurring free cash flow (non-GAAP), which represents net cash flow generated from operating activities as presented in our consolidated cash flow statement less purchase of property and equipment, and excludes non-recurring payments and receipts such as payment for the construction of our Binjiang campus, was RMB2,840.8 million in 2010, representing a 56.4% increase from 2009. The increase was mainly due to the strong increase of paying members, who prepaid for their memberships, as reflected in the increase in our deferred revenue and customer advances and the strong growth in cash revenue from the sale of memberships in the fourth quarter following our announcement that we would increase the price of our China Gold Supplier membership in 2011.

DIVIDEND

We declared a special cash dividend of 22 Hong Kong cents (2009: 20 Hong Kong cents) per ordinary share on December 10, 2010 and distributed this special dividend on January 31, 2011.

Our board did not recommend the payment of a final dividend for the year ended December 31, 2010 (2009: nil).

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2010, we did not have any material off-balance sheet arrangements.

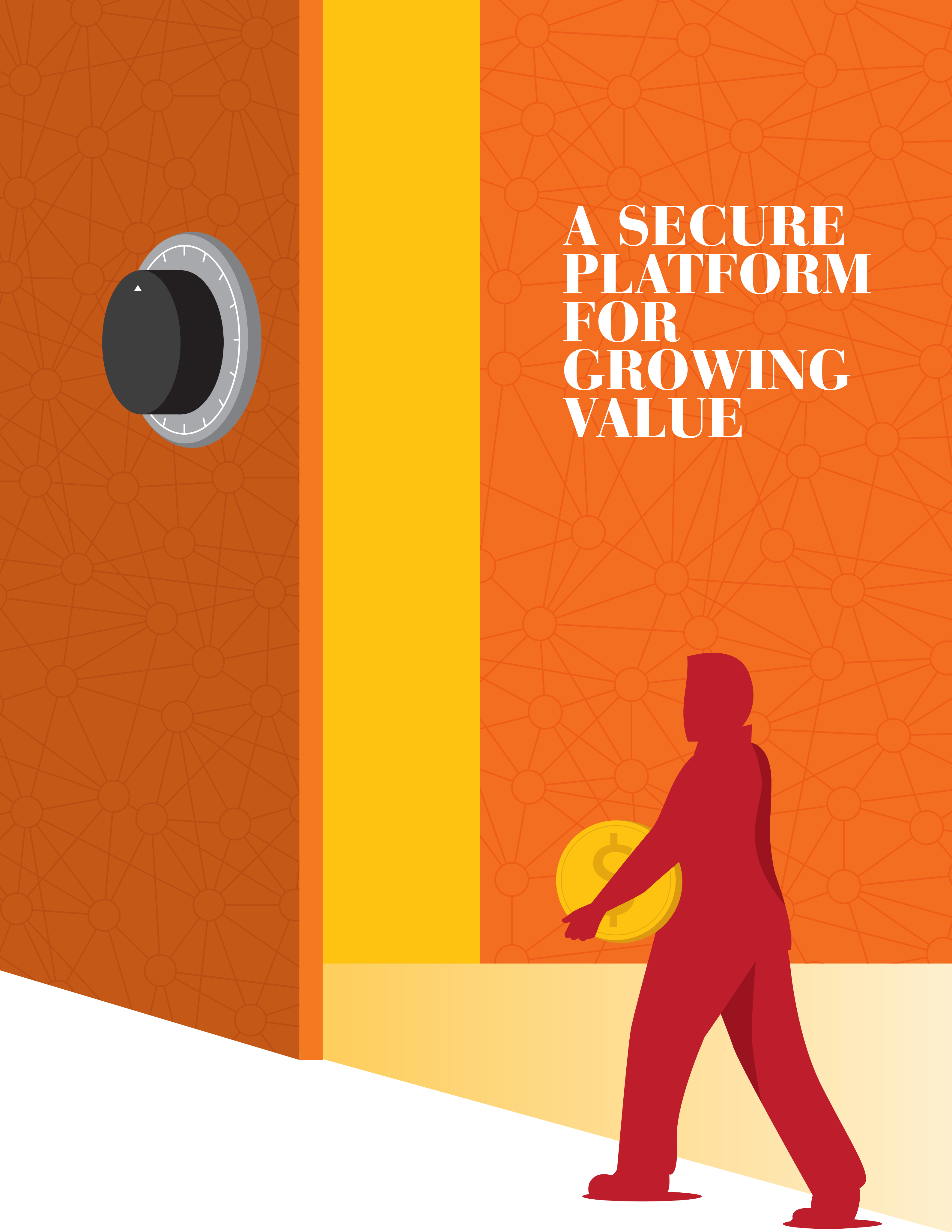
PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As of December 31, 2010, none of our assets were pledged and we did not have any material contingent liabilities or guarantees.

MATERIAL ACQUISITIONS AND DISPOSAL OF ASSETS

In July and August 2010, we completed the acquisitions of the entire interests in Vendio and Auctiva for a total cash consideration, paid on completion, of RMB233.2 million. The acquisitions brought us increased synergy and opportunities. Vendio, a U.S.-based company, operates an e-commerce platform which provides a one-stop solution for small businesses that sell online across multiple online channels. Auctiva, also a U.S.-based company, is a developer of listing, marketing and management tools for eBay sellers. Through our acquisitions of Vendio and Auctiva, we gained access to more than 250,000 small online retailers who have potential sourcing needs from manufacturers and wholesalers on our international marketplace and wholesale transaction platform and this will help us to further enhance the value of our global e-commerce supply chain.

A SECURE PLATFORM FOR GROWING VALUE



OUTLOOK

Looking ahead to 2011, we find that the global economic environment continues to be full of uncertainties. We expect China's economic growth to remain robust, driven primarily by continued strength in its domestic market. However, growth is likely to be moderate amid China's tightening monetary policy to curb inflation. Export growth will also likely slow down due to rising costs and the ongoing appreciation of Renminbi. Against this backdrop, nonetheless, there are three things that we can be certain of: e-commerce will boom, China's domestic consumption will continue to be strong, and China will remain the world's largest exporter.

We have positioned ourselves to benefit from these certainties, while taking steps to mitigate the business risks they may generate. The strategic direction that we have been pursuing for years remains unchanged. In 2011, we will focus on stabilizing our existing businesses and accelerating the upgrade of our business model. After the strong customer growth in the past two years, we have reviewed the pace of our acquisition of new paying members. With our "Customer First" philosophy, we believe it is crucial for the quality of our service to keep up with our membership growth in order to ensure customer satisfaction and to improve the value we provide. We have decided in 2011 to place more emphasis on making our platform a safe and trusted place for e-commerce, enhancing our services to our existing paying members rather than accelerating member acquisition. We will enhance Gold Supplier and China TrustPass customer experience through service upgrades that we hope will result in a stable membership base and healthy, sustainable growth.

While maintaining our "Meet at Alibaba" strategy, we will expedite our business model upgrade, bringing "Work at Alibaba" initiatives to our customers through additional, richer VAS. In 2011, we will help customers derive more value from the more sophisticated marketing-related VAS, for example, the pay-for-performance Ali-ADvance. We also aim to provide more comprehensive, in-depth services for export-oriented small businesses. In addition to VAS development, we will continue to grow our online transaction platforms, AliExpress and 1688.com. In January 2011, in collaboration with Taobao, we beta-launched of our third online transaction platform, Wu Ming Liang Pin (lp.taobao.com). This new transaction-based platform is designed to give our quality wholesale paying members direct access to the massive retail traffic and rapid growth potential of Taobao, China's largest retail website. We will seek further synergies with Alibaba Group companies including Taobao, Alipay and Alibaba Cloud Computing. We expect that the monetization opportunities associated with these new initiatives will contribute more significantly to our revenues in the medium term. Membership revenue growth, VAS revenue growth and margin growth will then follow.

In 2011, it is of paramount importance to step up our efforts to reinvigorate confidence in our online marketplaces. Although our internal investigation of fraudulent activities announced on February 21, 2011 is ongoing, we will take other remedial and preventive actions to strengthen trust and safety on our marketplaces. For instance, we will identify and de-list additional suppliers who we believe to have a high risk of fraud. We will also improve our quality control system and policies and sales management structure in order to ensure proper checks and balances, and align employee incentive towards building long-term customer value.

We will continue to firmly uphold our mission: "To make it easy to do business anywhere" and our core values, including "Customer First". We have no tolerance for any compromise of our culture and values that could jeopardize our customers' interest. The recent incident of fraudulent supplier activities on our marketplaces signaled a challenge to our most important principle – integrity. Therefore, we have quickly taken stringent measures to address any situation that risks serious damage to our customers and our corporate values, and we will continue to take this approach without any hesitation. We strongly believe our values, instead of short-term financial gains, are key to our long-term success.

Although it takes time to evolve our business model from "Meet at Alibaba" to "Work at Alibaba," we are confident that we are on the right track. With our dedication to e-commerce development, we will continue to provide innovative solutions to help small businesses worldwide grow and prosper.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

MA Yun, Jack   LU Zhaoxi, Jonathan   WU Wei, Maggie   SHAO Xiaofeng

CHAIRMAN

MA Yun, Jack, 46, is our chairman and non-executive director. He is the lead founder, chairman and a director of Alibaba Group Holding Limited ("Alibaba Group"), our holding company. Mr. Ma has also been chief executive officer of Alibaba Group since its inception in 1999. He 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 in mainland China. Mr. Ma is a pioneer in the Chinese Internet industry and in 1995 founded China Pages, one of the first Internet-based directories in China. 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. As a respected business leader, Mr. Ma was chosen by the World Economic Forum as a "Young Global Leader" in 2001 and selected by China Central Television and its viewers as one of the "Top 10 Business Leaders of the Year" in 2004. He was named one of the "25 Most Powerful Businesspeople in Asia" by Fortune in 2005, a "Businessperson of the Year" by BusinessWeek in 2007 and one of the 30 "World's Best CEOs" by Barron's in 2008. In 2009, Mr. Ma was recognized as one of the "TIME 100: The World's Most Influential People" by TIME, one of "China's Most Powerful People" by BusinessWeek and one of the "Top 10 Most Respected Entrepreneurs in China" by Forbes Chinese edition. He also received the "2009 CCTV Economic Person of the Year: Business Leaders of the Decade Award" from China Central Television. In 2010, he was named one of "Asia's Heroes of Philanthropy" by Forbes Asia for his contribution to poverty and disaster relief in China, and one of the "Chinese Businesspeople of the Year" by Forbes Chinese edition. Mr. Ma currently serves on the board of SOFTBANK CORP., a leading digital information company that is publicly traded on the Tokyo Stock Exchange. He is also a director of Huayi Brothers Media Corporation, a company listed on The Shenzhen Stock Exchange. In 2009, he became a trustee of The Nature Conservancy's China (TNC) program and joined the global board of directors of the organization in 2010. Mr. Ma holds a Bachelor's degree in English from Hangzhou Teacher's Institute.

EXECUTIVE DIRECTORS

LU Zhaoxi, Jonathan, 41, is our executive director and has served as our chief executive officer since February 2011. Mr. Lu joined Alibaba Group in 2000. He is also chief executive officer of Taobao and an executive vice president of Alibaba Group. From 2000 to 2004, Mr. Lu served in several leadership roles at our company and managed our South China sales region. In September 2004, he led a dedicated team to establish Alipay and served as Alipay's president before moving to Taobao in January 2008. Before joining Alibaba Group, Mr. Lu was co-founder of a network communication company. He holds a Master's degree in Business Administration from China Europe International Business School.

WU Wei, Maggie, 42, is our executive director and has served as our chief financial officer since 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 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.

SHAO Xiaofeng, 44, is our executive director and has served as general manager of our China Business Unit since August 2010. Mr. Shao leads a team that focuses on giving Chinese buyers and suppliers access to powerful online trading tools. He is also the group secretary and a senior vice president of Alibaba Group, principally responsible for facilitating strategic collaboration among different subsidiaries. Mr. Shao has extensive experience in network security, e-commerce, online transaction and payment. He joined Alibaba Group in March 2005 as director of the network security department, helping to build a security management system and a team of network security professionals for our company and certain subsidiaries of Alibaba

Group from scratch, and has successfully laid a solid foundation in risk management for Alibaba Group. In February 2007, he was appointed vice president of Alibaba Group and vice president of Taobao, principally responsible for strategic development planning, overall marketing and business modeling. He became executive president of Alipay in January 2008. In January 2009, he was appointed senior vice president of Alibaba Group and president of Alipay. Prior to joining Alibaba Group, Mr. Shao was a renowned police inspector in mainland China, specializing in crime investigation. Mr. Shao holds an Executive Master's degree in Business Administration from China Europe International Business School.

PENG Yi Jie, Sabrina, 32, is our executive director and vice president. She is responsible for managing our international business operation and has been with our company since 2000. As the architect behind our China TrustPass product, Ms. Peng 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 director of customer service in our China marketplace division from 2004 to 2005 and headed our China website operation department from 2006 to 2007. Ms. Peng holds a Bachelor's degree in English for Special Purpose and a Bachelor's degree in International Trade from Xi'an Jiaotong University.

NON-EXECUTIVE DIRECTORS

TSAI Chung, Joseph, 47, is our non-executive director and a director of a number of our subsidiaries in mainland China. Mr. Tsai is also one of the founders as well as a director and chief financial officer of Alibaba Group. He held the position of chief operating officer of Alibaba Group from 1999 to 2000 before assuming his current role. Mr. Tsai has contributed to many milestones of Alibaba Group. In 1999, he spearheaded the establishment of Alibaba Group's Hong Kong operations. In 2005, he led the negotiations for Alibaba Group's acquisition of China Yahoo! and Yahoo! Inc.'s investment in Alibaba Group. Prior to joining Alibaba Group, Mr. Tsai was vice president at Investor AB from 1995 to 1999, the main investment vehicle of Sweden's Wallenberg family, where he was in charge of Asian venture capital investments. From 1994 to 1995, Mr. Tsai served as vice president and general counsel of Rosecliff, Inc., a New York-based buy-out firm, and from 1990 to 1993, he 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.

TSOU Kai-Lien, Rose, 45, is our non-executive director. Ms. Tsou currently serves as senior vice president of Yahoo! Asia Pacific region, where she is responsible for operations in Korea, Hong Kong, Taiwan, Australia, New Zealand, India and Southeast Asia 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 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. In 2008, under Ms. Tsou's leadership, Yahoo! Kimo acquired Taiwan e-commerce company Monday, an important strategic milestone to enabling Yahoo! Taiwan's full capabilities in e-commerce from B2C shopping, C2C auction to online store solution. Ms. Tsou has 19 years of experience in management, marketing and mass communication. Prior to joining Yahoo!, she was general manager of MTV Taiwan for 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.

OKADA, Satoshi, 52, is our non-executive director. He is also a director of a number of associated companies of our company. Mr. Okada has served as executive vice president of SOFTBANK Group's e-commerce business planning in Japan since April 2000. Prior to that, he held various management positions within

NIU Gen Sheng KWAUK Teh Ming, Walter TSUEI, Andrew Tien Yuan KWAN Ming Sang, Savio

the SOFTBANK Group. He also previously held directorship in Ariba Japan and Deecorp Limited, companies engaging in the businesses of technology and software, respectively. Before joining the SOFTBANK Group, Mr. Okada was chief executive officer and president of NetIQ KK, the Japanese subsidiary of NetIQ Corporation, a provider of e-business infrastructure management software. He 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. Mr. Okada 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

NIU Gen Sheng, 53, is our independent non-executive director. He is the chairman and a non-executive director of China Mengniu Dairy Company Limited, one of China's leading dairy companies which is listed on The Stock Exchange of Hong Kong Limited. He is also the founder of Inner Mongolia Mengniu Dairy (Group) Co., Ltd. as well as the founder and honorary president of Lao Niu Foundation. In addition, Mr. Niu is an independent director of Shanghai Metersbonwe Fashion & Accessories Co., Ltd., a company listed on The Shenzhen Stock Exchange. In 2007, Mr. Niu was elected as one of "China's Most Influential Business Leaders" for the fifth consecutive year and honored with the "2007 Hong Kong Bauhinia Award." Mr. Niu, who is devoted to charity, was elected one of "China's Top 10 Philanthropists" by the Ministry of Civil Affairs of China in 2007 and ranked third in the "2007 Hurun Top 10 Philanthropists." In 2010, Mr. Niu was further awarded the "Lifetime Philanthropy Award" first and solely established by "China Charity Ranking." He currently serves as deputy chairman of the Second China National Committee of International Dairy Federation (IDF). Mr. Niu graduated from Inner Mongolia University with a Bachelor's degree in Administration and Management and obtained a Master's degree in Enterprise Management at Chinese Academy of Social Sciences Graduate School.

KWAUK Teh Ming, Walter, 58, is our 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. Mr. Kwauk is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor's degree in Science and a Licentiate's degree in Accounting from University of British Columbia.

TSUEI, Andrew Tien Yuan, 50, is our independent non-executive director and also an independent non-executive director of Taobao. He currently serves as chief executive officer of Silverlink International Ltd. 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 established and oversaw the global procurement operations of Wal-Mart, which has a presence in more than 30 countries. 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 an online presence, and chief operating officer of China Everbright Holdings Ltd.

KWAN Ming Sang, Savio, 62, is our independent non-executive director. Mr. Kwan was president and chief operating officer of Alibaba Group from 2001 to 2003 and served as chief people officer of Alibaba Group in 2004. He is currently a partner and chief executive officer of A&K Consulting Co., Limited, a company co-founded by him in 2005 focusing on helping small and medium enterprises and start-ups in China. Mr. Kwan has more than 30 years of global management experience, including 17 years at the medical systems division of General Electric Company, during which he was responsible for sales, marketing, operations, business development and establishment of joint venture companies in Asia. He also served as managing director of the China operations of BTR plc, a United Kingdom-based Fortune 500 company, for four years. Mr. Kwan was a board member of the Asia Pacific advisory board of York International Corporation, a leading global air conditioning system provider and a unit of Johnson Controls, Inc., a company listed on the New York Stock Exchange. He is also a visiting executive professor of Henley Business School of University of Reading in the United Kingdom. Mr. Kwan received a higher national diploma from Cambridgeshire College of Technology in the United Kingdom and holds a Master's degree in Science from both Loughborough University of Technology and London Graduate School of Business Studies in the United Kingdom.

SENIOR MANAGEMENT

LI Ang, Andy, 43, is our chief technology officer. Mr. Li joined Alibaba Group in November 2004 as senior director of the research center, where he was responsible for directing Alibaba Group and our company's technology development, architecture and platform; website system operations; and back-end business systems. Prior to his current position, Mr. Li was vice president of technology of Alibaba.com. Mr. Li has more than a decade of experience in Internet development and engineering management. Before joining Alibaba Group, he was an independent technology consultant from 1997 and founded Angilon, Inc. (a technology consultancy in Silicon Valley) in 2000 and managed the company for four years. Mr. Li holds a Bachelor's degree in Electrical Engineering from University of Science and Technology of China and a Master's degree in Electrical Engineering from University of Arizona.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to rule 13.51B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, changes in our directors' information since the date of our 2010 interim report are set out below:

DIRECTORS' PERSONAL DETAILS

Name of director/ ex-director	Change
NIU Gen Sheng (independent non-executive director)	• Re-designated as a non-executive director of China Mengniu Dairy Company Limited on June 9, 2010
OKADA, Satoshi (non-executive director)	• Resigned as a director of Beijing Digital China BB Limited on December 13, 2010
SHAO Xiaofeng (executive director)	• Appointed on January 1, 2011
DENG Kangming (ex-director)	• Resigned on January 1, 2011
WEI Zhe, David (ex-director)	• Resigned on February 21, 2011
LEE Shi-Huei, Elvis (ex-director)	• Resigned on February 21, 2011
LU Zhaoxi, Jonathan (executive director)	• Became our chief executive officer on February 21, 2011 • Appointed as an executive director on March 17, 2011
TSUEI, Andrew Tien Yuan (independent non-executive director)	• Became the chief executive officer of Silverlink International Ltd.

DIRECTORS' EMOLUMENTS

During the six months period ended December 31, 2010, there has been no change to the basis of determining our directors' emoluments (including basic salary, allowances, discretionary bonus and share-based compensation). Details of our directors' compensation packages are set out in note 10 to our consolidated financial statements on pages 107 to 109 of this Annual Report.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

EMPLOYEE RELATIONS

OUR TEAM

As of December 31, 2010, Alibaba.com had a total of 13,674 employees with a net increase of 1,958 employees during the year. We had about 400 employees in places outside of mainland China including Hong Kong, Taiwan, Korea, India, the United States and Europe.

REMUNERATION AND BENEFITS

To determine staff remuneration packages, we apply fair and equitable evaluation principles according to job duties, work performance, attitudes, abilities, adherence to our values and our company's financial performance. The total expenditure for our employees in 2010 amounted to more than RMB2.3 billion. In 2010, we maintained a salary freeze for senior management at director level and above and linked managerial staff performance bonuses to departmental results to strengthen their sense of ownership and urgency. Meanwhile we continued to give annual salary raises to the rest of our employees and distributed bonuses according to their respective contributions to our company. This reward system offers incentives to top performers and also motivates individuals to challenge themselves and aim for higher goals.

TRAINING AND DEVELOPMENT

In order to help employees and the organization grow, Alibaba.com is focused on building a management team composed of leaders who are also teachers. We firmly believe that our leaders must "walk the talk" and provide feedback and direction to staff so all of our employees can reach their potential. In accordance with internal management principles we developed over the last 11 years, middle managers are trained to continuously evaluate not just their department's performance but their own effectiveness as supervisors. This ongoing self-assessment is accomplished by listening carefully to others, paying close attention to workplace atmosphere and by gauging how well they understand, communicate and execute upper management directives. Meanwhile, we require our first-line managers to routinely demonstrate their mastery of basic, practical supervisory skills such as the ability to hire the right people and build effective teams. Those who show commitment to the Alibaba.com culture and mission are offered opportunities to become Alibaba.com leaders.

Alibaba.com fosters a workplace environment based on the idea that "to teach is to learn." We encourage employees to engage in debriefing sessions in which they share with each other the lessons they have gleaned from projects and events. Our company also provides educational forums that are open to all employees. During these forums, staff can initiate, discuss and learn about different topics that interest them. Since the beginning of 2010, we have organized more than 600 forums with more than 13,000 participants. Alibaba.com's orientation sessions for new employees are our most active training program. These sessions are dedicated to teaching recent hires about our corporate culture. In 2010, our orientation programs helped 2,500 new employees settle more smoothly into our big family.

CULTURE DEVELOPMENT

Alibaba.com has a strong corporate culture that is built on six core values: Customer First, Teamwork, Embrace Change, Integrity, Passion and Commitment. These values serve as key criteria for our employee performance evaluations. They are fundamental to our business and help guide our actions and operations. Based on our core values and in line with our current developmental stage and capabilities, we advocate a "Simple and Open" corporate culture and working environment.

Alibaba.com employees have access to a range of internal communications channels that allow for convenient and transparent interaction. These channels include an "open mailbox" between employees and management; round-table meetings; *Aliren*, our in-house magazine; and Aliway, a message forum on our intranet. These channels promote two-way internal communication and ensure that problems are resolved in a timely manner.

We advocate "Work Passionately, Live Fully" and organize a variety of employee activities every year. These activities play an important role in enhancing understanding of our corporate culture. In 2010, we held an Ali-Day celebration that included a group wedding ceremony and an open day for relatives and friends; Ali-Guinness, a fun record-setting competition; the second Ali-Arts Festival; and the 11th anniversary celebration. Employee-run recreational groups, ranging from badminton teams to photography clubs, also hosted a number of activities including the Ali-Olympics and a singing contest. These events helped enrich our employees' cultural lives and provided a platform for them to demonstrate and show off their talents.

Through our core values, open and simple communication channels and rich employee activities, we will continue to encourage and drive sustainable corporate development.

CORPORATE SOCIAL RESPONSIBILITY

We firmly believe that corporate social responsibility ("CSR") should be an integral part of our business model; this enables our CSR efforts to develop together with our business in order to help create a better society. In addition to incorporating social aspects into our business and operational model to foster a more sustainable future for our customers, our employees and the rest of the world, we also plant seeds of public welfare and environmental protection in the minds of our staff and small business customers, with the goal of spreading our spirit of giving and caring beyond our boundaries.

SICHUAN POST-DISASTER SUPPORT

Alibaba.com has been contributing to the rebuilding efforts in China's Sichuan Province since the devastating 5.12 earthquake that struck in 2008. In addition to organizing a variety of charity programs to help those who were affected transition back to their normal lives, we also launched different initiatives that focus on assisting the residents of Qingchuan County, one of the areas that suffered the most damage from the disaster.

In 2010, we donated more than 200 computers to schools in Qingchuan County to help upgrade their academic facilities, and organized a donation of our customers' unused sample products to local residents. Our employees also formed a volunteer team named "Happy Orange" to visit different schools in the region at least once a month. The team played games with and hosted fun activities for the students to promote their psychological well-being.

Free e-commerce training from Alibaba.com was given to entrepreneurs in Qingchuan County to help them revive their businesses by harnessing the power of the Internet. In 2010, we organized 14 training sessions for approximately 600 small business owners in the affected areas. We also repaired and enhanced the e-commerce training center in Qingchuan County, which was established and sponsored by Alibaba.com in 2009.

We will continue our post-disaster relief efforts in Sichuan Province for at least six more years to support those who were affected by the earthquake as they struggle to rebuild their lives.

Alibaba.com provided free e-commerce training to entrepreneurs in Qingchuan County of China's Sichuan Province to help them revive their businesses.

Alibaba.com employees volunteered to visit schoolchildren in Qingchuan County to help promote their psychological well-being.

WE TRULY BELIEVE THAT SOCIAL RESPONSIBILITY IS NOT A BURDEN AND THAT EVERY BUSINESS CAN STRIKE A BALANCE BETWEEN ITS BUSINESS MODEL AND ITS CONTRIBUTIONS TO SOCIETY.

Representatives of Animals Asia endorsed Alibaba.com's ban on the sale of bear bile products at our company's 2010 annual general meeting.

ANIMAL WELFARE

In addition to our ban on shark fin, cat and dog fur and meat products, we also initiated a ban on the sale of bear bile products on Alibaba.com in May 2010. This restriction applies to all our online marketplaces as well as our sister company Taobao, the largest online retail site in China. Working with Animals Asia, a Hong Kong-based animal welfare group that saved more than 330 bears in China and Vietnam, we rescued an adult bear from a bear bile farm in Sichuan Province that had been caged for many years for regular bile extraction. We hope our efforts in this rescue mission will help raise animal welfare awareness around the country.

ENVIRONMENTAL PROTECTION

In 2010, Alibaba.com organized the "Green Mobilization" initiative to encourage all our staff to help preserve the earth by developing eco-friendly everyday habits, such as: reducing the use of disposable chopsticks, boxes and paper cups; limiting the use of posters wherever possible; adopting double-sided printing; turning off computer monitors while off duty and so on. Every year, Alibaba.com also organizes tree plantation activities that more than a thousand of our employees participate in. Since the program's initiation, we have planted approximately 25,000 trees. An estimated 446 tons of carbon dioxide are expected to be absorbed when these trees are fully grown.

To highlight the importance of committing to a green living and working environment across our organization, we also launched the "Green Commitment" campaign and called on our employees to declare their commitment to a greener environment. The campaign received support not only from our chairman Jack Ma and former chief executive officer David Wei, but also from the United Kingdom's former First Lady, Cherie Blair.

The "Green Gurus," the largest environmental team within Alibaba.com with more than 1,000 members, was also set up during the year with a mission of creating a greener working environment for all fellow colleagues. The Green Gurus advocate the belief of "starting green initiatives at the grassroots level," and formed their own committee to design company-wide environmental initiatives. Each quarter, up to three environmental protection plans will receive approval from our management and will be carried out with company funding.

Alibaba.com employees declared their commitment to a greener environment in the "Green Commitment" campaign.

Alibaba.com believes Small Office/Home Office ("SOHO") is one of the most environmentally friendly and most "low-carbon" ways of working. We encouraged almost one thousand employees to work from home on May 10, 2010 in commemoration of the severe acute respiratory syndrome ("SARS") outbreak in 2003, during which thousands of our employees had to work from home under quarantine. In spite of the home confinement, business results were unaffected and the company performed very well that year.

LOOKING AHEAD

The convenience of technology and the Internet makes it possible and easier for not only businessmen but also the greater community to live up to and fulfill their social responsibility in their everyday lives. We truly believe that social responsibility is not a burden and that every business can strike a balance between its business model and its contributions to society. Our community service, environmental protection and employee welfare efforts were recognized by the Hong Kong Council of Social Service and we were awarded the Caring Company Logo for the period 2009-2011. With great power comes great responsibility and as we grow and expand our business and influence, we will continue to strengthen our commitment to social responsibility by empowering small businesses and people in need around the world.

商界展關懷
caringcompany 2009-11
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

Alibaba.com has planted approximately 25,000 trees since the initiation of its tree plantation program.

GROWING A GREENER COMMUNITY

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors and management of Alibaba.com Limited ("Alibaba.com" or our "Company", together with our subsidiaries, our "Group") believe that corporate governance is fundamental to corporate success and the enhancement of shareholder value. Key elements of corporate governance include honesty, trust and integrity, openness, transparency, responsibility and accountability, mutual respect and commitment.

We seek to promote a new business paradigm that embodies openness, transparency, sharing and responsibility. Our six core values (namely, Customer First, Teamwork, Embrace Change, Integrity, Passion and Commitment) also embody key elements of corporate governance and form the corporate DNA of Alibaba.com. These values hold no less true, and we apply them with no less determination and care, in the context of our corporate governance practices than in our business practices.

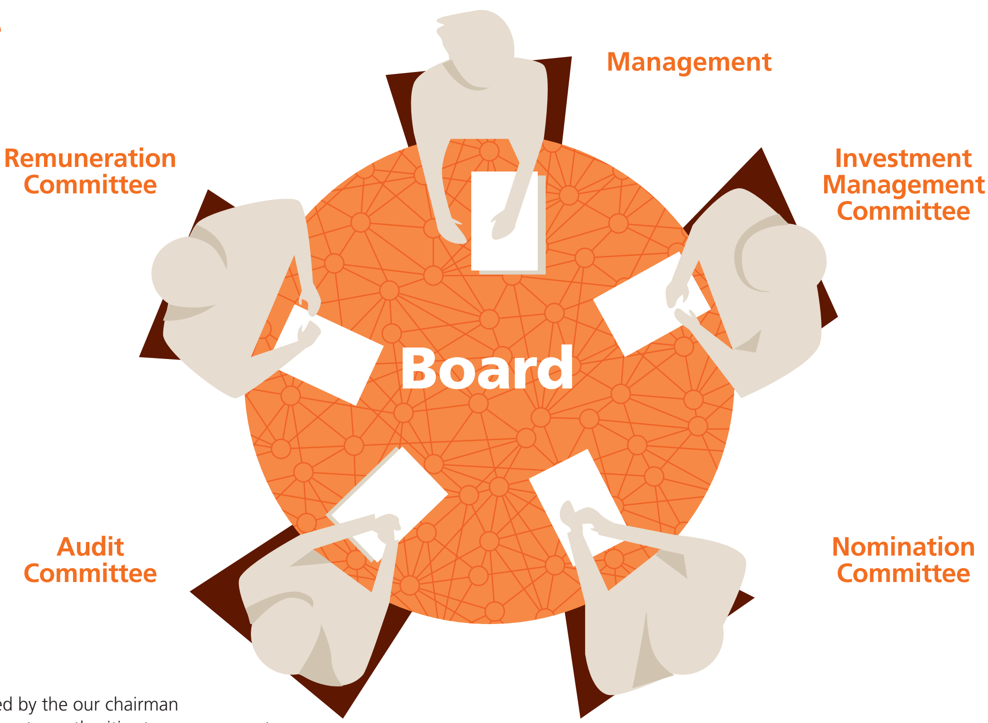
In particular, we view integrity as one of our most important values, and are committed to upholding and continuously promoting integrity of our employees and integrity of our online marketplaces as safe and trusted places for our small business customers. We are also committed to maintaining and upholding good corporate governance in order to protect the interests of our customers, employees and shareholders. Our board of directors sets high standards for our directors, senior management and employees. Any conduct that compromises or attempts to compromise our culture and values will not be acceptable or tolerated. We abide strictly by the laws and regulations of China 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 Ministry of Industry and Information Technology of the People's Republic of China, the Hong Kong Securities and Futures Commission and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

OUR BOARD

Our board is at the core of our corporate governance framework. It is responsible for providing high-level guidance and effective oversight to our management. Our board oversees specific areas affecting the interests of all shareholders including financial reporting and control, equity fund raising, recommendation/ declaration of dividend or other distributions, notifiable and connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and capital reorganisation or other significant changes in the capital structure of our Company. Our board reviews and approves our Company's strategies and business plans and authorizes management to execute them. Our management reports to our board and is responsible for our day-to-day operations. Our management, led by our chief executive officer and chief financial officer, is responsible for the management and administrative functions and day-to-day operations of our Company. Our board currently has 12 members, four of whom are independent non-executive directors. Biographical details of our directors are set out on pages 32 to 35 of this Annual Report and can be found on our website at http://ir.alibaba.com.

COMPOSITION OF BOARD AND BOARD COMMITTEES

Overall structure



Note: 1. The board is led by the our chairman
2. The board delegates authorities to management
3. The management is led by our chief executive officer and chief financial officer

Composition and attendance

Directors	Attendance during 2010					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment Management Committee	General Meetings
Non-executive director and chairman						
MA Yun, Jack[1]	3/5			2/2	1/2	1/2
Executive directors						
WEI Zhe, David[2]	5/5				2/2	2/2
WU Wei, Maggie	5/5				2/2	2/2
LEE Shi-Huei, Elvis[2]	5/5					2/2
DENG Kangming[3]	5/5					2/2
PENG Yi Jie, Sabrina	4/5					2/2
Non-executive directors						
TSAI Chung, Joseph[4]	4/5	4/4	3/3		2/2	2/2
TSOU Kai-Lien, Rose	5/5					1/2
OKADA, Satoshi	5/5					2/2
Independent non-executive directors						
NIU Gen Sheng[5]	3/5		3/3	1/2		0/2
KWAUK Teh Ming, Walter[6]	4/5	4/4	3/3			2/2
TSUEI, Andrew Tien Yuan	5/5				2/2	2/2
KWAN Ming Sang, Savio	4/5	3/4		2/2		1/2

Note:
1. Also chairman of the nomination committee
2. Resigned from the board on February 21, 2011
3. Resigned from the board on January 1, 2011
4. Also chairman of the investment management committee
5. Also chairman of the remuneration committee
6. Also chairman of the audit committee
7. General meetings include both annual general meeting and extraordinary general meeting

CORPORATE GOVERNANCE FRAMEWORK

Alibaba.com's governance framework is supported by many internal guidelines, policies and procedures that have been carefully developed over the years, including, among others, the following:

- Terms of reference for the board and each board committee
- Guidelines on Dealings in Securities (for both directors and relevant employees)
- Code of Business Conduct
- Corporate Disclosure Guidelines
- Delegation of Management Functions
- Guidelines on Managing Investments
- Cash Management Policy

We review our corporate governance practices regularly and implement changes and new measures as and when appropriate.

CORPORATE GOVERNANCE CODE COMPLIANCE

Throughout 2010, we have applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("Corporate Governance Code") as set out in Appendix 14 of the Listing Rules, and where appropriate, adopted the recommended best practices.

Despite removal of the requirement for a qualified accountant under the Listing Rules effective January 1, 2009, we continue to maintain a team of suitably qualified accounting professionals (including our prior qualified accountant) to oversee our financial reporting and other accounting-related issues in accordance with the relevant laws, rules and regulations.

Set out below are some of the key corporate governance principles and practices we have complied with. They include major aspects of the code provisions as well as certain recommended best practices under the Corporate Governance Code.

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
BOARD OF DIRECTORS		
Key Leadership		
• Clear division of the positions of the chairman and chief executive officer	CP A.2.1 A.2.2 A.2.3 RBP A.2.4 A.2.5	▶ To avoid the over concentration of power in any single individual, the positions of chairman and chief executive officer in Alibaba.com are held by two different individuals who have distinct and separate roles. Our chairman, MA Yun, Jack provides leadership for our board and is responsible for ensuring our board works effectively, discharges its responsibilities and conforms to good corporate governance practices and procedures. As the chairman of our board, he also seeks to ensure, with the support of our executive directors, 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 (previously WEI Zhe, David and currently LU Zhaoxi, Jonathan), is responsible for providing leadership for the senior management team, for strategic planning of different business functions and for implementing the policies and development strategies approved by our board.
Independence of Directors		
• Meet guidelines on independence in rule 3.13 of the Listing Rules	RBP A.3.2 RBP A.4.5(c)	▶ Not less than one-third of our board is comprised of independent non-executive directors. ▶ Each independent non-executive director has confirmed his independence with the Stock Exchange upon his appointment pursuant to the Listing Rules. ▶ Each independent non-executive director has also made an annual confirmation of independence taking into account the factors for assessing independence and in accordance with the requirements set out in rule 3.13 of the Listing Rules. ▶ Our nomination committee made an annual assessment on the independence of all independent non-executive directors, taking into account, among other things, their annual confirmation of independence declared pursuant to rule 3.13 of the Listing Rules. The committee confirmed that each independent non-executive director was able to meet the requirements under rule 3.13 of the Listing Rules and has continued to be independent. ▶ Our board members are unrelated to each other and to the senior management in all respects, whether financial, business, or family.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
Responsibilities of Directors		
• Induction program for new directors	CP A.5.1	▶ No new director was appointed to our board during 2010. Subsequent to the year end, SHAO Xiaofeng, our executive director appointed on January 1, 2011, received the required induction and training shortly after his appointment that was aimed to ensure his proper understanding of our operations and business, full awareness of his responsibilities under law, the Listing Rules and other applicable legal and regulatory requirements, as well as our business and governance policies.
• Update directors with the latest developments in the regulatory environment and the market	RBP A.5.5	▶ In May 2010, as part of the continuing professional development program, our directors attended a regulatory update session conducted by our external legal advisors. The update covered topics including director's general duties, dealing in securities, disclosure of price sensitive information (current regime and developments) and recent disciplinary cases.
• Directors' and officers' liability insurance	RBP A.1.9	▶ We have continued to maintain appropriate directors' and officers' liability insurance based on our assessment of the needs and characteristics of our business operations and the assessed exposures.
Appointments and Re-election of Directors		
• Non-executive directors should be appointed for a specific term and be subject to re-election	CP A.4.1	▶ Non-executive directors are appointed for a specific term of not more than three years, subject to the re-election requirements under our articles of association as described below and the Listing Rules.
• Every director should be subject to retirement by rotation at least once every three years	CP A.4.2	▶ Article 130 of our articles of association stipulates, among other things, that every director is subject to retirement by rotation at least once every three years. Retiring directors, being eligible, may stand for re-election at the general meeting at which they retire. ▶ In accordance with the code provision and our articles of association, five directors, namely, MA Yun, Jack, WU Wei, Maggie, PENG Yi Jie, Sabrina, TSOU Kai-Lien, Rose and NIU Gen Sheng retired from office by rotation in our 2010 annual general meeting. All of these retiring directors were re-elected by our shareholders. ▶ In our forthcoming annual general meeting to be held on May 14, 2011, four of our directors, namely WU Wei, Maggie, PENG Yi Jie, Sabrina, TSUEI, Andrew Tien Yuan and KWAUK Teh Ming, Walter will retire from office by rotation in accordance with article 130 of our articles of association. Further, LU Zhaoxi, Jonathan and SHAO Xiaofeng, being directors appointed by our board to fill casual vacancies in 2011, will hold office only until our forthcoming annual general meeting in accordance with article 114 of our articles of association. All the aforesaid directors, being eligible, will offer themselves and stand for re-election at such meeting.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
Meetings		
• Regular meetings		▶ Our board meets regularly according to an annual meeting schedule established after consultation with all directors before the start of the year.
• Minimum of four times a year	CP A.1.1 A.1.3	▶ Our board held five pre-scheduled meetings during 2010 (in March, May, August, November and December). In each case, our directors received at least 14 days' written notice of meeting in advance. For any ad hoc board meetings, our directors will be given as much notice as is reasonable and practicable in the circumstances. There was no ad hoc meeting of our board in 2010.
	CP A.1.2 RBP A.2.4	▶ Our chairman, with the support of our executive directors, leads the process of setting the agenda of board meetings. Board members are invited to comment on the agenda and may submit proposals for inclusion into the agenda for consideration during board meetings.
	CP A.1.5 A.1.6	▶ Minutes of board meetings record in sufficient details the matters considered and decisions reached. They are kept by our company secretary and distributed to each director within a reasonable period after each meeting.
	CP A.1.4 A.1.7 A.6.3	▶ Our directors are given full and timely access to relevant information including board papers and related materials. Procedures are in place for all directors to have access to the advice and services of our company secretary. They may also seek independent professional advice at our expense, if necessary, in accordance with pre-approved procedures.
• Active participation by a majority of directors	CP A.1.1	▶ All our regular board meetings were participated by a majority of directors, either in person or through other electronic means of communication. The attendance record of each director is set out on page 43 of this Annual Report.
Board Committees		
• Specific written terms of reference	CP B.1.1 C.3 RBP A.4.4	▶ Our board has established four committees to oversee key aspects of Alibaba.com's affairs: ✓ Audit committee (established on October 12, 2007) ✓ Remuneration committee (established on October 12, 2007) ✓ Nomination committee (established on October 12, 2007) ✓ Investment management committee (established on March 18, 2008)
	CP D.2.1	▶ Written terms of reference of our audit committee, remuneration committee and nomination committee, covering their respective specific role, authority and functions, are available on our website.
• Provision of board committees with sufficient resources to discharge their duties	CP B.1.5 C.3.6 RBP A.4.7	▶ To discharge its dedicated function, each of our board committees will be provided with sufficient resources when required, including the services of outside advisors such as financial and legal advisors and valuers, to provide the necessary professional advice at our cost.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
REMUNERATION OF DIRECTORS		
Remuneration Policy		
• Disclosure of information relating to directors' remuneration policy	RBP B.1.6	▶ The emoluments of our directors are determined with reference to a combination of factors including their skills, knowledge and experience, time commitment, duties and responsibilities required of them and the prevailing market conditions. Our executive directors' compensation includes a large element of performance-based remuneration by reference to our Company's financial and operational results as well as corporate goals, objectives and values. Details of our directors' compensation packages are set out in note 10 to our consolidated financial statements on pages 107 to 109 of this Annual Report.
Remuneration Committee		
• Clear authority and duties	CP B.1.3	**Role and function:** ▶ To review the remuneration policy of our Company, and to make recommendations to our board on the policy and structure for remuneration of our directors and senior management and on the establishment of formal and transparent procedures for developing a policy on such remuneration; ▶ To determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment); ▶ To make recommendations to our board in regard to the remuneration of non-executive directors, including director's fees and any share-based awards; and ▶ To consider and approve the grant of share-based awards (including share options, restricted share units and restricted shares) to eligible participants pursuant to our share option scheme, restricted share unit scheme and share award scheme.
• A majority of members are independent non-executive directors	CP B.1.1	▶ Our remuneration committee has a total of three members, namely, NIU Gen Sheng (committee chairman), KWAUK Teh Ming, Walter and TSAI Chung, Joseph, with a majority of independent non-executive directors.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
• Summary of Work Performed		▶ Our remuneration committee held three meetings during the year. The attendance of its members is described on page 43 of this Annual Report. ▶ During the meetings held in 2010, our remuneration committee: ✓ Reviewed our share-based compensation policy and proposals for incentivizing Alibaba.com employees, and recommended the same to our board for approval; ✓ Reviewed and approved the remuneration packages (including year-end bonuses and share-based awards) of our executive directors and senior management; ✓ Reviewed the remuneration of non-executive directors and made proposal regarding director's fees to our board for shareholder approval at the 2010 annual general meeting; ✓ Reviewed and proposed a share award scheme for the directors of our Company and subsidiaries to our board for approval; and ✓ Reviewed and proposed amendments to our share option scheme and restricted share unit scheme, and proposed a refreshment of the combined limit under both schemes to 156 million shares.
NOMINATION OF DIRECTORS		
Nomination Committee		
• Clear authority and duties	RBP A.4.5	**Role and function:** ▶ To lead the process for board appointments; ▶ To identify and nominate candidates for appointment to our board; ▶ To assess the independence of independent non-executive directors; and ▶ To make recommendations to our board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.
• A majority of members are independent non-executive directors	RBP A.4.4	▶ Our nomination committee has a total of three members, namely, MA Yun, Jack (committee chairman), NIU Gen Sheng and KWAN Ming Sang, Savio, with a majority of independent non-executive directors.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
• Formal appointment procedure		**Nomination Procedures, Process and Criteria** ▶ The process for board appointments is principally led by our nomination committee: Nomination committee reviews the structure, size and composition (including the skills, knowledge and experience) of our board ▼ Nomination committee makes recommendations to our board regarding any proposed changes ▼ Nomination committee identifies individuals suitably qualified to become board members ▼ Nomination committee selects, or makes recommendations to our board on the selection of persons nominated for directorships ▼ **Our board makes formal invitation to nominated candidate for appointment to our board**
• Summary of Work Performed		▶ Our nomination committee held two meetings during the year. The attendance of its members is described on page 43 of this Annual Report. ▶ Our nomination committee performed the following work during the year: ✓ Recommended to the board for the acceptance of the resignation of DENG Kangming as executive director; ✓ Recommended to our board for the appointment of SHAO Xiaofeng as an executive director in place of DENG Kangming; ✓ Nominated retiring directors for re-election by shareholders at the 2010 annual general meeting; and ✓ Reviewed and assessed each independent non-executive director's annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.
ACCOUNTABILITY AND AUDIT		
Financial reporting		
• Announcement and publication of quarterly financial results	RBP C.1.4	▶ Our Company announces and publishes quarterly financial results within 45 days after the end of relevant quarter, which are prepared using the same accounting policies applied to our Company's half-year and annual accounts.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
Audit Committee		
• Clear authority and duties	CP C.3.3	**Role and function:** ▸ Our audit committee 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, and for overseeing the audit process and performing 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.
• A majority of members are independent non-executive directors		▸ Our audit committee has a total of three members, namely KWAUK Teh Ming, Walter (committee chairman), TSAI Chung, Joseph and KWAN Ming Sang, Savio with a majority of independent non-executive directors.
• Summary of Work Performed		▸ Our audit committee held four meetings during the year. The attendance of its members is described on page 43 of this Annual Report. ▸ Our audit committee reviewed, considered and approved the following matters in its meetings held during the year: ✓ Our Company's unaudited quarterly, interim consolidated financial statements and audited annual consolidated financial statements, with a recommendation to the board for approval; ✓ The terms of engagement and remuneration of our Company's external auditors; ✓ All connected transactions/continuing connected transactions of our Company; ✓ Internal control and risk management plan and measures; ✓ Internal audit plan and measures; and ✓ Other compliance and corporate governance measures and practices.
Directors' Responsibility for the Consolidation of Financial Statements		
• Directors' responsibility for preparing the accounts	CP C.1.2	▸ Our directors acknowledge their responsibility for preparing our consolidated financial statements and of ensuring that the preparation of our consolidated financial statements is in accordance with the statutory requirements and applicable standards.
• Auditors' reporting responsibility in the auditors' report		▸ The statement of our auditors concerning their reporting responsibilities on our consolidated financial statements is set out in the Independent Auditor's Report on page 82 of this Annual Report.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
External Auditors		
• Analysis of auditors' remuneration		▶ PricewaterhouseCoopers was re-appointed as our external auditors at the 2010 annual general meeting until the conclusion of the next annual general meeting. ▶ In order to maintain independence, PricewaterhouseCoopers is primarily responsible for providing audit services in connection with our consolidated financial statements, and only provides non-audit services that do not impair their independence or objectivity. Any non-audit service that exceeds the amount prescribed by our audit committee (currently fixed at RMB400,000) will be subject to prior approval by the chairman of our audit committee. ▶ For the year ended December 31, 2010, the remuneration paid or payable to PricewaterhouseCoopers for audit and non-audit services (together with the comparative figures for 2009) is set out as follows:
Investment Management Committee		
• Not a requirement under the Corporate Governance Code		**Role and function:** ▶ To review and approve (if appropriate) investment project according to our Guildelines on Managing Investments and the authority and limits delegated by our board; and ▶ To review and make recommendations to our board on suitable investment opportunities and projects;
• Summary of Work Performed		▶ Our investment management committee has a total of four members, namely TSAI Chung, Joseph (committee chairman), MA Yun, Jack, WU Wei, Maggie and TSUEI, Andrew Tien Yuan. ▶ During the year, the investment management committee held two meetings to review and consider various potential investment opportunities and projects, including, among others, our acquisition of Vendio Services, Inc. and Auctiva Corporation and reported its recommendations to our board.

Services Rendered	2009 RMB'000	**2010** **RMB'000**
Audit services		
– annual audit	5,350	**6,020**
– other services	2,141	**1,780**
Non-audit services		
– taxation	603	**328**
Total	8,094	**8,128**

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS		
• Compliance with the Model Code for Securities Transactions set out in Appendix 10	CP A.5.4	▶ We have adopted our own Guidelines on Dealings 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 ("Model Code for Securities Transactions") as set out in Appendix 10 of the Listing Rules in respect of dealings in the securities of our Company by our directors and also by relevant employees (which group includes key management staff and employees from functional departments/business units who may handle or come into price-sensitive information of our Company from time to time during their work, such as those from the finance department). ▶ According to our specific enquiry, all directors have complied with the required standard set out in the Model Code for Securities Transactions and our Guidelines on Dealings in Securities regarding transactions involving our securities. ▶ To ensure that all directors have a thorough and up-to-date understanding of the Model Code for Securities Transactions and our Guidelines on Dealings in Securities, in May 2010 we conducted a review session on directors' dealings in securities as part of our Company's continuous professional development program for our directors.
COMMUNICATIONS		
• Maintain on-going and effective communication with shareholders		▶ 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, 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: http://ir.alibaba.com.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
• Use general meetings for communication and encourage shareholders' participation	CP E.1.2 CP E.1.1	▶ Our board welcomes the views of shareholders on matters affecting Alibaba.com and encourages them to attend shareholder meetings to communicate any concerns that they might have directly to our directors. We regard shareholder meetings as a valuable forum for our shareholders to raise comments and exchange views with our board. All directors and senior management will make an effort to be present at shareholder meetings to address queries from our shareholders. ▶ Our 2010 annual general meeting was held at Espana 1, 1st Floor, InterContinental Shenzhen, 9009 Shennan Road, Overseas Chinese Town, Shenzhen, China on May 14, 2010 at 10:30 a.m. The matters resolved thereat are summarized as follows: ✓ Receipt and adoption of the audited financial statements together with the directors' report and the independent auditor's report for the year ended December 31, 2009; ✓ Re-election of MA Yun, Jack, WU Wei, Maggie, PENG Yi Jie, Sabrina, TSOU Kai-Lien, Rose and NIU Gen Sheng as directors (by way of separate resolutions); ✓ Authorization of the board to fix the remuneration of our directors, subject to a maximum aggregate amount of RMB9,000,000; ✓ Re-appointment of PricewaterhouseCoopers as our auditors and authorization of the board to fix their remuneration; ✓ Approval of the grant of a general mandate to our directors for the issue of new securities not exceeding 10% of the aggregate nominal amount of our issued share capital as at the date of our 2010 annual general meeting; ✓ Approval of the grant of a general mandate to our directors for the repurchase of shares not exceeding 10% of the aggregate nominal amount of our issued share capital as at the date of our 2010 annual general meeting; and ✓ Confirmation of the maximum number of shares for issue under our restricted share unit scheme.
SHAREHOLDERS' RIGHTS		
• Procedure for voting by poll		▶ All resolutions put forward at our annual general meeting were conducted by way of poll in accordance with the requirements of the Listing Rules. Poll results were published and posted on the Stock Exchange's website and our website. ▶ Computershare Hong Kong Investor Services Limited was appointed the scrutineer to monitor and count the votes cast by poll at our 2010 annual general meeting.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
INVESTOR RELATIONS		
• Maintaining effective communications with investors		▸ Alibaba.com is committed to maintaining a two-way communications with our shareholders and investors with clear and consistent information of our business strategies, our business performance and prospects for the future. We aim to provide open, ongoing and effective communication through a number of channels, including one-on-one or small group meetings, teleconference, investor relations website and email, to foster our relationship with shareholders and investors. We strive to provide clear and timely information that is reasonably required to make a fair investment decision. To achieve this, we have an investor relations team, which is primarily responsible for day-to-day contact with shareholders, investors and analysts through a comprehensive investor relations programme.
• Dissemination of company information		▸ To ensure information symmetry across our shareholders and investors, we use our investor relations website to disseminate all relevant information, such as financial results announcements, webcasts of analyst's and investor's conference calls, results presentations and key operating metrics and business updates. Other regular communications with the investment community include timely press releases and email alerts to investors. ▸ In 2010, we revamped our company website, including the investor relations section, to enhance the overall information accessibility and clarity. The new website structure and layout made the navigation more user-friendly. Aiming to enhance the convenience of investors who track and analyze our performance, we now provide a comprehensive set of financial and operating information on both annual and quarterly basis downloadable in Excel format. ▸ We report financial results on a quarterly basis, following the recommended best practice under the Corporate Governance Code. We also publish interim and annual reports in both printed and electronic version. All information is accessible and downloadable on our investor relations website at http://ir.alibaba.com in both Chinese and English versions. As part of our green initiatives and in support of our commitment to enhance social awareness on environmental issues, we encourage shareholders and investors to receive corporate communication materials electronically.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
• Communication with investment community		▶ In 2010, we continued our efforts in investor relations programs to provide effective channels for proactive communication. During the year, we had more than 600 meetings or conference calls with investors and analysts across the globe. In addition to the outbound investor activities such as attending investor conferences and organizing roadshows, we also hosted a number of investor tours to visit our headquarters in Hangzhou. ▶ To foster mutual understanding between the investment community and Alibaba.com, we seek opportunities to demonstrate our culture and value, business strategies and development through various major company events such as the Annual Netrepreneur Summit / West Lake Summit held in Hangzhou in September 2010 and our Net Products Trade Fairs. ▶ We treasure feedback from analysts and investors. In 2010, we conducted a global online perception study to gather feedback from 84 investors and analysts across Asia, the US and Europe. The responses received from the perception study enabled us to better gauge the market's understanding of our strategies and development. It also helped us formulate our investor relations plan and enhance our investor relations efforts going forward.
OTHER VOLUNTARY DISCLOSURES		
• Handling of price-sensitive information		▶ With respect to the handling and dissemination of price-sensitive information, our directors are aware of, and have duly followed, the obligations under the Listing Rules and the principles set out in the guide on disclosure of price-sensitive information issued by the Stock Exchange. We have also established our own Corporate Disclosure Guidelines, under which senior managers are designated and authorized as our Company's spokespersons to respond to enquiries in their relevant areas according to the prescribed policy and procedures. Directors and relevant employees who may have access to price-sensitive information are strictly required to comply with our Guidelines on Dealings in Securities when considering or undertaking any dealing in our securities.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

Key principle/practice	CP/RBP[Note]	How did Alibaba.com apply them?
• Compliance with non-competition undertaking by major shareholder		▶ We have received an annual written confirmation from Alibaba Group Holding Limited ("Alibaba Group"), our holding company, in respect of the compliance by Alibaba Group and its subsidiaries (other than our Group) of the provisions of the non-competition undertaking given in favour of our Company on October 19, 2007 ("Non-Competition Undertaking"). Alibaba Group further confirmed that there had not been any circumstances giving rise to a New Opportunity or an Acquisition Option (both as defined in the Non-Competition Undertaking) for our Company to consider during the financial year ended December 31, 2010. ▶ Based on: (1) the assessment of our management, having continuously followed on developments in Alibaba Group's businesses and strategies; (2) the information provided by Alibaba Group from time to time, including any relevant corporate and financial information relating to any Restricted Business (as defined in the Non-Competition Undertaking) it has engaged in, assisted or supported a third party as well as any circumstances that may give rise to any New Opportunity or Acquisition Option; and (3) the annual written confirmation provided by Alibaba Group, our independent non-executive directors have reviewed the compliance of the Non-Competition Undertaking by Alibaba Group and its subsidiaries (other than our Group) during the financial year ended December 31, 2010. Our independent non-executive directors were satisfied that Alibaba Group has duly complied with the provisions of the Non-Competition Undertaking. Since there were no circumstances giving rise to any New Opportunity or Acquisition Option during the aforesaid period, our independent non-executive directors were not required to review any decision taken in relation to any New Opportunity or Acquisition Option which may be offered to us by Alibaba Group pursuant to the Non-Competition Undertaking.

INTERNAL CONTROLS

Our Internal Control System

Our 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 law and regulations. The 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 its overall responsibilities to establish, maintain, and review the effectiveness of our internal control system to ensure our shareholders' investment and assets are safeguarded on the one hand, and to enhance operational efficiency and effectiveness, promote corporate governance and ensure proper implementation of risk assessment and risk management measures on the other hand.

Our management is responsible for designing and implementing the internal control system of Alibaba.com to achieve the abovementioned objectives. Our management delegates to our internal control department responsibility of strengthening our internal control system in respect of financial reporting and regulatory compliance. Our internal control department also helps management to improve our existing business processes to achieve higher operational efficiency and effectiveness. In addition, our management monitors the effectiveness of our internal controls through control self assessment. In 2010, we revised and improved our internal control manuals. The revision and improvement were made to reflect the changes in our organizational structure, the emerging new product lines and the inclusion of new control procedures relating to our website operation, online transaction management, anti-fraud management, customer service and training.

Note: CP denotes a code provision and RBP denotes a recommendated best practice

We firmly believe that a sound control environment stems from having the right tone at the top together with concerted action from our senior management. Therefore, we adopted a code of business conduct that applies to all our directors, officers and employees. All directors, officers and employees, whether existing or newly joined, are required to read and sign off to confirm their commitment to abide by this code of conduct and behave in accordance with our policies, guidelines and procedures. We have also continued to improve our internal reporting system which encourages our staff to report situations where employees, including directors and senior management, may be in breach of our rules.

Processes Applied for Review of Internal Control System

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, management and internal control department to address various areas of our internal control system. Also, our internal audit team, which reports directly to the audit committee, provides independent assessment as to the existence and effectiveness of our internal control system, mainly through conducting the annual internal audit, validation of our control self assessment results and audit on various operational projects.

We have adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – Internal Control Framework as the standard for the internal control assessment with the internal control testing guidelines directed by the Audit Standard No. 5 issued by the Public Company Accounting Oversight Board. Our internal control assessment is conducted by our management who are directly involved in business function, and the independent validation assessment is conducted by our internal audit team. In accordance with the Alibaba.com Control Self-Assessment Guidelines, our management monitors and evaluates the effectiveness of our internal controls through control self assessment. These Guidelines provide appropriate assessment procedures which are in compliance with the relevant requirements.

With our internal control department's coordination, management conducted internal control documentation update, key control rationalization, self-assessment on all significant cycles and analysis on the impact of deficiencies in internal control. These actions were based on an independent risk assessment provided by our internal audit team which also validate the results on our control self assessment. Quarterly reports on the results of the assessment will be submitted to our senior management and our audit committee. Our management will rectify any deficiencies found in the assessment.

The control self assessment program has helped enhance our management's awareness and competency in monitoring controls. Since we have started this practice in the beginning of 2009, we have now established a virtual team that consists of 140 control assessment personnel, of which 70% are from operating and IT departments, and 30% are from financial and legal departments.

While our established control self assessment program provides assurance on key financial data and operating effectiveness, our internal audit team also performs in-depth operation reviews to identify potential improvements which may provide better customer experiences as well as enhanced management efficiency. In order to provide feasible solutions to management, our internal audit team analyzes the associated risks and resources and communicates the result thoroughly with management.

Annual Review of Effectiveness

Internal investigation on intrusion of fraud on our international marketplace

As disclosed in our announcement dated February 21, 2011, an internal investigation led by our independent non-executive director, KWAN Ming Sang, Savio, with the assistance of our internal audit team, came to the following preliminary findings:

- A total of 1,219 and 1,107 China Gold Supplier customers who signed up in 2009 and 2010 respectively had engaged in fraudulent acts against our buyers and we had terminated all the storefronts of these suppliers.
- About 100 sales people (out of a field sales force of about 5,000) as well as a number of supervisors and sales managers were responsible for either intentionally or negligently allowing the fraudsters to evade our authentication and verification measures and systematically establish fraudulent storefronts on our international marketplace.

Our former chief executive officer, WEI Zhe, David, former chief operating officer, LEE Shi-Huei, Elvis and other members of senior management were not involved in any of the activities that led to the claims by buyers against the fraudulent suppliers, and the management has made good faith efforts to address the problem. However, to shoulder responsibility for the systemic break-down in our value of integrity, both Mr. Wei and Mr. Lee tendered their resignations as directors and chief executives of our Company on February 21, 2011.

Our assessment in light of this internal investigation

When assessing the effectiveness and adequacy of internal control at the year end, our board took into account the following key considerations and measures taken by us in so far as prevention and detection of fraudulent China Gold Suppliers are concerned:

- A blacklist policy in respect of fraudulent suppliers has been adopted since February 2008, and a team of quality control personnel were designated to regularly investigate and follow up fraud-related cases arising from China Gold Suppliers with buyers.
- Our salespeople were required to conduct periodic personal visits to customers and understand their businesses and operations before a contract is entered into and during the contracted service period. A blacklist checking mechanism as well as an independent third party verification on business registration and authorization of company representative have also been in place.
- In 2008, a special task force was established to focus on tackling fraudulent China Gold Suppliers on our marketplace. Certain detective control measures, including the development of a fraud detection model and monitoring system and an internal fraud reporting system on suspected suppliers, were adopted. These measures became effective as we were able to identify fraudulent activities more systematically and efficiently for us to shut down the storefronts of the fraudulent suppliers when they were identified.
- Following the noticeable increase of fraud claims in late 2009, management has made good faith efforts to address the problem by continuing to strengthen the detection and monitoring system and has taken immediate action against fraudulent suppliers. There have also been periodic alerts to the sales management and website operating management on cases of fraudulent suppliers.
- There has been regular reporting to the audit committee on cases of fraud and misconduct committed by employees.

As a result of the above detection measures, we were able to identify and terminated more than 2,300 fraudulent China Gold Suppliers on our international marketplace in 2009 and 2010. We consider our internal control system in terms of fraud detection were effective on the whole, although there were flaws in terms of fraud prevention.

Effective internal control over financial reporting calls for a combination of preventive and detective controls. Due to the effectiveness of our detective controls on fraud, the fraudulent activities and our reaction to them have already been appropriately provided for in the relevant reported financial periods, and there was no material financial impact on our Company for the respective financial periods arising from this internal investigation.

Conclusion on effectiveness

In respect of 2010, our board, through our audit committee as well as by the directors themselves, has reviewed the effectiveness of our Group's internal control system, covering all material financial, operational and compliance controls and risk management functions. In assessing the effectiveness of such internal control system, our board has considered all the relevant control processes and measures that our Group has adopted, as well as any deficiencies highlighted by the internal investigation described above. Our board is generally satisfied that our Group's internal control system was effective. Our board is also satisfied with the adequacy of resources, qualifications and experience of staff of our accounting and financial reporting function, and their training programs and budget.

Additional Information

Processes and actions taken and being taken to enhance a safe and trustworthy marketplace and integrity of employees

Fraud exists in many businesses to a certain degree, even businesses that have world class controls and systems. Moreover, in the area of e-commerce in particular, sophisticated and determined fraudsters are always thinking of new ways to get around whatever controls and systems are in place. Nevertheless, we recognize that there will be further improvements and measures that we can adopt to prevent the fraudulent activities in the future and to promote the trust and safety of our marketplace in the long term. For example:

- Through data mining we will continue to identify additional suppliers who we believe to have a high risk of fraud and we will shut down their storefronts on our marketplaces.
- Deeper supplier background checks and verifications will significantly enhance barriers to entry for criminals.
- More training on safety practices will be provided to our buyers and sellers to encourage them to conduct full due-diligence on any company before entering into a transaction, which is essentially the same practice for any business to be safely conducted offline.

Our management is dedicated to maintaining a safe and trustworthy marketplace. We will timely review our policies and enforcement efforts to help maintain high standards.

Upholding Alibaba values is something that our Company takes absolutely seriously because our management believes our values are fundamental to our long-term success. We will revamp the human resources management processes and policies, including the recruitment process, training process, incentive and performance review process, as well as the sales management structure in order to ensure proper checks and balances, and to align incentive towards building long-term customer value.

Integrity of our employees

One of our most important values is Integrity, which covers the integrity of both our employees and our online marketplaces as trusted and safe places for our small business customers.

Although the investigation described above in relation to fraudulent suppliers on our marketplace did not create any direct material financial impact on us, nor was any senior management involved and we have been making good faith efforts to address the problem, our former chief executive officer and chief operating officer rendered their resignations to take the ultimate responsibility for not being able to uphold our value system. Their resignations have delivered a very clear and strong message that we will not tolerate any behavior that compromises our culture, values or principles.

Additional process applied for identifying, evaluating and managing the significant risks faced

Operation and emerging risks were brought to our audit committee through corporate governance meetings in addition to the regular audit committee meetings. Audit committee members are invited to comment on the agenda and may submit proposals for inclusion into the agenda for consideration.

In 2010, we organized three corporate governance meetings for members of our audit committee with a view to enhancing their understanding of our Company's new strategy and business risks faced. Topics covered, among other areas, customer service, insurance coverage, technology and intellectual property were presented in these meetings for review and discussions.

As an oversight of our internal control procedures, our audit committee also considers the findings of major investigations on internal control matters as delegated by our board, on our management's invitation or on its own initiative. For example, in mid-January 2011, one of our independent non-executive directors, KWAN Ming Sang, Savio, with the assistance of our internal audit team, formed a special task force and conducted an internal investigation to identify the circumstances and root causes leading to the existence of fraudulent suppliers on our marketplace, and proposed recommendations for improvement in our operations to our management.

Internal Audit Function

Our internal audit team formulates the annual internal audit plan based on a top-down risk based approach to ensure the projects are aligned with our corporate strategies and objectives. Audit results are reported to our audit committee and senior management. Our internal audit team also performs remediation reviews to ensure outstanding issues are properly addressed. 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. We will continue to have an internal audit team which provides independent assessment on the existence and effectiveness of our internal control system, mainly through conducting annual internal audit and audit on various operational projects.

OTHER INITIATIVES

Our board recognizes the importance of using our annual general meeting as a forum to communicate and share the Alibaba.com objectives and developments with our shareholders. Shareholders are encouraged to attend the meeting and raise questions with our board and management and exchange their views candidly in an open and friendly atmosphere. To enhance shareholder understanding of Alibaba.com's business developments, operations, management philosophies and latest initiatives, our chairman and chief executive officer each designated a separate session of sharing during our 2010 annual general meeting in addition to the standard meeting agenda. In addition, in order to give our shareholders and investors in mainland China an opportunity to attend our shareholder meeting and exchange views and opinions with our management, we held our 2010 annual general meeting in Shenzhen, China.

We plan to continue enhancing the use of our corporate website as a channel of communication with our shareholders. Relevant information including press releases, formal announcements and principal corporate governance policies are available on our website: http://ir.alibaba.com.

By order of the Board
Wong Lai Kin, Elsa
Company Secretary

Hong Kong, March 17, 2011

DIRECTORS' REPORT

Our directors are pleased to present the 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, 2010.

PRINCIPAL ACTIVITIES

Our Company is an investment holding company. Our subsidiaries are principally engaged in the provision of software, technology and other services on our online business-to-business ("B2B") marketplaces with the uniform resource locators www.alibaba.com, www.1688.com and under the trade name "Alibaba". Our Group also renders other comprehensive Internet based services such as software applications, domain name registration, website hosting and solutions, email hosting and technology-related consulting services on various market places and platforms. Details of the activities of our subsidiaries are set out in note 17 to our consolidated financial statements on pages 115 to 118 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, 2010 and the state of our affairs as of that date are set out in our consolidated financial statements on pages 83 to 90 of this Annual Report.

On December 10, 2010, the Company declared a special cash dividend of 22 Hong Kong cents per ordinary share, or approximately HK$1,110 million (RMB950.5 million equivalent) (2009: HK$1,010 million (RMB888.3 million equivalent)) in aggregate, which was paid to our shareholders on January 31, 2011. Our directors do not recommend the payment of a final dividend for the year ended December 31, 2010 (2009: nil).

PROPERTY AND EQUIPMENT

Details of movements in our property and equipment during the year are set out in note 15 to our consolidated financial statements on page 113 of this Annual Report.

BANK BORROWINGS

As of December 31, 2010, total borrowings of our Group amounted to RMB92.7 million (2009: nil). Particulars of these borrowings are set out in note 32 to our consolidated financial statements on page 134 of this Annual Report.

RETIREMENT SCHEME

We participate in government and other mandatory pension schemes for our employees in mainland China and overseas. Particulars of these schemes are set out in note 9 to our consolidated financial statements on pages 106 to 107 of this Annual Report.

CHARITABLE DONATIONS

During the year ended December 31, 2010, we contributed a total of RMB75,000 as charitable donations. In addition, we have earmarked 0.3% of our annual revenue to fund our environmental efforts.

SHARE CAPITAL

Details of our share capital during the year are set out in note 24 to our consolidated financial statements on page 123 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 five financial years, as extracted from our audited consolidated financial statements, is set out on page 144 of this Annual Report. This summary does not form part of our audited consolidated financial statements.

RESERVES

Details of movements in the reserves of our Group and our Company during the year are set out in the consolidated statement of changes in equity on pages 87 to 88 of this Annual Report and in note 26 to our consolidated financial statements on page 124 of this Annual Report, respectively.

DISTRIBUTABLE RESERVES

As of December 31, 2010, our reserves available for distribution, calculated in accordance with the Companies Law (2007 Revision) of the Cayman Islands, amounted to RMB3,340.1 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

Executive Directors

LU Zhaoxi, Jonathan	(appointed on March 17, 2011)
WU Wei, Maggie	
SHAO Xiaofeng	(appointed on January 1, 2011)
PENG Yi Jie, Sabrina	

Ex-directors

WEI Zhe, David	(resigned on February 21, 2011)
LEE Shi-Huei, Elvis	(resigned on February 21, 2011)
DENG Kangming	(resigned on January 1, 2011)

Non-executive Directors

TSAI Chung, Joseph
TSOU Kai-Lien, Rose
OKADA, Satoshi

Independent Non-executive Directors

NIU Gen Sheng
KWAUK Teh Ming, Walter
TSUEI, Andrew Tien Yuan
KWAN Ming Sang, Savio

In accordance with article 114 of our articles of association, LU Zhaoxi, Jonathan and SHAO Xiaofeng, being appointed by our board as executive directors to fill casual vacancies, will hold office only until our forthcoming annual general meeting. Both Mr. Lu and Mr. Shao are eligible, and will offer themselves, for re-election at this meeting.

In accordance with article 130 of our articles of association, WU Wei, Maggie, PENG Yi Jie, Sabrina, KWAUK Teh Ming, Walter and TSUEI, Andrew Tien Yuan will retire from office by rotation at our forthcoming annual general meeting. All of these retiring directors, being eligible, will offer themselves for re-election. All remaining directors will continue in office.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of our independent non-executive directors, namely, NIU Gen Sheng, KWAUK Teh Ming, Walter, TSUEI, Andrew Tien Yuan and KWAN Ming Sang, Savio an annual confirmation of their respective independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Our nomination committee has duly reviewed the independence of each of these directors. We consider that our independent non-executive directors have been independent throughout 2010, and they remain so as of the date of this Annual Report.

DIRECTORS' BIOGRAPHIES

Biographical details of our directors are set out on pages 32 to 35 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 a combination of factors including the director's skills, knowledge experience, time commitment, duties and responsibilities required of him/her, the prevailing market conditions as well as our Group's performance and results.

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

As of December 31, 2010, 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 of Hong Kong Limited ("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 for Securities Transactions"), were as follows:

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

	Number of Shares/underlying Shares held					Approximate percentage of our
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Total**	**Note**	**Company's issued share capital**
MA Yun, Jack	15,369,053	–	–	15,369,053		0.30%
WU Wei, Maggie	848,000	–	9,650,000	10,498,000	(1)	0.21%
PENG Yi Jie, Sabrina	4,275,000	–	1,000,000	5,275,000	(2)	0.10%
TSAI Chung, Joseph	–	120,000	3,000,000	3,120,000	(3)	0.06%
TSOU Kai-Lien, Rose	94,000	–	–	94,000		0.00%
OKADA, Satoshi	130,000	–	–	130,000	(4)	0.00%
NIU Gen Sheng	150,000	–	–	150,000	(5)	0.00%
KWAUK Teh Ming, Walter	100,000	–	–	100,000		0.00%
KWAN Ming Sang, Savio	100,000	–	6,600,000	6,700,000	(6)	0.13%
Name of Ex-director						
WEI Zhe, David	1,712,000	–	42,167,303	43,879,303	(7)	0.87%
LEE Shi-Huei, Elvis	10,187,900	–	–	10,187,900	(8)	0.20%
DENG Kangming	4,547,633	–	3,135,500	7,683,133	(9)	0.15%

Note:

(1) These securities represent (a) share options in respect of 848,000 underlying Shares granted by our Company to Ms. Wu; and (b) relevant interests in respect of 9,650,000 underlying Shares held by Direct Solutions Management Limited, which were owned by Sheenson Development Limited (a company ultimately owned by Ms. Wu) for the benefit of Ms. Wu pursuant to the pre-IPO share incentive scheme of Alibaba Group Holding Limited ("Alibaba Group"), our ultimate holding company.

Note (continued):

(2) These securities represent (a) 875,000 Shares held by Ms. Peng; (b) share options in respect of 3,400,000 underlying Shares granted by our Company to Ms. Peng; and (c) relevant interests in respect of 1,000,000 underlying Shares held by Direct Solutions Management Limited, which were owned by Netyan Enterprises Ltd. (a company ultimately owned by Ms. Peng) for the benefit of Ms. Peng pursuant to the pre-IPO share incentive scheme of Alibaba Group.

(3) These securities represent (a) 120,000 Shares held by Clara Wu Ming-Hua (Mr. Tsai's spouse); and (b) 3,000,000 Shares held by Parufam Limited (a company ultimately owned by a trust established by a family member of Mr. Tsai and of which Mr. Tsai is a beneficiary).

(4) These securities represent (a) 30,000 Shares held by Mr. Okada; and (b) 100,000 restricted Shares granted by our Company to Mr. Okada pursuant to our Company's share award scheme.

(5) These securities represent (a) 100,000 Shares held by Mr. Niu; and (b) 50,000 restricted Shares granted by our Company to Mr. Niu pursuant to our Company's share award scheme.

(6) These securities represent (a) 100,000 restricted Shares granted by our Company to Mr. Kwan pursuant to our Company's share award scheme; and (b) 6,600,000 Shares held by CSS Development Limited (a company controlled by Mr. Kwan and ultimately owned by a trust established by Mr. Kwan for the benefit of his family).

(7) These securities represent (a) share options in respect of 1,712,000 underlying Shares granted by our Company to Mr. Wei; (b) three Shares held by Maimex Company Limited (a company ultimately owned by Mr. Wei); and (c) relevant interests in respect of 42,167,300 underlying Shares held by Direct Solutions Management Limited, which were owned by Maimex Company Limited for the benefit of Mr. Wei pursuant to the pre-IPO share incentive scheme of Alibaba Group. Mr. Wei resigned and ceased to be our director on February 21, 2011.

(8) These securities represent (a) 487,900 Shares held by Mr. Lee; and (b) share options in respect of 9,700,000 underlying Shares granted by our Company to Mr. Lee. Mr. Lee resigned and ceased to be our director on February 21, 2011.

(9) These securities represent (a) 12,633 Shares held by Mr. Deng; (b) share options and restricted share units in respect of 4,460,000 and 75,000 underlying Shares respectively granted by our Company to Mr. Deng pursuant to our Company's share option scheme and restricted share unit scheme; (c) 2,285,500 Shares held through Infogrand Technology Limited (a company owned by a trust established by Mr. Deng for the benefit of his family); and (d) relevant interests in respect of 850,000 underlying Shares held by Direct Solutions Management Limited, which were owned by Infogrand Technology Limited for the benefit of Mr. Deng pursuant to the pre-IPO share incentive scheme of Alibaba Group. Mr. Deng resigned and ceased to be our director on January 1, 2011.

(10) As of December 31, 2010, the Company had a total of 5,043,731,098 Shares in issue.

2. Long positions in shares and underlying shares of associated corporations:

(a) Alibaba Group

	Number of shares/underlying shares held					Approximate percentage of Alibaba Group's
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Total**	**Note**	**issued share capital**
MA Yun, Jack	36,773,177	146,197,496	–	182,970,673	(1)	7.46%
WU Wei, Maggie	645,000	–	400,000	1,045,000	(2)	0.04%
PENG Yi Jie, Sabrina	422,751	–	352,249	775,000	(3)	0.03%
TSAI Chung, Joseph	3,242,964	160,000	73,126,932	76,529,896	(4)	3.12%
TSUEI, Andrew Tien Yuan	1,120,000	–	–	1,120,000	(5)	0.05%
KWAN Ming Sang, Savio	–	–	12,800,000	12,800,000	(6)	0.52%
Name of Ex-director						
WEI Zhe, David	3,620,000	–	1,000,000	4,620,000	(7)	0.19%
LEE Shi-Huei, Elvis	1,701,800	–		1,701,800	(8)	0.07%
DENG Kangming	1,032,000	–	600,000	1,632,000	(9)	0.07%

Note:

(1) These securities represent (a) 35,785,677 issued shares of Alibaba Group directly held by Mr. Ma; (b) 84,000,000 issued shares of Alibaba Group held by JC Properties Limited (a company controlled by Zhang Ying, Mr. Ma's spouse and ultimately owned by a trust established for the benefit of certain family members of Mr. Ma); (c) 60,097,496 issued shares of Alibaba Group held by JSP Investment Limited (a company ultimately owned by a trust established for the benefit of certain family members of Zhang Ying); (d) 987,500 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Ma; and (e) relevant interests in respect of 2,100,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Diamond Key Worldwide Inc. for the benefit of Zhang Ying pursuant to the senior management equity incentive scheme of Alibaba Group;

(2) These securities represent (a) 611,250 issued shares of Alibaba Group directly held by Ms. Wu; (b) restricted share units in respect of 33,750 underlying shares of Alibaba Group granted by Alibaba Group to Ms. Wu; and (c) relevant interests in respect of 400,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Sheenson Development Limited pursuant to the senior management equity incentive scheme of Alibaba Group. Securities as mentioned in (a) and (b) had all been pledged by Ms. Wu to Alibaba Group to secure repayment of the loan granted to her by Alibaba Group in connection with her exercise of share options of Alibaba Group in 2009. Subsequent to the year ended December 31, 2010, the pledge was discharged in January 2011 upon Ms. Wu's repayment of the loan in full.

(3) These securities represent (a) 422,751 issued shares of Alibaba Group directly held by Ms. Peng; and (b) 52,249 issued shares of Alibaba Group held by Netyan Enterprises Ltd., and (c) relevant interests in respect of 300,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Netyan Enterprises Ltd. pursuant to the senior management equity incentive scheme of Alibaba Group. Securities as mentioned in (a) and (b) had all been pledged by Ms. Peng to Alibaba Group to secure repayment of the loan granted to her by Alibaba Group in connection with her exercise of share options of Alibaba Group in 2009.

(4) These securities represent (a) 2,442,964 issued shares of Alibaba Group directly held by Mr. Tsai; (b) 160,000 issued shares of Alibaba Group directly held by Clara Wu Ming-Hua; (c) 10,520,980 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); (d) 25,405,952 issued shares of Alibaba Group held by Parufam Limited; (e) 36,000,000 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); (f) 800,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Tsai; and (g) relevant interests in respect of 1,200,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Parufam Limited pursuant to the senior management equity incentive scheme of Alibaba Group.

(5) These securities represent (a) 320,000 issued shares of Alibaba Group directly held by Mr. Tsuei; and (b) 800,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Tsuei.

(6) These securities represent (a) 5,600,000 issued shares of Alibaba Group; and (b) 7,200,000 outstanding options to purchase shares of Alibaba Group, all of which were held by CSS Development Limited.

(7) These securities represent (a) 3,455,000 issued shares of Alibaba Group directly held by Mr. Wei; (b) restricted share units in respect of 165,000 underlying shares of Alibaba Group granted by Alibaba Group to Mr. Wei; and (c) relevant interests in respect of 1,000,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Maimex Company Limited pursuant to the senior management equity incentive scheme of Alibaba Group. Mr. Wei resigned and ceased to be our director on February 21, 2011.

(8) These securities represent (a) 1,301,800 issued shares of Alibaba Group directly held by Mr. Lee; and (b) relevant interests in respect of 400,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited for the benefit of Mr. Lee pursuant to the senior management equity incentive scheme of Alibaba Group. Mr. Lee resigned and ceased to be our director on February 21, 2011.

(9) These securities represent (a) 1,032,000 issued shares of Alibaba Group directly held by Mr. Deng; (b) relevant interests in respect of 600,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Infogrand Technology Limited pursuant to the senior management equity incentive scheme of Alibaba Group. Securities as mentioned in (a) had all been pledged by Mr. Deng to Alibaba Group to secure repayment of the loan granted to him by Alibaba Group in connection with his exercise of share options of Alibaba Group in 2009. Mr. Deng resigned and ceased to be our director on January 1, 2011.

(10) As of December 31, 2010, Alibaba Group had a total of 2,454,313,126 shares in issue.

(b) Other associated corporations

Name of Company	Name of Director	Capacity/nature of interest	Number of underlying shares held/ amount of registered capital held in RMB	Total number of issued shares/registered capital in RMB	Approximate percentage of associated corporation's issued shares/total registered capital
(1) 杭州阿里巴巴廣告有限公司	MA Yun, Jack	Beneficial owner	8,000,000	10,000,000	80%
(2) 北京阿里巴巴信息技術有限公司	MA Yun, Jack	Beneficial owner	8,000,000	10,000,000	80%
(3) 杭州口口相傳網絡技術有限公司	MA Yun, Jack	Beneficial owner	800,000	1,000,000	80%
(4) 阿里雲計算有限公司 (Formerly: 杭州阿里信息服務有限公司)	MA Yun, Jack	Beneficial owner	40,000,000	50,000,000	80%
(5) 杭州阿里科技有限公司	MA Yun, Jack	Beneficial owner	1,480,000	1,850,000	80%
(6) 杭州阿里創業投資有限公司	MA Yun, Jack	Beneficial owner	104,000,000	130,000,000	80%
(7) 浙江阿里巴巴電子商務有限公司	MA Yun, Jack	Beneficial owner	568,800,000	711,000,000	80%
(8) 浙江淘寶網絡有限公司	MA Yun, Jack	Beneficial owner	45,000,000	50,000,000	90%
(9) Alibaba.com Japan Co., Ltd.	OKADA, Satoshi	Beneficial owner	1,634 (Note 1)	1,111,111 (Note 2)	0.15%

Note:

(1) These securities represent share options in respect of 1,634 underlying shares of Alibaba.com Japan Co., Ltd. granted by Alibaba.com Japan Co., Ltd. to Mr. Okada.

(2) As of December 31, 2010, Alibaba.com Japan Co., Ltd had a total of 1,111,111 shares in issue.

Save as disclosed above, as of December 31, 2010, none of our directors or chief executives had registered any interest or short position 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 for Securities Transactions.

3. Directors' right to acquire shares or debentures

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 any 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.

SHARE-BASED INCENTIVE SCHEMES

1. Restricted share unit scheme

We adopted a restricted share unit scheme ("RSU Scheme") by a resolution of our then sole shareholder and a resolution of our board, both on October 12, 2007. The RSU Scheme was amended by a resolution of our shareholders at our annual general meeting held on May 5, 2008 and was further amended by a resolution of our shareholders at our extraordinary general meeting held on December 10, 2010. The purpose of the RSU Scheme is to attract and retain the best available personnel by providing additional incentives to employees, consultants or advisors to our Group, third party suppliers or providers of goods and/or services to any member of our Group, customers of the Group, any third party that promotes the sales and marketing of the goods or services of, or provides any promotional support to, our Group, or any other third party group or class of persons or entities from time to time determined by our directors as having contributed or may contribute by way of joint venture or co-operation to the development and growth of our Group. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.

Pursuant to the listing approval issued by the Stock Exchange on November 5, 2007, the total number of Shares subject to both the Share Option Scheme (as defined below) and the RSU Scheme must not, in aggregate, exceed 135,100,000 Shares, representing approximately 2.67% of the then issued share capital of our Company upon listing. Pursuant to the resolution passed by shareholders at our annual general meeting on May 14, 2010, the total number of Shares still available under the RSU Scheme must not, in aggregate, exceed 37,915,551 Shares, representing approximately 0.75% of the issued share capital of our Company as of the date of the said 2010 annual general meeting.

Pursuant to the resolutions passed by our shareholders at the extraordinary general meeting on December 10, 2010, the combined limit of the RSU Scheme and the Share Option Scheme was refreshed to 156,000,000 Shares and a new mandate for the RSU Scheme, which would remain in effect until our annual general meeting in 2011, of not exceeding 156,000,000 Shares was approved by our shareholders.

As of December 31, 2010, no Shares were issuable pursuant to the refreshed scheme limit in respect of the restricted share units ("RSUs") granted under the RSU Scheme. Accordingly, as of December 31, 2010, the total number of Shares available for grant under the RSU Scheme (given that no options were granted under the Share Option Scheme, either) was 156,000,000, representing approximately 3.09% of the issued share capital of our Company as of December 31, 2010 and approximately 3.09% the issued share capital of our Company as of the date of this Annual Report.

Subsequent to December 31, 2010 and up to the date of this Annual Report, no RSUs were granted under the RSU Scheme.

Given that there also have not been any options granted under the Share Option Scheme since December 31, 2010, RSUs in respect of a total of 156,000,000 underlying Shares are still available for grant under the RSU Scheme, representing approximately 3.09% of the issued share capital of our Company as of the date of this Annual Report.

Particulars and movements of the RSUs under the RSU Scheme during the year ended December 31, 2010 were as follows:–

Name or category of participant	Number of RSUs: Outstanding as of 01/01/2010	Granted during the year	Vested during the year	Cancelled during the year	Outstanding as of 31/12/2010	Date of grant (DD/MM/YYYY)
Ex-director						
DENG Kangming (Note 1)	100,000	–	(25,000)	–	75,000	23/01/2009
Sub-total	100,000	–	(25,000)	–	75,000	
Others						
Employees	2,422,914	–	(804,897)	(187,532)	1,430,485	01/02/2008
	147,546	–	(48,008)	(23,719)	75,819	20/06/2008
	230,000	–	(115,000)	–	115,000	17/12/2008
	4,976,750	–	(1,276,510)	(555,825)	3,144,415	23/01/2009
	5,067,484	–	(1,257,246)	(353,023)	3,457,215	06/02/2009
	2,513,196	–	(485,424)	(192,220)	1,835,552	01/04/2009
	2,329,130	–	(168,198)	(450,438)	1,710,494	04/09/2009
	2,105,000	–	–	(410,000)	1,695,000	28/12/2009
	–	9,700	(9,500)	(200)	–	11/01/2010
	–	15,190,576	–	(1,362,932)	13,827,644	31/03/2010
	–	1,778,424	–	(177,500)	1,600,924	07/07/2010
	–	1,968,000	–	(35,000)	1,933,000	11/10/2010
	–	6,989,228	–	(242,500)	6,746,728	18/11/2010
Sub-total	19,792,020	25,935,928	(4,164,783)	(3,990,889)	37,572,276	
Total	19,892,020	25,935,928	(4,189,783)	(3,990,889)	37,647,276	

Note:

(1) These RSUs were granted to DENG Kangming on January 23, 2009 prior to his becoming a director of our Company on May 7, 2009. Mr. Deng resigned and ceased to be our director on January 1, 2011.

(2) The vesting period of these RSUs commences on a date determined by our board (or its delegated committee) at the time of grant, and generally spreads over a four-year period.

2. 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), effective on the date of our listing. Pursuant to the resolutions passed by our shareholders at the extraordinary general meeting on December 10, 2010, the Share Option Scheme was amended and the limit of the Share Option Scheme, combined with that of the RSU Scheme, was refreshed to 156,000,000 Shares.

(a) Summary of the principal terms of the Share Option Scheme

(i) Purpose of the Share Option Scheme

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

(ii) 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 advisors or consultants whom our board considers, in its sole discretion, to have contributed or will contribute to the growth and success of our Company.

(iii) Total number of shares available for issue under the Share Option Scheme

(1) 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 = 156,000,000 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, which in the event that there has been a new approval date on which the Scheme Mandate limit is refreshed, shall only include those Shares underlying options that have been granted since that most recent new approval date;

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, which in the event that there has been a new approval date on which the Scheme Mandate limit is refreshed, shall only include those Shares underlying options that have been granted since that most recent new approval date; 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.

(2) Pursuant to the listing approval issued by the Stock Exchange on December 21, 2010, the total number of Shares subject to the Share Option Scheme and the RSU Scheme of our Company must not, in aggregate, exceed 156,000,000 Shares, representing approximately 3.09% of the issued share capital of our Company as of the date of approval of the refreshment of the scheme limit by our shareholders at the extraordinary general meeting on December 10, 2010.

As of December 31, 2010, no share options were granted under the Share Option Scheme pursuant to the refreshed scheme limit. Accordingly, as of December 31, 2010, the total number of underlying Shares available for grant of options under the Share Option Scheme (given that no RSUs were granted under the RSU Scheme, either) was 156,000,000, representing approximately 3.09% of the then issued share capital of our Company and approximately 3.09% of the issued share capital of our Company as of the date of this Annual Report.

Subsequent to December 31, 2010 and as of the date of this Annual Report, no options were granted under the Share Option Scheme. Given that there also have not been any RSUs granted under the RSU Scheme, options in respect of a total of 156,000,000 underlying Shares are still available for grant under the Share Option Scheme, representing approximately 3.09% of the issued share capital of our Company as of the date of this Annual Report.

(iv) 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.

(v) 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. For the options granted by our Company in the past, our board has determined a period of six years for exercise of these options.

(vi) 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.

(vii) 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

The grantee is not required to pay any amount on his or her acceptance of the offer.

(viii) 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:

(1) 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;

(2) 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

(3) the nominal value of the Shares.

(ix) 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.

(b) *Particulars and movements of share options under the Share Option Scheme during the year were as follows:*

Name or category of participant	Number of share options: Outstanding as at 01/01/2010	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31/12/2010	Date of grant (DD/MM/YYYY)	Exercise period (Note 1) (DD/MM/YYYY)	Exercise price per Share (HK$)	Price immediately preceding the grant date of share options (Note 2) (HK$)	Price immediately preceding the exercise date of share options (Note 3) (HK$)
Directors											
WU Wei, Maggie	74,000	–	–	–	–	74,000	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	74,000	–	–	–	–	74,000	23/01/2009	23/01/2010–23/01/2015	5.71	5.61	N/A
	–	700,000	–	–	–	700,000	31/03/2010	31/01/2011–31/03/2016	16.12	16.20	N/A
PENG Yi Jie, Sabrina	225,000	–	–	–	–	225,000	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	225,000	–	–	–	–	225,000	23/01/2009	23/01/2010–23/01/2015	5.71	5.61	N/A
	2,500,000	–	–	–	–	2,500,000	01/04/2009	01/04/2010–01/04/2015	7.25	7.12	N/A
	–	450,000	–	–	–	450,000	31/03/2010	31/01/2011–31/03/2016	16.12	16.20	N/A
Ex-Directors											
WEI Zhe, David (Note 4)	512,000	–	–	–	–	512,000	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	–	1,200,000	–	–	–	1,200,000	31/03/2010	31/01/2011–31/03/2016	16.12	16.20	N/A
LEE Shi-Huei, Elvis (Note 4)	9,000,000	–	–	–	–	9,000,000	01/04/2009	01/04/2010–01/04/2015	7.25	7.12	N/A
	–	700,000	–	–	–	700,000	31/03/2010	31/01/2011–31/03/2016	16.12	16.20	N/A
DENG Kangming (Note 4)	360,000	–	–	–	–	360,000	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	200,000	–	–	–	–	200,000	23/01/2009	23/01/2010–23/01/2015	5.71	5.61	N/A
	3,000,000	–	–	–	–	3,000,000	01/04/2009	01/04/2010–01/04/2015	7.25	7.12	N/A
	–	900,000	–	–	–	900,000	31/03/2010	31/01/2011–31/03/2016	16.12	16.20	N/A
Sub-total	16,170,000	3,950,000	–	–	–	20,120,000					
Others											
Employees	3,653,500	–	–	(837,000)	–	2,816,500	01/02/2008	12/11/2009–01/02/2014 01/02/2009–01/02/2014	19.86	18.46	N/A
	1,990,000	–	(315,500)	(227,500)	–	1,447,000	20/06/2008	28/01/2010–20/06/2014	12.74	12.00	15.46
	6,206,750	–	(911,375)	(741,313)	–	4,554,062	17/12/2008	02/10/2008–17/12/2014 12/11/2009–17/12/2014	5.54	5.50	15.99
	2,997,900	–	(163,250)	(448,500)	–	2,386,150	23/01/2009	23/01/2010–23/01/2015	5.71	5.61	15.56
	7,541,000	–	(250,000)	(2,272,500)	–	5,018,500	01/04/2009	19/12/2010–01/04/2015 06/02/2010–01/04/2015 01/04/2010–01/04/2015	7.25	7.12	14.61
	2,102,000	–	–	(345,000)	–	1,757,000	04/09/2009	16/05/2010–04/09/2015	20.60	19.76	N/A
	2,290,000	–	–	(510,000)	–	1,780,000	28/12/2009	21/08/2010–28/12/2015	17.62	16.88	N/A
	–	8,296,000	–	(1,393,000)	–	6,903,000	31/03/2010	29/12/2011–31/03/2016 31/01/2011–31/03/2016	16.12	16.20	N/A
	–	1,000,000	–	–	–	1,000,000	18/11/2010	01/08/2012–18/11/2016	14.57	13.88	N/A
Sub-total	26,781,150	9,296,000	(1,640,125)	(6,774,813)	–	27,662,212					
Total	42,951,150	13,246,000	(1,640,125)	(6,774,813)	–	47,782,212					

Note:

(1) The vesting period of the share options granted commences on a date determined by our board (or its delegated committee) at the time of grant, and generally spreads over a four-year period. Any share options not exercised at the end of each exercise period shall lapse automatically.

(2) Being the closing price of the Shares quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

(3) Being the weighted average closing price of the Shares immediately before the date on which the options were exercised.

(4) DENG Kangming resigned and ceased to be our director on January 1, 2011; both WEI Zhe, David and LEE Shi-Huei, Elvis resigned and ceased to be our directors on February 21, 2011.

(5) The weighted average fair value of share options granted under the Share Options Scheme on March 31, 2010 and November 18, 2010 measured as at the date of grant, was approximately HK$6.83 and HK$5.93 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

Type of grant	Expected volatility (%) All types	Expected life (in years) All types	Risk-free interest rate (%) All types	Expected dividend yield (%) All types	
Date of grant (DD/MM/YYYY)					
31/03/2010	54.03-54.52	4.25-4.38	1.68-1.73	–	–
18/11/2010	53.56-54.01	4.25-4.38	1.14	–	–

In total, share-based compensation expense of RMB341.0 million was included in the consolidated statement of comprehensive income for the year ended December 31, 2010 (2009: RMB200.4 million). These expenses included the amortization of the fair value of (i) certain share-based awards in the form of share options, RSUs and restricted shares (where applicable) granted to our directors and employees under our share incentive schemes as well as certain share-based incentive schemes of Alibaba Group; and (ii) certain put options and rights to earn shares of HiChina granted to HiChina's management and key employees pursuant to the shareholders' agreement entered into by our Company for the acquisition of HiChina.

3. Share award scheme

The Company has adopted a share award scheme ("Share Award Scheme") by a resolution of our board on August 10, 2010. The purpose of the Share Award Scheme is to incentivize the directors of our Company and subsidiaries by giving them the opportunity to participate in an equity incentive scheme that is equivalent to the RSU Scheme, which as a result of the Listing Rules restrictions is only open to employees and consultants of our Group and not open to directors of our Company and subsidiaries. Our board considered, in particular, that it is important for our Company to have the flexibility to make share-based incentive awards to directors of our subsidiaries (most of whom are senior managers of our Company who are assigned to be responsible for the performance of these subsidiaries) in the form of Shares as and when appropriate. Over the past two years, our Company has increased the number of directors of our subsidiaries who are not directors of our Company itself, due to our Company's organic expansion as well as its business acquisitions, such as those of HiChina, Vendio Services, Inc. and Auctiva Corporation.

The Share Award Scheme is substantially similar to the RSU Scheme, except that (i) it is open to directors of our Company and subsidiaries; and (ii) Shares awarded under the Share Award Scheme will be purchased by a designated trustee from the market, whereas Shares awarded pursuant to the RSU Scheme are newly issued Shares. The Share Award Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.

Since the adoption of the Share Award Scheme, a total of 1,600,000 restricted Shares have been awarded to directors of our Company and its subsidiaries as of December 31, 2010 and the date of this Annual Report, representing approximately 0.03% of the issued share capital of our Company as of December 31, 2010 and the date of this Annual Report.

Further particulars of the Share Option Scheme, RSU Scheme, Share Award Scheme, as well as the share-based incentive schemes of Alibaba Group, are set out in note 27 to our consolidated financial statements on pages 125 to 129 of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between our Group and companies in which our directors had beneficial interest are set out in note 36 to the consolidated financial statements on pages 137 to 140 of this Annual Report.

Save as disclosed above and in the section headed "Connected Transactions" on pages 73 to 80 of this Annual Report, 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 were 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, 2010, 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	Note	Total	Approximate percentage of the Company's issued share capital (5)
Alibaba Group	Beneficial owner and interest of controlled corporation	Long position	3,695,864,580 Shares	(1)	3,695,864,580 Shares	73.28%
	Beneficial owner and interest of controlled corporation	Short position	105,520,650 Shares	(2)	105,520,650 Shares	2.09%
Yahoo! Inc.	Interest of controlled corporation	Long position	3,695,864,580 Shares	(3)	3,695,864,580 Shares	73.28%
	Interest of controlled corporation	Short position	105,520,650 Shares	(4)	105,520,650 Shares	2.09%

Note:

(1) Included 105,520,650 Shares held by Alibaba Group which will be transferred to employees pursuant to an employee equity exchange program, the pre-IPO share incentive scheme and other share award schemes of Alibaba Group.

(2) These represent the Shares subject to an employee equity exchange program, the pre-IPO share incentive scheme and other share award schemes of Alibaba Group.

(3) These 3,695,864,580 Shares were beneficially owned by Alibaba Group. As Yahoo! Inc., directly or indirectly through its wholly-owned subsidiaries, owns more than one-third of the shares in Alibaba Group, it was deemed to be interested in all the Shares held by Alibaba Group under the SFO.

(4) These represent the same 105,520,650 Shares subject to the employee equity exchange program, the pre-IPO share incentive scheme and other share award schemes of Alibaba Group as set out in Note (2) above.

(5) As of December 31, 2010, our Company had a total of 5,043,731,098 Shares in issue.

Save as disclosed above, as of December 31, 2010, 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 of the date of this Annual Report.

CONFIRMATION OF COMPLIANCE WITH NON-COMPETITION UNDERTAKING

We have received an annual written confirmation from Alibaba Group in respect of its compliance of the provisions of the non-competition undertaking given by Alibaba Group and its subsidiaries (other than our Group) in favour of our Company on October 19, 2007 ("Non-Competition Undertaking"). Alibaba Group further confirmed that there had not been any circumstances giving rise to any New Opportunity or an Acquisition Option (both as defined in the Non-Competition Undertaking) for our Company to consider during the financial year ended December 31, 2010.

Our independent non-executive directors have reviewed the compliance by Alibaba Group and its subsidiaries (other than our Group) of the Non-Competition Undertaking during the financial year ended December 31, 2010 and were satisfied that Alibaba Group has duly complied with the Non-Competition Undertaking. Since there were no circumstances giving rise to any New Opportunity or Acquisition Option during the aforesaid period, our independent non-executive directors were not required to review any decision taken in relation to any New Opportunity or Acquisition Option which may be offered by Alibaba Group to our Company pursuant to the Non-Competition Undertaking.

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 of the date of this Annual Report. In addition to the Non-Competition Undertaking described above, there are also non-competition undertakings provided by each of the executive directors and non-executive directors in their respective employment contract or appointment letter 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 42 to 59 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of our Company's compliance with the Model Code for Securities Transactions are set out in the Corporate Governance Report on page 52 of this Annual Report.

CONNECTED TRANSACTIONS

During the year ended December 31, 2010, save for the continuing connected transactions as disclosed below, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of rule 14A.45 of the Listing Rules.

Continuing connected transactions

The following transactions constitute continuing connected transactions of our Company and require disclosure in this Annual Report pursuant to rule 14A.46 of the Listing Rules.

1. Structure contracts

We conduct our B2B business in the 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, MA Yun, Jack and 20% held by a former director, XIE Shi Huang, Simon. Under our operating structure, our wholly-owned subsidiary, Alibaba (China) Technology Co., Ltd. ("Alibaba China") provides software and technology services to our customers, including, among other things, licensing 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:

(a) 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;

(b) 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 Alibaba China;

(c) the right to exercise the rights of shareholders in Alibaba Hangzhou; and

(d) 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 permits) 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 into 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. At the time of our initial public offering in November 2007, 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:

(a) no changes to the Structure Contracts will be made without our independent non-executive directors' approval;

(b) the Structure Contracts continue to enable us to receive the above mentioned economic benefits derived by Alibaba Hangzhou; and

(c) 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, 2010, our independent non-executive directors have reviewed the Structure Contracts and confirmed that (i) 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; (ii) no dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests; and (iii) any new contracts entered into, renewed or reproduced between our Company and Alibaba Hangzhou during this financial period were fair and reasonable as far as we are concerned and were in the interests of our shareholders as a whole.

We have also engaged our auditors to report on the transactions pursuant to the Structure Contracts in accordance with International Standard on Assurance Engagement 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. The auditors have reported to our board that nothing has come to their attention which causes them to believe that:

(a) the transactions have not been approved by our board;

(b) the transactions have not been entered into in accordance with the relevant Structure Contracts; and

(c) dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests.

2. New Framework Agreements

At the time of our Company's initial public offering in November 2007, our Company entered into certain framework agreements with Alibaba Group for the provision of certain services to or from Alibaba Group, including the technology services framework agreement, the cooperation framework agreement, the cross-selling services framework agreement and the technology and intellectual property framework license agreement all dated October 19, 2007 (collectively, "Old Framework Agreements") and for a term expiring on December 31, 2009. The transactions under these Old Framework Agreements constituted non-exempt continuing connected transactions of our Company under the Listing Rules but they had been the subject of waiver granted to our Company by the Stock Exchange, subject to compliance of certain conditions of the relevant waiver as disclosed in our annual reports of previous years.

As the term of the Old Framework Agreements was expiring on December 31, 2009, our Company and Alibaba Group conditionally entered into four new framework agreements (collectively, "New Framework Agreements") on November 10, 2009 to revise and expand the scope of, and adopt new annual caps for, transactions conducted under each of the Old Framework Agreements. Among the New Framework Agreements, the new cooperation framework agreement, the new cross-selling services framework agreement and the new technology and intellectual property framework license agreement were subject to approval of our Company's independent shareholders under the Listing Rules. On December 15, 2009, our Company duly convened an extraordinary general meeting and obtained approval from our independent shareholders in respect of these three New Framework Agreements. Details of these New Framework Agreements, including their major terms, pricing standards and new annual cap amounts applicable for the three years ending December 31, 2010, 2011 and 2012, were set out in the circular issued by our Company on November 27, 2009

3. New Technology Services Framework Agreement

We entered into a new technology services framework agreement on November 10, 2009 with Alibaba Group (the "New Technology Services Framework Agreement"). Under the terms of the New Technology Services Framework Agreement, either party (including its subsidiaries) may provide to the other party (including its subsidiaries) such technology services for use by the other party in its ordinary course of business.

The following are the technology services that are currently provided by our Group to Alibaba Group and its subsidiaries (excluding our Group) ("Alibaba Holding Group") under the New Technology Services Framework Agreement:

- Network infrastructure;
- System security and maintenance; and
- Website monitoring services.

It is anticipated that we will continue to provide the above services on a diminishing scale, given the Alibaba Holding Group's developed capability and capacity to provide these services for themselves in the future.

The following are the technology services that are provided by the Alibaba Holding Group to our Group (some of which are the subject of services previously provided by our Group to the Alibaba Holding Group) under the New Technology Services Framework Agreement:

- Network infrastructure;
- Internet data centers;
- Internet-based computing services including, without limitation, e-commerce data mining, high-speed massive e-commerce data processing, data customization and online business applications; and
- Research and development services including, without limitation, patent research and development.

Under the New Technology Services Framework Agreement, the fees payable to a party for any technology services provided under the New Technology Services Framework Agreement will be calculated on the basis of that party's actual costs for providing such technology services plus a margin of up to 15% by reference to industry practice for comparable transactions, which (i) in the case of the provision of services by the Alibaba Holding Group to our Group, shall not in any event exceed the market rates (if available) for similar services; and (ii) in the case of the provision of services by our Group to Alibaba Holding Group, shall not in any event be below the market rates (if available) for similar services. The costs for providing each technology service shall include operating costs, cost for the aggregate time spent by a party's staff, any equipment depreciation and other overhead costs that it has incurred or may incur, in connection with providing such service.

Unless the parties otherwise agree in writing, payment by either party to the other party for the services provided under the New Technology Services Framework Agreement shall be settled within 30 days upon receipt of invoices from the other party.

The New Technology Services Framework Agreement took effect on January 1, 2010 and continues for a term of not more than three years, expiring on December 31, 2012. It 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 or upon the occurrence of certain events of default.

During the year, the total amount of payments made by our Group to the Alibaba Holding Group under the New Technology Services Framework Agreement was RMB4.9 million, whereas the total amount of payments made by the Alibaba Holding Group to our Group was RMB6.6 million.

4. New Cooperation Framework Agreement

We entered into a new cooperation framework agreement on November 10, 2009 with Alibaba Group (the "New Cooperation Framework Agreement"). Under the terms of the New Cooperation Framework Agreement, either party (including its subsidiaries) may provide or make available to the other party (including its subsidiaries) such products and services that it has developed and offered to customers in its ordinary course of business.

The following are the products and services that are provided by our Group to the Alibaba Holding Group and its customers under the New Cooperation Framework Agreement:

- Internet infrastructure and application services including, without limitation, domain name services, server hosting services and e-commerce consultation services.

The following are the products and services that are currently provided or expected to be provided in the future by the Alibaba Holding Group to users of our Group's marketplaces under the New Cooperation Framework Agreement:

- Web mail services;
- Online advertising services;
- Online payment platform and related services for settlement of fees payable to our Group and for transactions between users of our Group; and
- Instant messaging services (including mobile communication device-based messaging services).

Under the New Cooperation Framework Agreement, the fees payable by our Group to the Alibaba Holding Group for any products or services provided under the New Cooperation Framework Agreement will not exceed market rates. The provision of products or services will be based on normal commercial terms no less favorable than (i) terms offered to our Group by independent third-party service providers for similar products and services or (ii) terms offered by the Alibaba Holding Group to independent third-party customers for similar products and services if no comparable independent third-party service providers for similar products and services can be found.

The fees payable by the Alibaba Holding Group to our Group for any products or services provided under the New Cooperation Framework Agreement will not be lower than market rates. The provision of products and services will be based on normal commercial terms no more favorable than (i) terms offered by our Group to independent third-party customers for similar products and services or (ii) terms offered to the Alibaba Holding Group by independent third-party service providers for similar products and services if our Group has not offered similar products and services to independent third-party customers.

Market rates are determined based on the rates offered by independent third-party providers for similar products and services.

Unless the parties otherwise agree in writing, payment by either party to the other party for the products or services provided under the New Cooperation Framework Agreement shall be settled within 30 days upon receipt of invoices from the other party.

The New Cooperation Framework Agreement took effect on January 1, 2010 and continues for a term of not more than three years, expiring on December 31, 2012. It 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 or upon the occurrence of certain events of default.

During the year, the total amount of payments made by our Group to the Alibaba Holding Group under the New Cooperation Framework Agreement was RMB10.5 million, whereas the total amount of payments made by the Alibaba Holding Group to our Group was RMB0.1 million.

5. New Cross-Selling Services Framework Agreement

We entered into a new cross-selling services framework agreement on November 10, 2009 with Alibaba Group (the "New Cross-Selling Services Framework Agreement"). Under the terms of the New Cross-Selling Services Framework Agreement, the parties (including their respective subsidiaries) may cross-sell the products and services of other party to their respective customers.

The following are the products and services of the Alibaba Holding Group that are currently sold or expected to be sold in future by our Group to users of its marketplaces under the New Cross-Selling Services Framework Agreement:

- The Alibaba Holding Group's network infrastructure and Internet-based computing services.

The following are the products and services of our Group that are currently sold or expected to be sold in the future by the Alibaba Holding Group to its customers under the New Cross-Selling Services Framework Agreement:

- Our Group's online software tools and services (Software as a Service (SaaS)) for users of the Alibaba Holding Group's online platforms;
- Our Group's website and storefront creation services for users of the Alibaba Holding Group's online platforms; and
- Our Group's website inventory.

Under the New Cross-Selling Services Framework Agreement, payments will be made in the form of commissions or on the basis of revenue sharing arrangements. In respect of the cross-selling services identified in the New Cross-Selling Services Framework Agreement:

- Our Group will receive a commission of 20%-80% or pay a revenue share of 20%-80% of the transaction amount for any cross-selling service provided by it to the Alibaba Holding Group; and
- Our Group will pay a commission of 15%-50% or receive a revenue share of 50%-85% of the transaction amount for any cross-selling service received by it from the Alibaba Holding Group.

The commissions and revenue share payable and receivable by our Group may vary with reference to market rates for comparable transactions as they relate to the cross-selling of different products and services. Commissions or revenue share receivable by our Group shall not in any event be less than the prevailing market rate. Commissions or revenue share payable by our Group shall not in any event exceed the prevailing market rate. In addition, for the purpose of calculating any commissions or share of revenue, any direct cost payable by one party to an independent third-party for generating the subject revenue may be taken into account and be deducted from the revenue amounts used for determination of commissions or revenue sharing percentages.

Commission amounts and revenue sharing arrangements for additional cross-selling services are subject to negotiation between the parties, except that commission fees or revenue share receivable by our Group shall not be less than the prevailing market rate (if available), and commission fees or revenue share payable by our Group shall not exceed the prevailing market rate (if available).

Unless the parties otherwise agree in writing, payment by either party to the other party for the services provided under the New Cross-Selling Services Framework Agreement shall be settled within 30 days upon receipt of invoices from the other party.

The New Cross-Selling Services Framework Agreement took effect on January 1, 2010, and continues for a term of not more than three years, expiring on December 31, 2012. It 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 or upon the occurrence of certain events of default.

During the year, the total amount of combined payments that were received by our Group from, or paid by our Group to, the Alibaba Holding Group under the New Cross-Selling Services Framework Agreement was RMB4.3 million.

6. New Technology and Intellectual Property Framework License Agreement

We entered into a new technology and intellectual property framework license agreement on November 10, 2009 with Alibaba Group (the "New Technology and Intellectual Property Framework License Agreement"). Under the terms of the New Technology and Intellectual Property Framework License Agreement:

- Our Group has been granted, to the extent relevant to its B2B business, a renewable license to use all copyright, patents, pending patents, and related know-how owned by the Alibaba Holding Group;
- Our Group has been granted, to the extent relevant to its B2B business, a renewable sub-license to use all technology and intellectual property that the Alibaba Holding Group has an existing license to use from a third party and which the Alibaba Holding Group is permitted to sub-license to our Group, subject to the other terms of the third-party license granted to the Alibaba Holding Group; and
- Our Group has an option to be granted, to the extent relevant to its B2B business, a renewable license to use all technology and intellectual property that the Alibaba Holding Group may license from third parties in the future to the extent the Alibaba Holding Group has the right to do so.

Under the New Technology and Intellectual Property Framework License Agreement:

- The fees payable by our Group for license of all existing and future patents, pending patents, copyright and related know-how owned by the Alibaba Holding Group will be agreed upon between the parties at the end of each year and assessed as a percentage of revenue of our Group during the year, which percentage will be (i) not more than the prevailing market rate for comparable license; (ii) adjusted based on the size and level of usage of the portfolio of technology by our Group during the year;
- The fees payable by our Group for third-party technology and intellectual property already licensed to the Alibaba Holding Group and sub-licensed to our Group will be calculated at a rate or on a basis no less favorable than that applicable to the Alibaba Holding Group in obtaining such license (i.e. not less preferable than on a pass-through basis); and
- If our Group exercises the option to receive a sub-license to use third-party technology and intellectual property licensed to the Alibaba Holding Group in the future, the parties will agree to an additional sublicensing fee on a case by case basis, provided that the fees payable by our Group will be calculated at a rate or on a basis no less favorable than that applicable to the Alibaba Holding Group in obtaining the relevant license (i.e. not less preferable than on a pass-through basis);

provided, however, that the aggregate fees payable by our Group each year will not exceed the annual caps.

Unless the parties otherwise agree in writing, payment by our Group for the licenses provided under the New Technology and Intellectual Property Framework License Agreement shall be settled within 45 days upon receipt of invoices from the Alibaba Holding Group.

The New Technology and Intellectual Property Framework License Agreement took effect on January 1, 2010, and continues for a term of not more than three years, expiring on December 31, 2012 subject to early termination events (including, without limitation, where the agreement between Alibaba Group and any third party in respect of the third party's intellectual property is terminated or the Company undergoes a change of control) and other standard provisions. The license is renewable for further periods of no more than three years at our Company's sole discretion, by giving Alibaba Group three months' prior written notice before the end of the relevant term, subject to compliance with the application provisions of the Listing Rules and the early termination events.

During the year, the total amount of fees paid by us under the New Technology and Intellectual Property Framework License Agreement was RMB53.0 million.

7. Disclosure of details pursuant to the Listing Rules

The aggregate amount of transactions that took place pursuant to each New Framework Agreement, as compared against the applicable annual transaction cap, for the year ended December 31, 2010 is as follows:

	Aggregate amount of transactions that took place RMB (million)	Applicable annual transaction cap amount RMB (million)
(1) New Technology Services Framework Agreement		
• From our Company to Alibaba Holding Group	6.6	9.0
• From Alibaba Holding Group to our Company	4.9	11.0
(2) New Cooperation Framework Agreement		
• From our Company to Alibaba Holding Group	0.1	2.0
• From Alibaba Holding Group to our Company	10.5	33.0
(3) New Cross-selling Services Framework Agreement	4.3	30.0
(4) New Technology and Intellectual Property Framework License Agreement	53.0	57.0

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

In accordance with rule 14A.38 of the Listing Rules, our board engaged the auditors of our Company to report on our Group's continuing connected transactions in accordance with International Standard on Assurance Engagement 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter to our board stating that nothing has come to their attention which causes them to believe that:

(a) any of the above continuing connected transactions has not been approved by our board of directors;

(b) for transactions involving the provision of goods or services by the Group, any of the above continuing connected transactions was not, in all material respects, in accordance with the pricing policies of our Group;

(c) with respect to the aggregate amount of each of the continuing connected transactions, any of the above continuing connected transactions has exceeded the maximum aggregate annual value applicable to such continuing connected transaction as disclosed in our Company's previous announcement dated November 10, 2009; and

(d) any of the above continuing connected transactions was not entered into, in all material respects, in accordance with the relevant agreement governing such transaction.

The auditors also reported that, pursuant to rule 14A.38(2) of the Listing Rules, if the continuing connected transactions involve provision of goods or services by a listed issuer, they shall confirm that the continuing connected transactions are in accordance with the pricing policies of the listed issuer. The continuing connected transactions under the Technology Services Framework Agreement and the Cross-selling Services Framework Agreement are rather unique in its service nature, and our Group has not rendered similar services to other independent third parties. In addition, these framework agreements only set out certain pricing ranges rather than quantifying the exact pricing policy because the scope of services and actual circumstances will vary in different scenarios. Accordingly, the auditors considered that they could only confirm that nothing has come to their attention which causes them to believe that:

Technology Services Framework Agreement

- the pricing was not based on the actual costs for providing the technology services plus a margin of up to 15%, being the ceiling of the stipulated pricing range;

Cross-selling Services Framework Agreement

- any commission fee received by our Group was not within the stipulated pricing range of 20%-80% of the transaction amount for cross-selling the services.

Save as disclosed above, details of the significant related party transactions undertaken by us during the year in our ordinary course of business are set out in note 36 to our consolidated financial statements on pages 137 to 140 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2010, our Group did not have any single major customer. Our top five customers accounted for less than 5% of our revenue. Our top five service providers accounted for approximately 32% of our purchases, and our largest service provider accounted for approximately 15% of our purchases for the year.

Other than the continuing connected transactions with Alibaba Group as described in pages 73 to 80 of this Annual Report, none of our directors or any of their associates or any of our 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 suppliers or customers.

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

During the year ended December 31, 2010, we purchased a total of 1,800,000 Shares at prices ranging from HK$12.88 to HK$13.50 per Share on the Stock Exchange. We made these repurchases with a view to enhancing shareholder value in the long-term.

Particulars of these repurchases are as follows:

Date (MM/YYYY)	Number of Shares repurchased	Highest price paid per Share (HK$)	Lowest price paid per Share (HK$)	Aggregate consideration paid (excluding expenses) (HK$)
11/2010	1,500,000	13.20	12.88	19,632,200
12/2010	300,000	13.50	13.30	4,029,090
Total	**1,800,000**			**23,661,290**

The repurchased Shares were cancelled and, accordingly, our issued share capital was diminished by the nominal value thereof. The premium payable on repurchases was charged against our share premium account.

Save as disclosed above, neither we nor any of our subsidiaries purchased, sold or redeemed any of our listed securities during the year ended December 31, 2010.

AUDITORS

Our financial statements for the year ended December 31, 2010 were audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at our forthcoming annual general meeting.

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 17, 2011

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, 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 83 to 143, which comprise the consolidated and company balance sheets as of December 31, 2010 and the consolidated statement of comprehensive income, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 state of affairs of the Company and of the Group as of December 31, 2010 and of the Group's profit 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 17, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	Notes	2009 RMB'000	2010 RMB'000
Revenue			
International marketplace	5	2,406,804	**3,238,243**
China marketplace	5	1,414,897	**1,893,899**
Others	5	53,027	**425,444**
Total revenue		3,874,728	**5,557,586**
Cost of revenue		(534,438)	**(931,016)**
Gross profit		3,340,290	**4,626,570**
Sales and marketing expenses		(1,623,845)	**(2,050,561)**
Product development expenses		(384,333)	**(580,173)**
General and administrative expenses		(409,708)	**(568,324)**
Other operating income, net	6	150,566	**109,026**
Profit from operations	7	1,072,970	**1,536,538**
Finance income, net	8	140,941	**176,398**
Share of losses of associated companies and a jointly controlled entity, net of tax	18	(37,492)	**(6,479)**
Profit before income taxes		1,176,419	**1,706,457**
Income tax charges	12	(163,393)	**(236,445)**
Profit for the year		1,013,026	**1,470,012**
Other comprehensive income/(expense)			
Net fair value gains on available-for-sale investments		222	**5,640**
Currency translation differences		247	**(21,533)**
Total comprehensive income		1,013,495	**1,454,119**
Profit for the year attributable to			
Equity owners of the Company		1,013,026	**1,469,464**
Non-controlling interests		–	**548**
Profit for the year		1,013,026	**1,470,012**
Total comprehensive income attributable to			
Equity owners of the Company		1,013,495	**1,453,571**
Non-controlling interests		–	**548**
Total comprehensive income		1,013,495	**1,454,119**
Dividend per share			
Special cash dividend (HK$)	13	20 cents	**22 cents**
Earnings per share, basic and diluted (RMB)	14	20 cents	**29 cents**
Earnings per share, basic and diluted (HK$)	14	23 cents	**33 cents**

The notes on pages 91 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2010

	Notes	2009 RMB'000	**2010 RMB'000**
ASSETS			
Non-current assets			
Lease prepayment		27,915	**27,328**
Property and equipment	15	783,122	**781,145**
Goodwill	16	202,631	**367,787**
Intangible assets	16	165,506	**231,535**
Interests in associated companies and a jointly controlled entity	18	3,802	**12,723**
Deferred tax assets	31	73,165	**101,332**
Available-for-sale investments	19	22,386	**51,340**
Prepayments, deposits and other receivables	20	4,234	**46,731**
Direct selling costs	21	31,087	**45,204**
Total non-current assets		1,313,848	**1,665,125**
Current assets			
Amounts due from related companies	36(c)	37,925	**39,534**
Prepayments, deposits and other receivables	20	309,028	**293,749**
Customer accounts		–	**54,162**
Direct selling costs	21	529,496	**595,718**
Available-for-sale investments	19	50,000	**305,140**
Restricted cash and escrow receivables	22	–	**168,179**
Term deposits with original maturities of over three months	23	4,467,755	**6,497,368**
Cash and cash equivalents	23	2,748,690	**3,086,165**
Total current assets		8,142,894	**11,040,015**
Total assets		9,456,742	**12,705,140**
EQUITY			
Share capital	24	485	**485**
Reserves		4,976,605	**5,752,764**
Equity attributable to equity owners of the Company		4,977,090	**5,753,249**
Non-controlling interests		41,059	**49,816**
Total equity		5,018,149	**5,803,065**

	Notes	2009 RMB'000	**2010 RMB'000**
LIABILITIES			
Non-current liabilities			
Deferred revenue	28	204,285	**332,945**
Other payables	30	67,602	**53,666**
Deferred tax liabilities	31	69,641	**130,855**
Total non-current liabilities		341,528	**517,466**
Current liabilities			
Deferred revenue and customer advances	28	3,232,690	**4,101,442**
Trade payables	29	23,907	**15,981**
Amounts due to customers		–	**220,612**
Amounts due to related companies	36(c)	20,215	**45,967**
Other payables and accruals	30	785,577	**859,261**
Dividend payable		–	**943,695**
Current income tax liabilities		34,676	**104,933**
Short-term bank borrowings	32	–	**92,718**
Total current liabilities		4,097,065	**6,384,609**
Total liabilities		4,438,593	**6,902,075**
Total equity and liabilities		9,456,742	**12,705,140**
Net current assets		4,045,829	**4,655,406**
Total assets less current liabilities		5,359,677	**6,320,531**

Approved on behalf of the board of directors

LU Zhaoxi, Jonathan
Director

WU Wei, Maggie
Director

Hong Kong, March 17, 2011

The notes on pages 91 to 143 are an integral part of these consolidated financial statements.

BALANCE SHEET

As of December 31, 2010

	Notes	2009 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	17	1,717,429	**1,938,038**
Current assets			
Prepayments and other receivables	20	101	**1**
Amounts due from subsidiaries	17, 36(c)	1,530,401	**1,482,730**
Amount due from an associated company	36(c)	205	**199**
Dividend receivable		–	**944,210**
Cash and cash equivalents	23	120	**3,845**
Total current assets		1,530,827	**2,430,985**
Total assets		3,248,256	**4,369,023**
EQUITY			
Share capital	24	485	**485**
Reserves		3,190,451	**3,340,079**
Total equity	26	3,190,936	**3,340,564**
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	17, 36(c)	49,637	**70,843**
Amount due to the ultimate holding company	36(c)	1,676	**2,234**
Other payables and accruals	30	6,007	**11,172**
Dividend payable		–	**944,210**
Total current liabilities		57,320	**1,028,459**
Total equity and liabilities		3,248,256	**4,369,023**
Net current assets		1,473,507	**1,402,526**
Total assets less current liabilities		3,190,936	**3,340,564**

Approved on behalf of the board of directors

LU Zhaoxi, Jonathan
Director

WU Wei, Maggie
Director

Hong Kong, March 17, 2011

The notes on pages 91 to 143 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Attributable to equity owners of the Company										
	Share capital RMB'000 (Note 24)	Share premium RMB'000	Capital reserve RMB'000 (Note 25(a))	Capital redemption reserve RMB'000 (Note 24(a))	Exchange reserve RMB'000	Statutory reserve RMB'000 (Note 25(b))	Investment revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as of January 1, 2009, as previously reported	486	3,067,924	(55,787)	–	(4,293)	250,128	–	1,709,951	4,968,409	–	4,968,409
Reserve arising from business combination under common control (Note 1)	–	7,260	25,434	–	–	–	–	(94,042)	(61,348)	–	(61,348)
Balance as of January 1, 2009, as restated	486	3,075,184	(30,353)	–	(4,293)	250,128	–	1,615,909	4,907,061	–	4,907,061
Comprehensive income											
Profit attributable to equity owners of the Company	–	–	–	–	–	–	–	1,013,026	1,013,026	–	1,013,026
Other comprehensive income											
Net fair value gains on available-for-sale investments	–	–	–	–	–	–	222	–	222	–	222
Currency translation differences	–	–	–	–	247	–	–	–	247	–	247
Total comprehensive income	–	–	–	–	247	–	222	1,013,026	1,013,495	–	1,013,495
Transactions with equity owners											
Repurchase of issued ordinary shares	(1)	(69,803)	–	1	–	–	–	(1)	(69,804)	–	(69,804)
Issue of ordinary shares under share-based incentive schemes	–	55	–	–	–	–	–	–	55	–	55
Special cash dividend (Note 13)	–	–	–	–	–	–	–	(888,261)	(888,261)	–	(888,261)
Net deemed distributions arising from business combination under common control (Note 1)	–	–	(118,239)	–	–	–	–	–	(118,239)	–	(118,239)
Put liability in relation to the acquisition of a 14.67% equity interest in HiChina (Notes 1 and 30)	–	–	(67,602)	–	–	–	–	–	(67,602)	–	(67,602)
Value of employee services under share-based incentive schemes (Note 27(c))	–	200,385	–	–	–	–	–	–	200,385	–	200,385
Total transactions with equity owners	(1)	130,637	(185,841)	1	–	–	–	(888,262)	(943,466)	–	(943,466)
Appropriation to statutory reserve	–	–	–	–	–	105,675	–	(105,675)	–	–	–
Non-controlling interests arising on acquisition of HiChina	–	–	–	–	–	–	–	–	–	41,059	41,059
Balance as of December 31, 2009	485	3,205,821	(216,194)	1	(4,046)	355,803	222	1,634,998	4,977,090	41,059	5,018,149

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Attributable to equity owners of the Company											
	Share capital RMB'000 (Note 24)	Share premium RMB'000	Capital reserve RMB'000 (Note 25(a))	Capital redemption reserve RMB'000 (Note 24(b))	Exchange reserve RMB'000	Statutory reserve RMB'000 (Note 25(b))	Investment revaluation reserve RMB'000	Shares held for Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as of January 1, 2010	485	3,205,821	(216,194)	1	(4,046)	355,803	222	–	1,634,998	4,977,090	41,059	5,018,149
Comprehensive income												
Profit attributable to equity owners of the Company	–	–	–	–	–	–	–	–	1,469,464	1,469,464	548	1,470,012
Other comprehensive income/(expense)												
Net fair value gains on available-for-sale investments	–	–	–	–	–	–	5,640	–	–	5,640	–	5,640
Currency translation differences	–	–	–	–	(21,533)	–	–	–	–	(21,533)	–	(21,533)
Total comprehensive income/(expense)	–	–	–	–	(21,533)	–	5,640	–	1,469,464	1,453,571	548	1,454,119
Transactions with equity owners												
Repurchase of issued ordinary shares (Note 24(b))	–	(20,455)	–	–	–	–	–	–	–	(20,455)	–	(20,455)
Issue of ordinary shares under share-based incentive schemes	–	10,328	–	–	–	–	–	–	–	10,328	–	10,328
Value of employee services under share-based incentive schemes	–	319,191	–	–	–	–	–	–	–	319,191	–	319,191
Special cash dividend (Note 13)	–	–	–	–	–	–	–	–	(950,538)	(950,538)	–	(950,538)
Purchase of shares held for Share Award Scheme (Note 24(c))	–	–	–	–	–	–	–	(32,254)	–	(32,254)	–	(32,254)
Total transactions with equity owners	–	309,064	–	–	–	–	–	(32,254)	(950,538)	(673,728)	–	(673,728)
Transactions with non-controlling interests												
Value of employee services under share-based incentive schemes	–	–	–	–	–	–	–	–	–	–	4,525	4,525
Transfer of partial interest in a subsidiary arising from exercise or vesting of share-based awards	–	–	(3,684)	–	–	–	–	–	–	(3,684)	3,684	–
Total transactions with non-controlling interests	–	–	(3,684)	–	–	–	–	–	–	(3,684)	8,209	4,525
Appropriation to statutory reserve	–	–	–	–	–	169,823	–	–	(169,823)	–	–	–
Balance as of December 31, 2010	485	3,514,885	(219,878)	1	(25,579)	525,626	5,862	(32,254)	1,984,101	5,753,249	49,816	5,803,065

The notes on pages 91 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2010

	2009 RMB'000	**2010 RMB'000**
Cash flows from operating activities		
Profit before income taxes	1,176,419	**1,706,457**
Adjustments for:		
Amortization of lease prepayment (Note 7)	587	**587**
Depreciation expense of property and equipment (Note 15)	119,380	**187,190**
Amortization of intangible assets (Note 16)	6,615	**39,133**
Share-based compensation expense (Note 27(c))	200,385	**340,971**
Share of losses of associated companies and a jointly controlled entity, net of tax (Note 18)	37,492	**6,479**
Gains on deemed disposal of Alibaba Japan (Note 6)	(6,980)	**–**
Losses on disposals of property and equipment, net (Note 7)	191	**514**
Interest income, net (Note 8)	(140,479)	**(158,286)**
Exchange gains, net (Note 8)	(462)	**(18,112)**
Increase in restricted cash and escrow receivables	–	**(168,179)**
Increase in amounts due from related companies	(6,555)	**(1,609)**
(Increase)/Decrease in prepayments, deposits and other receivables	(1,815)	**10,677**
Increase in direct selling costs	(228,812)	**(80,339)**
Increase in amounts due to customers	–	**166,451**
Increase in deferred revenue and customer advances	950,714	**960,621**
Increase/(Decrease) in trade payables	8,331	**(7,926)**
(Decrease)/Increase in amounts due to related companies	(30,268)	**24,436**
Increase in other payables and accruals	234,380	**127,110**
Net cash provided by operating activities	2,319,123	**3,136,175**
Income tax paid	(78,908)	**(96,782)**
Net cash generated from operating activities	2,240,215	**3,039,393**

For the year ended December 31, 2010

	2009 RMB'000	2010 RMB'000
Cash flows from investing activities		
Purchase of term deposits with original maturities of over three months	(4,400,984)	**(6,404,124)**
Proceeds from disposals of term deposits with original maturities of over three months	3,897,497	**4,374,328**
Purchase of property and equipment and lease prepayment	(410,744)	**(288,089)**
Purchase of intangible assets	–	**(6,390)**
Purchase of available-for-sale investments	(922,152)	**(1,709,565)**
Proceeds from disposals of property and equipment	2,737	**534**
Proceeds from disposals of available-for-sale investments	850,000	**1,431,000**
Interest received	176,206	**131,187**
Acquisitions of Vendio and Auctiva, net of cash acquired (Notes 1 and 33)	–	**(217,626)**
Investment in a jointly controlled entity	–	**(14,700)**
Acquisition of the business management software division of Alisoft (Note 1)	(193,440)	**–**
Acquisition of an 85% equity interest in HiChina, net of cash acquired (Note 1)	(221,364)	**(43,530)**
Net cash used in investing activities	(1,222,244)	**(2,746,975)**
Cash flows from financing activities		
Payments for repurchase of issued ordinary shares	(69,804)	**(20,455)**
Payments for purchase of issued ordinary shares for the Share Award Scheme	–	**(32,254)**
Issue of ordinary shares under share-based incentive schemes	55	**10,328**
Dividends paid	(888,261)	**–**
Cash received from short-term bank borrowings	–	**93,644**
Net cash (used in)/generated from financing activities	(958,010)	**51,263**
Net increase in cash and cash equivalents	59,961	**343,681**
Cash and cash equivalents at beginning of year	2,688,951	**2,748,690**
Effect of exchange rate for the year	(222)	**(6,206)**
Cash and cash equivalents at end of year (Note 23)	2,748,690	**3,086,165**

	2009 RMB'000	2010 RMB'000
Analysis of cash and bank balances		
Cash and cash equivalents	2,748,690	**3,086,165**
Term deposits with original maturities of over three months	4,467,755	**6,497,368**
Total	7,216,445	**9,583,533**

The notes on pages 91 to 143 are an integral part of these consolidated 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 is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered address of the Company is Fourth Floor, One Capital Place, P.O. Box 847GT, Grand Cayman, Cayman Islands. As of the date of this report, the ultimate holding company of the Company is Alibaba Group Holding Limited, a company incorporated in the Cayman Islands.

The Company and its subsidiaries (the "Group") maintain a number of business lines to provide software, technology and other related services primarily on the online business-to-business ("B2B") marketplaces with the uniform resource locators www.alibaba.com and www.1688.com and under the trade name "Alibaba" (the "B2B services"). The Group also renders other comprehensive Internet based services such as software applications, domain name registration, website hosting and solutions, email hosting and technology-related consulting services on various marketplaces and platforms.

In August 2009, the Group entered into an acquisition agreement with Alibaba Group Holding Limited to acquire the business management software division of Alisoft Holding Limited and its subsidiaries ("Alisoft"). The transaction was regarded as a business combination under common control in a manner similar to pooling-of-interests and with reference to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for the Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and all comparative figures have been restated as if the business combination had been completed on the earliest date of the periods being presented, i.e., January 1, 2009.

In September 2009, the Group entered into a series of agreements pursuant to which the Group conditionally agreed to acquire up to 99.67% equity interest in China Civilink (Cayman) ("HiChina"), a company incorporated in the Cayman Islands with limited liability. The total consideration for the acquisition was RMB539.8 million (US$79.1 million) in cash upon completion in two phases. The first phase of the acquisition, completed in December 2009, was to acquire an initial 85% equity interest in HiChina for a cash consideration of RMB435.3 million (US$63.8 million). The Group has further granted certain founder shareholders of HiChina put options exercisable on certain specified dates over a three-year period from 2011 to 2013, whereby the founder shareholders may, conditional on meeting certain post-completion performance milestones by HiChina, require the Group to further acquire up to a 14.67% equity interest in HiChina from them for a maximum consideration of RMB104.5 million (US$15.3 million). The non-compensatory portion of the consideration has been recorded as put liability under other payables (Note 30), and the compensatory portion has been recorded as share-based compensation expense over the vesting period of the put options (Note 27(a)).

In July and August 2010, the Group completed two acquisitions of the entire interests in Vendio Services, Inc., and its subsidiaries ("Vendio") and Auctiva Corporation and its subsidiaries ("Auctiva") for a combined cash consideration of RMB233.2 million, which had been fully paid upon completion (Note 33). The two acquisitions brought increased synergy and opportunities across the Group, Vendio and Auctiva. Vendio, a U.S.-based company, operates an e-commerce platform which provides a one-stop solution for small businesses that are selling across multiple online channels. Auctiva, also a U.S.-based company, is a developer of product listing, marketing and management tools for eBay sellers. Through its acquisitions of Vendio and Auctiva, the Group gained access to more than 250,000 small online retailers who have potential sourcing needs from manufacturers and wholesalers on the Group's international marketplace and wholesale transaction platform and may help the Group to further enhance the values of a global e-commerce supply chain.

The consolidated financial statements of the Group have been approved for issue by the board of directors on March 17, 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments.

The preparation of the 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. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group's consolidated financial statements are disclosed in Note 3. Actual results may differ from these estimates.

The Group has early adopted IFRS 3 (Revised), IAS 27 (Revised), IFRIC 17, Amendment to IAS 38 and Amendment to IFRS 2 in 2009.

The Group has adopted the following new/revised IFRS standards and interpretations for accounting periods commencing January 1, 2010:

		Effective for annual periods beginning on or after
IFRSs (Amendments)	Improvements to IFRSs	January 1, 2010
Amendment to IAS 1	Presentation of Financial Statements	January 1, 2010
Amendment to IAS 7	Statement of Cash Flows	January 1, 2010
Amendment to IAS 17	Leases	January 1, 2010
Amendment to IAS 36	Impairment of Assets	January 1, 2010
Amendment to IAS 39	Financial instruments: Recognition and Measurement	January 1, 2010
Amendment to IFRS 2	Group Cash-settled Share-based Payment Transactions	January 1, 2010
Amendment to IFRS 8	Operating Segments	January 1, 2010

The adoption of the above new/revised IFRS standards and interpretations do not have any material impact on the Group's consolidated financial statements and has not led to any changes in the Group's accounting policies.

The following new standards, interpretations and amendments to the existing standards have been published but have not come into effect for the financial year beginning January 1, 2010:

		Effective for annual periods beginning on or after
Amendment to IAS 32	Financial Instruments: Presentation on Classification of Rights Issues	February 1, 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
IFRSs (Amendments)	Improvements to IFRSs 2010	January 1, 2011
Amendment to IAS 24	Related Party Disclosures	January 1, 2011
Amendment to IFRIC 14	Pre-payments of a Minimum Funding Requirement	January 1, 2011
IFRS 9	Financial Instruments	January 1, 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The Group has not early adopted any of the above new standards, interpretations and amendments to the existing standards in 2010. Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

2.2 Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and of all its direct and indirect subsidiaries made up to December 31 and include the Group's interests in associated companies and a jointly controlled entity. Results of the subsidiaries, associated companies and the jointly controlled entity acquired or disposed of during the year are dealt with in the consolidated statement of comprehensive income from the effective dates of acquisition and up to the effective dates of disposal respectively.

Inter-company transactions, balances and unrealized gains on transactions between the consolidated entities or businesses are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries, associated companies and the jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Subsidiaries

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 acquisition method of accounting is used to account for the acquisitions of subsidiaries of the Group, except for those acquisitions which are considered as a business combination under common control in a manner similar to pooling-of-interests and with reference to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations".

(i) Acquisition method of accounting

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

(i) Acquisition method of accounting (Continued)

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(ii) Business combinations under common control

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

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 a director and a former director of the Company and certain employees of the Group. The paid-in capital of these entities was funded by the Group through loans extended to these shareholders of the PRC domestic companies. In addition, 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.

Further, the Group has entered into certain agreements with the shareholders of these domestic companies, 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 them, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) Associated companies and jointly controlled entities

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. A jointly controlled entity is a joint venture (a contractual arrangement whereby two or more parties undertake an economic activity under joint control) that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. Interests in associated companies and jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associated companies' and jointly controlled entities' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company or a jointly controlled entity equals or exceeds its interest in these entities, including any other unsecured receivables, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of them.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker has been identified to be the executive management committee that makes strategic decisions.

2.4 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.

(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, net in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets are included in other comprehensive income/(expense).

(c) Group companies

The results and financial positions 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 statement of comprehensive income 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 other comprehensive income/(expense).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

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 other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

2.5 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.

2.6 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 consolidated statement of comprehensive income during the year in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs to their residual value over their estimated useful lives, as follows:

	Years	
Buildings	20 – 50	
Leasehold and building improvements	2 – 20	(shorter of remaining lease period or estimated useful life)
Furniture and office equipment	3	
Computer equipment	3 – 5	

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/(expense), net in the consolidated statement of comprehensive income.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition. Goodwill is tested for impairment annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) Computer software and technology

Computer software and technology primarily comprise computer software that are acquired in business combinations and are recognized at fair value at the acquisition date. Amortization is calculated using the straight-line method over their estimated economic lives of two to ten years.

(b) Trademarks and domain names

Trademarks and domain names acquired in business combinations are recognized at fair value at the acquisition date. Trademarks and domain names have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and domain names over their estimated useful lives of ten to fifteen years.

(c) Customer relationships

Customer relationships acquired in business combinations are recognized at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated life of the customer relationships of three to seven years.

2.9 Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These investments are initially recognized in the balance sheet at fair value plus transaction costs and measured at each subsequent reporting date at fair value. Changes in fair value are dealt with as movements in the investment revaluation reserve except for impairment losses which are charged to the consolidated statement of comprehensive income. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the consolidated statement of comprehensive income. Dividends from available-for-sale investments are recognized when the right to receive payment is established. When available-for-sale investments are sold, the cumulative fair value gains or losses previously recognized in the investment revaluation reserve is recognized in the consolidated statement of comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized within finance income, net in the consolidated statement of comprehensive income, and other changes in carrying amount are recognized in other comprehensive income/(expense).

Investments in equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are measured at cost less provision for impairment in value.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that available-for-sale investment previously recognized in the consolidated statement of comprehensive income, is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets 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 may suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 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, recognized in the consolidated statement of comprehensive income, 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. 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 consolidated statement of comprehensive income. 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 other operating income, net in the consolidated statement of comprehensive income.

2.12 Direct selling costs

Direct selling costs, which principally comprise sales commissions paid in respect of service fees received in advance, are deferred and are charged ratably to the consolidated statement of comprehensive income over the term of the respective service contracts as the services are rendered.

2.13 Cash and cash equivalents

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

2.14 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. Costs directly attributable to the repurchase of issued ordinary shares are shown in equity as a deduction and the nominal value of the shares repurchased is transferred from the retained earnings to the capital redemption reserve.

2.15 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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 tax asset is realized or the deferred tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability 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.

Deferred income tax assets are recognized only 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 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 income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Provisions

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

2.18 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 values.

(b) Pension obligations

The Group participates in various defined contribution pension schemes. The schemes are generally funded through monthly payments to publicly or privately administered pension insurance plans or government authorities on a mandatory, contractual or voluntary basis. The contributions are expensed as incurred. 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. 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

The Company operates a share option scheme (the "Share Option Scheme"), a restricted share unit scheme (the "RSU Scheme") and a share award scheme (the "Share Award Scheme") where directors and employees of the Group are granted share options, restricted share units ("RSUs") or restricted shares to acquire ordinary shares of the Company. In connection with the acquisition of HiChina, the Company also grants certain put options and earn-in shares to key employees of HiChina to put or acquire the ordinary shares in HiChina to or from the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Staff costs (Continued)

(c) Share-based compensation (Continued)

The ultimate holding company also operates various share-based incentive schemes, where certain directors and employees of the Group are granted share options, RSUs or other rights to acquire ordinary shares of the ultimate holding company or the Company's ordinary shares held by the ultimate holding company. The resulting share-based compensation expense is allocated to the Group accordingly.

The fair value of the employee services received in exchange for the grant of these share-based awards is recognized as staff costs in the consolidated statement of comprehensive income with a corresponding increase in the share premium under equity of the Company or its subsidiaries. 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, restricted shares or earn-in shares granted is measured at grant date based on the fair value of the ordinary shares of the Company, HiChina or the ultimate holding company, as appropriate, taking into account the terms and conditions upon which these share-based awards were granted, and amortized over the respective vesting periods during which the employees become unconditionally entitled to these share-based awards. At each balance sheet date, the Group revises its estimates of the number of these share-based awards that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the consolidated statement of comprehensive income over the remaining vesting period. On vesting date, the amount recognized as employee benefit expense is adjusted to reflect the actual number of these share-based awards that become vested.

In respect of the Share Award Scheme, when the Alibaba.com Equity Incentive Trust (the "Equity Incentive Trust") purchases shares of the Company on the market under the scheme, the consideration paid, including any directly attributable incremental costs, is presented as shares held for Share Award Scheme in the consolidated statement of changes in equity and deducted from total equity. When the Equity Incentive Trust transfers the Company's shares to the grantees upon vesting, the related costs of the awarded shares vested are credited to shares held for Share Award Scheme, with a corresponding adjustment to the share premium.

2.19 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 Group principally derives its revenue from the provision of membership package and related fees. Revenue recognition policies for each type of service are analyzed as follows:

(a) Membership package and related fees

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

(a) *Membership package and related fees (Continued)*

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.

When value-added services are purchased by paying members within the service period of their membership packages and 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) *Search revenue*

The Group receives service fees from suppliers to enable them to display their storefront/website links or related information on the search results pages of the Group's marketplaces after a buyer inputs a particular key word or phrase into the search box of such marketplaces. Revenue is recognized when a buyer clicks on the suppliers' storefront/website links or related information, where the positioning of such information and the price for such positioning are determined through a bidding system.

(c) *Transaction fees*

In connection with the transaction services, the Group earns revenues from the suppliers or buyers when completing transactions on the Group's marketplaces. Revenues related to transaction fees are recognized at the time when the underlying transaction is completed.

(d) *Domain name registration and other service fees*

Revenue from registration of domain names is recognized when the related service is rendered and completed. Revenue from web hosting and application/e-commerce hosting services is recognized ratably over the term of the contracted services.

(e) *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.

(f) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income is classified as finance income, net in the consolidated statement of comprehensive income.

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 consolidated statement of comprehensive income, business tax and related surcharges for revenue earned by the Group are included in cost of revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The income approach is adopted to recognize government grants. Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Where a government grant becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs, it is recognized as income in the period in which it becomes receivable. Government grants are recognized within other operating income, net in the consolidated statement of comprehensive income.

2.21 Operating 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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.22 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.

2.23 Customer accounts and amounts due to customers

The Group has established a business integrity insurance fund for members on the China marketplace. Under this fund, buyers can claim compensation for losses, up to certain maximum protection amount, arising from fraudulent acts by the China TrustPass members of the Group who join the plan. In addition, certain China TrustPass members voluntarily join the business integrity insurance fund and increase the protection amount by providing additional funds to the Group. The funds received from these members are held in the consolidated balance sheet as customer accounts with a corresponding current liability in amounts due to customers.

3 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

The Group's employees have participated in various share-based incentive schemes of the Company and 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 Company, HiChina and the ultimate holding company, depending on the type of the share-based incentive scheme. 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 share options. The total fair value of RSUs, restricted shares or earn-in shares granted is measured on the grant date based on the fair value of the underlying shares of the Company, HiChina and 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 or, where applicable, the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes an expense for those options, RSUs, restricted shares or earn-in shares expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the options, RSUs and restricted shares and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expense.

The fair value of options, RSUs, restricted shares and earn-in shares at the time of grant is to be expensed over the vesting period of these share-based awards 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-based award, 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 the share-based awards granted by the Company and the ultimate holding company to the Group's employees, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expense recognized by the Group in respect of their services rendered for the year ended December 31, 2010 was RMB340,971,000 (2009: RMB200,385,000) (Note 27(c)).

(b) Recognition of income taxes

The Group is mainly subject to income tax in the PRC. There are transactions (including entitlement to preferential tax treatment and deductibility of expenses) where the ultimate tax determination is uncertain until the final tax position is confirmed by relevant tax authorities. In addition, 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 income tax is 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 tax asset is realized or the deferred 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 income tax and income tax charge in the period in which such estimate has been changed.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(c) Depreciation and amortization

The costs of property and equipment and intangible assets are charged ratably as depreciation and amortization expenses, respectively, 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 and amortization rates. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in estimated useful lives and therefore depreciation and amortization expenses in future periods.

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The Group tested the recoverable amount of goodwill based on value-in-use calculations and determined that there was no impairment as of December 31, 2010. The value-in-use calculations primarily use cash flow projections based on financial forecasts prepared by management and an estimated terminal value. The expected growth in revenues and gross margin, timing of future capital expenditures, selection of discount rates and terminal growth rate were based on actual and prior year performance and market development expectations. The periods of the financial forecasts range from 5 to 10 years. The Group considers that cashflow forecast that is beyond 5 years is justifiable given the industry nature and the projection of growth rate beyond 5 years is based on the growth rate assumed in year 5. For the purpose of the impairment test, the Group adopted a discount rate of 17% and a terminal growth rate of 2% to 5% to extrapolate cash flows beyond the financial forecasts. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment tests.

4 SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions, assess performance and allocate resources. In the respective periods presented, the Group had one single operating segment, namely the provision of the B2B services. Although the B2B services consist of the operations of the international marketplace and the China marketplace, the chief operating decision-maker considers that these underlying marketplaces are subject to similar risks and returns. Therefore, it has only relied on the reported revenue associated from these underlying marketplaces in making financial decisions and allocating resources. Significant costs incurred associated with the revenue generated are not separately identified by marketplaces for the review of the chief operating decision-maker.

The Group mainly operates its businesses in the PRC. In 2010, the majority of the revenue from the external customers is contributed from the PRC (2009: same).

As of December 31, 2010, the majority of the non-current assets other than financial instruments and deferred tax assets is located in the PRC (2009: same).

For the year ended December 31, 2010, there is no revenue derived from a single external customer amounting to 10% or more of the Group's total revenue (2009: same).

5 REVENUE

	2009 RMB'000	2010 RMB'000
International marketplace		
China Gold Supplier	2,344,475	**3,148,498**
Global Gold Supplier	62,329	**89,745**
	2,406,804	**3,238,243**
China marketplace		
China TrustPass	1,344,029	**1,812,991**
Other revenue[(i)]	70,868	**80,908**
	1,414,897	**1,893,899**
Others[(ii)]	53,027	**425,444**
Total	3,874,728	**5,557,586**

(i) Other revenue earned with respect to the China marketplace mainly represents advertising fees paid by third party advertisers.

(ii) Other revenue mainly represents revenue earned from the sale of Internet infrastructure and application services and certain software products.

6 OTHER OPERATING INCOME, NET

	2009 RMB'000	2010 RMB'000
Government grants[(i)]	113,500	**84,011**
Reimbursement from fellow subsidiaries[(ii)]	26,806	**11,509**
Gain on deemed disposal of Alibaba Japan[(iii)]	6,980	**–**
Others	3,280	**13,506**
Total	150,566	**109,026**

(i) Government grants mainly represent amounts received from government authorities by Alibaba (China) Technology Co., Ltd. ("Alibaba China"), a wholly-owned subsidiary of the Company, in relation to technology developments in the PRC.

(ii) This represents amount received from fellow subsidiaries for the provision of administrative and technology services. The reimbursement charges are calculated based on actual cost incurred, with or without a margin.

(iii) Alibaba.com Japan Co., Ltd. ("Alibaba Japan"), an associated company of the Group, is engaged in the provision of Japanese language B2B services on a site with the uniform resource locator www.alibaba.co.jp. In May 2009, Hikari Tsushin, Inc. ("Hikari Tsushin"), an independent third party, made a cash investment into Alibaba Japan in exchange for a 10.00% interest. As a result, the Group's interest in Alibaba Japan was diluted from 35.30% to 31.77% and a deemed disposal gain of RMB6,980,000 was recognized in 2009.

7 PROFIT FROM OPERATIONS

Profit from operations is stated after crediting/charging the following:

	2009 RMB'000	2010 RMB'000
Crediting:		
Gain on deemed disposal of Alibaba Japan (Note 6(iii))	6,980	–
Charging:		
Staff costs (Note 9)	1,698,147	**2,371,719**
Depreciation expense of property and equipment (Note 15)	119,380	**187,190**
Operating lease rentals	68,013	**69,790**
Amortization of intangible assets (Note 16)	6,615	**39,133**
Auditors' remuneration	5,350	**6,020**
Amortization of lease prepayment	587	**587**
Losses on disposals of property and equipment, net	191	**514**

8 FINANCE INCOME, NET

	2009 RMB'000	2010 RMB'000
Interest income, net	140,479	**158,286**
Exchange gains, net	462	**18,112**
Total	140,941	**176,398**

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 RMB'000	2010 RMB'000
Salaries, bonuses and sales commission	1,243,515	**1,610,431**
Contributions to defined contribution plans(i)	204,416	**313,328**
Discretionary employee benefits	49,831	**106,989**
Share-based compensation expense (Note 27(c))	200,385	**340,971**
Total	1,698,147	**2,371,719**

	2009	2010
Number of employees	11,716	**13,674**

9 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 various 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 Group in the PRC 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 different percentages of the monthly compensation of employees in compliance with requirements of the respective governments.

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

10 DIRECTORS' EMOLUMENTS

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

	2009 RMB'000	**2010** **RMB'000**
Fees	1,416	**1,657**
Salaries, bonus, allowances and benefits in kind	14,819	**8,734**
Contributions to defined contribution plans	213	**187**
	16,448	**10,578**
Share-based compensation expense[(i)]	66,647	**91,740**
Total	83,095	**102,318**

(i) Share-based compensation expense represents amortization of fair value of: (a) the share options, RSUs or other rights issued under the share-based incentive schemes of the ultimate holding company; and (b) the share options, RSUs and restricted shares issued by the Company. The fair values of these abovementioned share-based compensations were allocated/charged to the consolidated statement of comprehensive income of the Group, disregarding whether or not these share-based awards have been vested or exercised.

	2009	**2010**
Number of directors		
– with emoluments	13	**12**
– without emoluments	2	**1**
Total	15	**13**

10 DIRECTORS' EMOLUMENTS (Continued)

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

For the year ended December 31, 2009

Name of directors	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind[(i)] RMB'000	Contributions to defined contribution plans RMB'000	Subtotal RMB'000	Share-based compensation expense[(ii)] RMB'000	Total RMB'000
Executive directors						
WEI Zhe, David	–	3,500	50	3,550	36,989	40,539
WU Wei, Maggie	–	2,760	57	2,817	8,335	11,152
LEE Shi-Huei, Elvis [(iii)]	–	3,718	–	3,718	9,010	12,728
DENG Kangming [(iii)]	–	2,400	57	2,457	4,973	7,430
PENG Yi Jie, Sabrina	–	1,459	37	1,496	4,016	5,512
DAI Shan, Trudy [(iv)]	–	982	12	994	242	1,236
Non-executive directors						
MA Yun, Jack	–	–	–	–	1,481	1,481
TSAI Chung, Joseph	–	–	–	–	1,601	1,601
OKADA, Satoshi	–	–	–	–	–	–
TSOU Kai-Lien, Rose	–	–	–	–	–	–
Independent non-executive directors						
TSUEI, Andrew Tien Yuan	264	–	–	264	–	264
NIU Gen Sheng	353	–	–	353	–	353
KWUAK Teh Ming, Walter	353	–	–	353	–	353
KWAN Ming Sang, Savio	353	–	–	353	–	353
LONG Yong Tu [(iv)]	93	–	–	93	–	93
Total	1,416	14,819	213	16,448	66,647	83,095

(i) Bonuses in respect of 2009 were paid in 2010.

(ii) This represents amortization of the fair value of share options, RSUs or other rights measured at the grant dates charged to the consolidated statement of comprehensive income, regardless of whether or not these share-based awards have been vested or exercised.

(iii) These directors were appointed on May 7, 2009 and the remuneration shown above represented their remuneration received for the whole year, including remuneration received as employees prior to their directorship for the Company.

(iv) These directors retired on May 7, 2009 and the remuneration shown above represented their remuneration received up to the date of retirement.

10 DIRECTORS' EMOLUMENTS (Continued)

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

For the year ended December 31, 2010

Name of directors	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind[(i)] RMB'000	Contributions to defined contribution plans RMB'000	Subtotal RMB'000	Share-based compensation expense[(ii)] RMB'000	Total RMB'000
Executive directors						
WEI Zhe, David	–	1,980	55	2,035	34,264	36,299
WU Wei, Maggie	–	2,745	62	2,807	11,569	14,376
LEE Shi-Huei, Elvis	–	1,220	–	1,220	15,204	16,424
DENG Kangming	–	900	31	931	10,250	11,181
PENG Yi Jie, Sabrina	–	1,889	39	1,928	8,514	10,442
Non-executive directors						
MA Yun, Jack	–	–	–	–	7,191	7,191
TSAI Chung, Joseph	–	–	–	–	4,369	4,369
OKADA, Satoshi	261	–	–	261	169	430
TSOU Kai-Lien, Rose	–	–	–	–	–	–
Independent non-executive directors						
TSUEI, Andrew Tien Yuan	349	–	–	349	–	349
NIU Gen Sheng	349	–	–	349	41	390
KWUAK Teh Ming, Walter	349	–	–	349	–	349
KWAN Ming Sang, Savio	349	–	–	349	169	518
Total	1,657	8,734	187	10,578	91,740	102,318

(i) Bonuses in respect of 2010 were paid in 2011.

(ii) This represents amortization of the fair value of share options, RSUs, restricted shares or other rights measured at the grant dates charged to the consolidated statement of comprehensive income, regardless of whether or not these share-based awards have been vested or exercised. In 2010, share-based compensation expense also included a one-off expense arising from the subscription of certain rights under the senior management equity incentive scheme of the ultimate holding company to certain directors of the Company (Note 27(b)).

None of the directors received any emoluments from the Group as an inducement to join or leave the Group or compensation for loss of office (2009: nil). None of the directors waived or has agreed to waive any emoluments during the year (2009: nil).

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Group during the year ended December 31, 2010 include five (2009: five) directors whose details have been reflected in the analysis above.

12 INCOME TAX CHARGES

	2009 RMB'000	2010 RMB'000
Current tax charge	135,451	**206,014**
Deferred tax charge (Note 31)	26,256	**26,986**
Under-provision in previous years	1,686	**3,445**
Total	163,393	**236,445**

Current income tax charge mainly represents the provision for PRC Enterprise Income Tax for subsidiaries operating in the PRC. These subsidiaries are subject to PRC Enterprise Income Tax 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.

The PRC Enterprise Income Tax Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%.

Pursuant to Caishui [2008] No.1 under the PRC Enterprise Income Tax Law, a duly recognized Key Software Enterprise within China's National Plan can enjoy a preferential PRC Enterprise Income Tax rate of 10%. Alibaba China was recognized as a Key Software Enterprise by four ministries including National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce and the State Administration for Taxation and as a result, Alibaba China was subject to PRC Enterprise Income Tax at 10% for the full year of 2009 and 2010. This Key Software Enterprise status is subject to review by the relevant authorities on an annual basis.

Further, Alibaba China Software Co., Ltd. ("Alibaba Software"), another major PRC operating subsidiary of the Group, was recognized as a Software Enterprise pursuant to the PRC Enterprise Income Tax Law. Under this tax circular, a Software Enterprise can enjoy full exemption from PRC Enterprise Income Tax for the first two profit making years and fifty percent reduction in subsequent three years. Since 2008 was the first profit-making year of Alibaba Software, it was subject to PRC Enterprise Income Tax at 12.5% in 2010 (2009: 0%).

Most of the remaining PRC entities of the Group are subject to the standard PRC Enterprise Income Tax at 25% in 2010 (2009: 25%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax will be levied on dividends declared by the companies established in the PRC to their foreign investors. A lower withholding tax rate of 5% is applicable if direct foreign investors with at least 25% equity interest in the PRC companies are incorporated in Hong Kong with regard to the arrangement between mainland China and Hong Kong. In 2010, the Group recognized relevant deferred tax liabilities of RMB60,013,000 (2009: RMB34,000,000) on the retained earnings of Alibaba China of RMB1,200,250,000 (2009: RMB680,000,000), which is anticipated to be distributed as dividends by Alibaba China to finance the business development outside the PRC.

12 INCOME TAX CHARGES (Continued)

The tax on the Group's profit before income tax differed from the theoretical amount that would arise using the PRC Enterprise Income Tax statutory rate of 25% (2009: 25%) is as follows:

	2009 RMB'000	**2010** **RMB'000**
Profit before income taxes	1,176,419	**1,706,457**
Tax calculated at a tax rate of 25% (2009: 25%)	294,105	**426,614**
Effect of different tax rates available to different companies of the Group	(172,495)	**(277,035)**
Effects of tax holiday on assessable profits of subsidiaries incorporated in the PRC	(24,238)	**–**
Tax incentives for research and development expenses available for a subsidiary incorporated in the PRC [(i)]	(15,259)	**(15,751)**
Income not taxable for tax purposes	(1,319)	**(1,341)**
Expenses not deductible for tax purposes [(ii)]	29,876	**46,647**
Withholding tax on the earnings remitted and anticipated to be remitted	45,241	**66,073**
Utilization of previously unrecognized tax assets	(3,902)	**(26,043)**
Unrecognized tax losses	11,384	**17,281**
Income tax charges	163,393	**236,445**

(i) The Group obtained a tax incentive relating to the research and development expenses of one of its major operating subsidiaries in the PRC in 2010. Under such tax incentive rule, the Group may claim an additional tax deduction amounting to 50% of the research and development expenses incurred in a year. The amount which exceeds that year's taxable profit can be carried forward for utilization up to the following five years.

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

13 DIVIDEND PER SHARE

On December 10, 2010, the Company declared a special cash dividend of 22 Hong Kong cents per ordinary share (2009: 20 Hong Kong cents per ordinary share), or HK$1,110,000,000 (equivalent to RMB950,538,000) (2009: HK$1,010,000,000 (equivalent to RMB888,261,000)) in aggregate, which excluded the dividend related to the ordinary shares held under the Share Award Scheme of RMB518,000 (2009: nil). This amount is offset against the retained earnings in the consolidated statement of changes in equity. The special cash dividend was paid in January 2011.

The directors did not recommend the payment of a final dividend for the year ended December 31, 2010 (2009: nil).

14 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity owners of the Company for the year by the weighted average number of ordinary shares in issue during the year.

	2009	2010
Profit attributable to equity owners of the Company (RMB'000)	1,013,026	**1,469,464**
Weighted average number of ordinary shares in issue (thousand shares)	5,040,685	**5,043,800**
Earnings per share, basic (RMB)	20 cents	**29 cents**
Earnings per share, basic (HK$) [(i)]	23 cents	**33 cents**

Diluted earnings per share is computed by dividing the profit attributable to equity owners for the year by the weighted average number of ordinary shares and potential ordinary shares outstanding during the year. Potential ordinary shares, composed of incremental ordinary shares issuable upon the exercise of share options and RSUs in all periods, are included in the computation of diluted earnings per share to the extent such shares are dilutive. Diluted earnings per share also takes into consideration the effect of diluted securities issued by subsidiaries.

	2009	2010
Profit attributable to equity owners of the Company (RMB'000)	1,013,026	**1,469,464**
Weighted average number of ordinary shares in issue (thousand shares)	5,040,685	**5,043,800**
Adjustments for share options and RSUs (thousand shares)	38,942	**35,020**
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	5,079,627	**5,078,820**
Earnings per share, diluted (RMB)	20 cents	**29 cents**
Earnings per share, diluted (HK$) [(i)]	23 cents	**33 cents**

(i) The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.8714 to HK$1.0000 (2009: RMB0.8812 to HK$1.0000). No representation is made that the Renminbi 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.

15 PROPERTY AND EQUIPMENT

	Building RMB'000	Leasehold and building improvements RMB'000	Furniture and office equipment RMB'000	Computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended December 31, 2009						
As of January 1, 2009, as previously reported	–	13,108	26,850	126,804	209,213	375,975
Adjustment for business combination under common control (Note 1)	–	–	5	10,565	–	10,570
As of January 1, 2009, as restated	–	13,108	26,855	137,369	209,213	386,545
Additions	–	18,160	37,876	157,089	266,174	479,299
Acquisition of HiChina (Note 1)	–	1,129	2,599	38,637	–	42,365
Disposals	–	(1,406)	(1,614)	(2,770)	–	(5,790)
Transfer from construction in progress	322,838	135,670	10,931	1,390	(470,829)	–
Depreciation	(2,246)	(16,493)	(16,005)	(84,636)	–	(119,380)
Exchange differences	–	45	13	25	–	83
Closing net book amount	320,592	150,213	60,655	247,104	4,558	783,122
As of December 31, 2009						
Cost	322,838	168,625	97,038	470,839	4,558	1,063,898
Accumulated depreciation	(2,246)	(18,412)	(36,383)	(223,735)	–	(280,776)
Closing net book amount	320,592	150,213	60,655	247,104	4,558	783,122
Year ended December 31, 2010						
As of January 1, 2010	**320,592**	**150,213**	**60,655**	**247,104**	**4,558**	**783,122**
Additions	**–**	**20,992**	**15,440**	**122,731**	**23,421**	**182,584**
Acquisitions of Vendio and Auctiva (Note 33)	**–**	**33**	**787**	**3,878**	**–**	**4,698**
Disposals	**–**	**(263)**	**(290)**	**(775)**	**–**	**(1,328)**
Depreciation	**(6,738)**	**(22,175)**	**(26,895)**	**(131,382)**	**–**	**(187,190)**
Exchange differences	**–**	**(17)**	**(65)**	**(659)**	**–**	**(741)**
Closing net book amount	**313,854**	**148,783**	**49,632**	**240,897**	**27,979**	**781,145**
As of December 31, 2010						
Cost	**322,838**	**188,917**	**110,078**	**586,320**	**27,979**	**1,236,132**
Accumulated depreciation	**(8,984)**	**(40,134)**	**(60,446)**	**(345,423)**	**–**	**(454,987)**
Closing net book amount	**313,854**	**148,783**	**49,632**	**240,897**	**27,979**	**781,145**

Upon the completion of the construction of the corporate campus in September 2009, assets classified under construction in progress of RMB470,829,000 were transferred to other categories of property and equipment.

16 GOODWILL AND INTANGIBLE ASSETS

	Computer software and technology RMB'000	Trademarks/ Domain names RMB'000	Customer relationships RMB'000	Total intangible assets RMB'000	Goodwill RMB'000	Total RMB'000
Year ended December 31, 2009						
As of January 1, 2009, as previously reported	–	–	–	–	–	–
Adjustment for business combination under common control (Note 1)	6,615	–	–	6,615	–	6,615
As of January 1, 2009, as restated	6,615	–	–	6,615	–	6,615
Acquisition of HiChina	56,255	40,969	68,282	165,506	202,631	368,137
Amortization charge	(6,615)	–	–	(6,615)	–	(6,615)
Closing net book amount	56,255	40,969	68,282	165,506	202,631	368,137
As of December 31, 2009						
Cost	77,903	40,969	68,282	187,154	202,631	389,785
Accumulated amortization	(21,648)	–	–	(21,648)	–	(21,648)
Closing net book amount	56,255	40,969	68,282	165,506	202,631	368,137
Year ended December 31, 2010						
As of January 1, 2010	**56,255**	**40,969**	**68,282**	**165,506**	**202,631**	**368,137**
Additions	**6,390**	**–**	**–**	**6,390**	**–**	**6,390**
Acquisitions of Vendio and Auctiva (Note 33)	**64,242**	**9,283**	**27,587**	**101,112**	**169,163**	**270,275**
Amortization charge	**(19,199)**	**(3,834)**	**(16,100)**	**(39,133)**	**–**	**(39,133)**
Exchange differences	**(1,529)**	**(211)**	**(600)**	**(2,340)**	**(4,007)**	**(6,347)**
Closing net book amount	**106,159**	**46,207**	**79,169**	**231,535**	**367,787**	**599,322**
As of December 31, 2010						
Cost	**146,964**	**50,036**	**95,236**	**292,236**	**367,787**	**660,023**
Accumulated amortization	**(40,805)**	**(3,829)**	**(16,067)**	**(60,701)**	**–**	**(60,701)**
Closing net book amount	**106,159**	**46,207**	**79,169**	**231,535**	**367,787**	**599,322**

16 GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization charge by function is analyzed as follows:

	2009 RMB'000	2010 RMB'000
Cost of revenue	–	**236**
Sales and marketing expenses	–	**19,971**
Product development expenses	6,615	**18,620**
General and administrative expenses	–	**306**
Total	6,615	**39,133**

The carrying amount of goodwill primarily arises from the acquisitions of HiChina of RMB202,631,000 in 2009 and Vendio and Auctiva of RMB169,163,000 in 2010.

In accordance with the Group's accounting policy on asset impairment (Note 2.10), the carrying values of goodwill were tested for impairment as of December 31, 2009 and December 31, 2010. Note 3(d) contains information about the estimates, assumptions and judgements relating to goodwill impairment tests. The results of the tests undertaken as of December 31, 2009 and December 31, 2010 indicated no impairment charge was necessary.

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) SUBSIDIARIES

	Company	
	2009 RMB'000	2010 RMB'000
Non-current portion		
Deemed capital contributions arising from share-based compensation	152,272	**372,881**
Amounts due from subsidiaries	1,565,157	**1,565,157**
Total	1,717,429	**1,938,038**
Current portion		
Amounts due from subsidiaries	1,530,401	**1,482,730**
Amounts due to subsidiaries	(49,637)	**(70,843)**
Total	1,480,764	**1,411,887**

The amounts due from subsidiaries included under non-current portion are unsecured, interest-free and not repayable in foreseeable future. The amounts due from/(to) subsidiaries included under current portion are unsecured, interest-free and repayable on demand.

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) SUBSIDIARIES (Continued)

Details of the principal subsidiaries as of December 31, 2010 are 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 ("BVI") September 20, 2006 Limited liability company	Investment holding	US$1	100%
Indirectly held:				
Acknow Web Solutions (Beijing) Limited # 融慧信通國際信息技術(北京)有限公司	PRC December 28, 2006 Limited liability company	Research and development of computer software, Internet technology and data processing	US$150,000	83.71%
Alibaba China Software Co., Ltd. # 阿里巴巴(中國)軟件有限公司	PRC August 23, 2004 Limited liability company	Provision of software and technology services	US$105,000,000	100%
Alibaba (Chengdu) Education & Software Co. Ltd. # 阿里巴巴(成都)教育 軟件有限公司	PRC December 28, 2009 Limited liability company	Provision of education and software services	RMB10,000,000	100%
Alibaba (China) Education & Technology Co. Ltd. # 阿里巴巴(中國)教育軟件有限公司	PRC September 21, 2009 Limited liability company	Provision of education and technology services	US$15,000,000	100%
Alibaba (China) Technology Co., Ltd. # 阿里巴巴(中國)網絡技術有限公司	PRC September 9, 1999 Limited liability company	Provision of software and technology services	US$158,900,000	100%
Alibaba.com China Limited	Hong Kong October 5, 2006 Limited liability company	Investment holding and provision of administrative services	HK$1	100%
Alibaba.com (Equity Incentive) Limited (formerly known as Inter Network Technology Limited)	BVI July 1, 2003 Limited liability company	Setting up and maintenance of the Equity Incentive Trust for the Share Award Scheme	US$2	100%
Alibaba.com (Europe) Limited	United Kingdom October 13, 2008 Limited liability company	Marketing and administrative services	GBP1	100%

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) 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 Hong Kong Limited	Hong Kong September 29, 1999 Limited liability company	Provision of Internet content, software and technology services, marketing 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 LLC	California, United States of America December 2, 2009 Limited liability company	Server operation and maintenance	US$10,000	100%
Alibaba.com Singapore E-Commerce Private Limited	Singapore November 5, 2007 Limited liability company	Investment holding and marketing and sale of Internet content services	S$1	100%
Alibaba (Guangzhou) Technology Co., Ltd. # 阿里巴巴(廣州)網絡技術有限公司	PRC July 8, 2008 Limited liability company	Provision of software and technology services	US$20,000,000	100%
Alipay Singapore E-Commerce Private Limited	Singapore January 5, 2010 Limited liability company	Provision of escrow services to B2B international marketplace	S$1	100%
Auctiva Corporation	Delaware, United States of America August 11, 1999 Limited liability company	Provision of software and e-commerce solution	US$0.1	100%
Beijing HiChina Zhicheng Technology Co., Ltd. # 北京萬網志成科技有限公司	PRC December 3, 2004 Limited liability company	Provision of Internet content and advertising services	RMB16,520,000	83.71%
Alibaba.com India E-Commerce Private Limited	India April 20, 2010 Limited liability company	Marketing and sale of website services	INR6,321,980	100%

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) 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
Evergreen (Tianjin) Investment Fund Partnership # 常青藤(天津)股權投資基金合伙企業	PRC September 13, 2010 Limited partnership	Administration and consultancy for equity investment funds	RMB500,000,000	100%
Hangzhou Alibaba Advertising Co., Ltd. # 杭州阿里巴巴廣告有限公司	PRC December 7, 2006 Limited liability company	Provision of Internet content and advertising services	RMB10,000,000	100%
Hangzhou Baotong Network Co., Ltd. # 杭州寶通網絡工程有限公司	PRC October 22, 2004 Limited liability company	Provision of software and technology services	RMB16,000,000	100%
Orange Power (Tianjin) Investment Fund Management Co., Ltd. # 橙力量(天津)股權投資基金管理有限公司	PRC September 3, 2010 Limited liability company	Investment and consultancy services	RMB1,000,000	100%
Vendio Services, Inc.	Delaware, United States of America January 5, 1999 Limited liability company	Provision of software and e-commerce solution	US$1	100%

\# The English names of these subsidiaries represent management's translation of the Chinese names only, as no official English names have been registered by these PRC companies.

In connection with the Share Award Scheme mentioned in Note 2.18(c), the Company has set up a special purpose entity, and the particulars of it are as follows:

Special purpose entity	Principal activities
Starluck Assets Limited	Administering and holding the Company's shares acquired for the Share Award Scheme for the benefit of directors of the Group

As the Group has the power to govern the financial and operating policies of the Equity Incentive Trust and can derive benefits from the contributions of the employees who have been awarded with the shares through their continued employment with the Group, the directors of the Company consider that it is appropriate to consolidate the Equity Incentive Trust in accordance with the requirements of IFRS.

18 INTERESTS IN ASSOCIATED COMPANIES AND A JOINTLY CONTROLLED ENTITY

	2009 RMB'000	2010 RMB'000
As of January 1	31,719	**3,802**
Additions (i)	–	**15,417**
Share of losses, net of tax	(37,492)	**(6,479)**
Gain on deemed disposal (ii)	6,980	**–**
Exchange differences	2,595	**(17)**
As of December 31	3,802	**12,723**

(i) As part of the acquisition of Vendio, the Group acquired a 19.92% equity interest in Spigot, Inc. ("Spigot"), a toolbar service provider. As the Group is able to exercise significant influence over its management, Spigot has been accounted as an associate in the Group's operating results.

In July 2010, the Group made a cash investment of RMB14,700,000 into Zhejiang Global E–Businessmen Co., Ltd. in exchange for a 49.0% equity interest. As the Group holds substantive participating rights over its significant financial and operating policies which enable it to exercise joint control with the majority shareholder, Zhejiang Global E–Businessmen Co., Ltd. has been accounted as a jointly controlled entity in the Group's operating results.

(ii) In May 2009, Hikari Tsushin made a cash investment into Alibaba Japan in exchange for a 10.0% interest. As a result of this deemed disposal, the Group retained a 31.77% equity interest in Alibaba Japan.

(iii) As of December 31, 2010, there were no capital commitments or contingent liabilities relating to the Group's interests in the associated companies and a jointly controlled entity.

Details of the associated companies and a jointly controlled entity as of December 31, 2010 are 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 Japan Co., Ltd.	Japan November 30, 2007 Limited liability company	Provision of Internet content and advertising services	JPY1,221,840,434	31.77%
Zhejiang Global E–Businessmen Co., Ltd. # 浙江天下網商網絡傳媒有限公司	PRC July 2, 2010 Limited liability company	Provision of advertising services	RMB30,000,000	49%
Indirectly held:				
Ahead Concord Limited	Hong Kong November 15, 2007 Limited liability company	International trade	HK$1	31.77%
Zhejiang Ayeda Network Technology Company Limited # 浙江阿曄達網絡技術有限公司	PRC May 23, 2008 Limited liability company	Provision of software and technology services	RMB25,000,000	31.77%
Ahead Concord (Shanghai) Trading Co., Ltd. # 翹致（上海）貿易有限公司	PRC March 11, 2010 Limited liability company	Provision of wholesale, imports and exports and commission agency services	RMB8,000,000	31.77%
Spigot, Inc.	Delaware, United States of America July 3, 2008 Limited liability company	Provision of software and marketing services	US$6,275	19.92%

The English names of these associated companies represent management's translation of their Chinese names only, as no official English names have been registered by these PRC companies.

18 INTERESTS IN ASSOCIATED COMPANIES AND A JOINTLY CONTROLLED ENTITY (Continued)

The investments in associated companies and a jointly controlled entity are being accounted for using the equity method. The total investment, including net tangible assets and identifiable intangible assets, is classified as part of the interests in the associated companies and in a jointly controlled entity in the consolidated balance sheet.

The Group records its share of the results of the associated companies and in the jointly controlled entity, one quarter in arrears, in the share of profits/losses from the associated companies and in a jointly controlled entity, net of tax on the consolidated statement of comprehensive income. In accordance with prescribed accounting rules, the share of losses of the associated companies and a jointly controlled entity has been limited to original investment costs. Current year's recorded losses represented the write-off of the remaining amount of the investment costs in associated companies in Japan carried on the balance sheet and the share of losses of the newly acquired associated company and a jointly controlled entity.

19 AVAILABLE-FOR-SALE INVESTMENTS

	2009 RMB'000	**2010 RMB'000**
As of January 1	–	**72,386**
Additions	922,165	**1,709,565**
Disposals	(850,000)	**(1,431,000)**
Net gains transferred to equity	222	**5,640**
Exchange differences	(1)	**(111)**
As of December 31	72,386	**356,480**
Less: Current portion	(50,000)	**(305,140)**
Non-current portion	22,386	**51,340**

Available-for-sale investments include the following:

	2009 RMB'000	**2010 RMB'000**
Unlisted securities:		
Debt securities in the PRC, at fair value	70,222	**325,862**
Equity securities in the PRC, at cost	–	**27,000**
Equity securities in Japan, at cost	2,164	**2,099**
Equity securities in Hong Kong, at cost	–	**1,519**
	72,386	**356,480**
Less: Current portion	(50,000)	**(305,140)**
Non-current portion	22,386	**51,340**

19 AVAILABLE-FOR-SALE INVESTMENTS (Continued)

The available-for-sale investments are denominated in the following currencies:

	2009 RMB'000	2010 RMB'000
Renminbi	70,222	**352,862**
Japanese Yen	2,164	**2,099**
Hong Kong Dollars	–	**1,519**
Total	72,386	**356,480**

None of the available-for-sale investments were impaired as of December 31, 2010 (2009: nil).

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2009 RMB'000	2010 RMB'000
Non-current portion		
Rental and other deposits (Note 35)	4,234	**46,731**
Current portion		
Interest income receivables	87,138	**114,237**
Prepaid tax	76,766	**–**
Prepaid rentals, rental and other deposits	26,987	**14,815**
Prepaid expenses	17,350	**34,891**
Other receivables[(i)]	100,787	**129,806**
	309,028	**293,749**
Total	313,262	**340,480**

(i) Other receivables mainly represent receivables from certain PRC government authorities amounted to RMB59,902,000 (2009: RMB72,557,000). Such receivables arose from an incentive scheme granted to certain qualified PRC-based small and medium enterprises for the use of the Group's e-commerce services. The amount of incentive granted would be paid to the Group by the relevant government authorities directly on filing of relevant documents by the Group with the government authorities. As of December 31, 2010, 67% of the amount outstanding was filed with the government authorities.

	Company	
	2009 RMB'000	2010 RMB'000
Prepayments and other receivables	101	**1**

21 DIRECT SELLING 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 consolidated statement of comprehensive income in the period in which the services are rendered (Note 28). As such, the related costs are also initially deferred and recognized in the consolidated statement of comprehensive income in the same period as the related service fees are recognized.

22 RESTRICTED CASH AND ESCROW RECEIVABLES

Restricted cash mainly represents customer funds held on escrow by the Group arising from the online transaction service with a corresponding liability in amounts due to customers. Escrow receivables represent funds receivable and payable in relation to the online transaction services due to the time taken to clear funds with external payment networks.

23 CASH AND BANK BALANCES

	Group	
	2009 RMB'000	**2010 RMB'000**
Cash at banks and on hand	359,366	**1,446,233**
Term deposits and short-term highly liquid investments with original maturities of three months or less	2,389,324	**1,639,932**
Cash and cash equivalents	2,748,690	**3,086,165**
Term deposits with original maturities of over three months	4,467,755	**6,497,368**
Total	7,216,445	**9,583,533**

	Company	
	2009 RMB'000	**2010 RMB'000**
Cash and cash equivalents	120	**3,845**

As of December 31, 2010, 98.6% (2009: 95.5%) of the cash and bank balances of the Group was denominated in Renminbi.

Renminbi 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 cash and bank balances is 2.0% (2009: 2.1%).

The carrying values of the term deposits with original maturities of over three months approximate their fair values as of December 31, 2010 (2009: same).

24 SHARE CAPITAL

	Notes	Number of ordinary shares	Nominal value of Ordinary shares	Equivalent nominal value of ordinary shares RMB'000
Authorized				
Ordinary share of HK$0.0001 each		8,000,000,000	HK$800,000	770
Issued and fully paid				
As of January 1, 2009		5,049,356,500	HK$504,936	486
Issuance of ordinary shares under share-based incentive schemes		1,345,040	HK$134	–
Repurchase of issued ordinary shares	(a)	(11,000,000)	(HK$1,100)	(1)
As of December 31, 2009		5,039,701,540	HK$503,970	485
As of January 1, 2010		**5,039,701,540**	**HK$503,970**	**485**
Issuance of ordinary shares under share-based incentive schemes		**5,829,908**	**HK$583**	**–**
Repurchase of issued ordinary shares	(b)	**(1,800,000)**	**(HK$180)**	**–**
As of December 31, 2010		**5,043,731,448**	**HK$504,373**	**485**

(a) In 2009, the Company repurchased 11,000,000 issued ordinary shares on the market. These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK$79,204,000 (equivalent to RMB69,804,000) was deducted from the shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK$1,100 has been transferred from retained earnings to capital redemption reserve.

Month of repurchase	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate price paid HK$'000	Equivalent aggregate price paid RMB'000
January 2009	1,000,000	5.50	5.47	5,519	4,867
February 2009	10,000,000	7.50	6.94	73,685	64,937
	11,000,000			79,204	69,804

(b) In 2010, the Company repurchased 1,800,000 issued ordinary shares on the market. These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK$23,735,000 (equivalent to RMB20,455,000) was deducted from the shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK$180 has been transferred from retained earnings to capital redemption reserve.

Month of repurchase	**Number of shares repurchased**	**Highest price per share** HK$	**Lowest price per share** HK$	**Aggregate price paid** HK$'000	**Equivalent aggregate price paid** RMB'000
November 2010	**1,500,000**	**13.20**	**12.88**	**19,693**	**16,986**
December 2010	**300,000**	**13.50**	**13.30**	**4,042**	**3,469**
	1,800,000			**23,735**	**20,455**

(c) In 2010, the Group acquired 2,750,000 ordinary shares of the Company through the Equity Incentive Trust on the market for the purpose of the Share Award Scheme (Note 27(a)) with a consideration of HK$37,511,000 (equivalent to RMB32,254,000).

25 RESERVES

(a) Capital reserve

Capital reserve arises from (i) the difference between the aggregate of the consideration for business combination under common control and the aggregate of the historical costs of the assets and liabilities of the entities being acquired. Deemed distributions to equity owners represent the amounts paid by the Group in exchange for the interests in the entities being acquired; and (ii) put liability in relation to the acquisition of certain equity interest in HiChina.

(b) Statutory reserve

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. This reserve can only be used for specific purposes and is not distributable or transferable in the form of loans, advances, or cash dividends.

26 EQUITY – COMPANY

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
As of January 1, 2009	486	2,842,944	–	322,514	3,165,944
Profit for the year	–	–	–	870,390	870,390
Total recognized income for the year	–	–	–	870,390	870,390
Repurchase of issued ordinary shares (Note 24(a))	(1)	(69,803)	1	(1)	(69,804)
Issue of ordinary shares under share-based incentive schemes	–	55	–	–	55
Special cash dividend (Note 13)	–	–	–	(888,261)	(888,261)
Value of employee services under share-based incentive schemes	–	112,612	–	–	112,612
As of December 31, 2009	485	2,885,808	1	304,642	3,190,936
As of January 1, 2010	**485**	**2,885,808**	**1**	**304,642**	**3,190,936**
Profit for the year	**–**	**–**	**–**	**878,214**	**878,214**
Total recognized income for the year	**–**	**–**	**–**	**878,214**	**878,214**
Repurchase of issued ordinary shares (Note 24(b))	**–**	**(20,455)**	**–**	**–**	**(20,455)**
Issue of ordinary shares under share-based incentive schemes	**–**	**10,328**	**–**	**–**	**10,328**
Special cash dividend (Note 13)	**–**	**–**	**–**	**(951,056)**	**(951,056)**
Value of employee services under share-based incentive schemes	**–**	**232,597**	**–**	**–**	**232,597**
As of December 31, 2010	**485**	**3,108,278**	**1**	**231,800**	**3,340,564**

The profit attributable to equity owners of the Company was dealt with in the financial statements of the Company to the extent of RMB878,214,000 (2009: RMB870,390,000).

27 SHARE-BASED COMPENSATION

Prior to the initial public offering of the shares of the Company in November 2007 (the "Initial Public Offering"), directors and employees of the Group were granted share-based awards relating to the ordinary shares of the ultimate holding company. Immediately before the Initial Public Offering, certain directors and employees were also granted share-based awards to acquire ordinary shares of the Company held by the ultimate holding company pursuant to the pre-IPO share incentive scheme. Subsequent to the Initial Public Offering, share-based awards in the form of share options, RSUs and restricted shares were granted to the directors and employees of the Group mainly under the share-based incentive schemes operated by the Group.

Depending on the nature or purpose of the grant, the vesting schedule of share options, RSUs and restricted shares granted by the Company and the ultimate holding company could be different, but in general the awards are all subject to a four-year vesting schedule. The exercise period of share options granted by the Company or the ultimate holding company is six years from the date of grant.

(a) Share-based incentive schemes operated by the Group

In 2007, the Company adopted a share option scheme (the "Share Option Scheme") and a restricted share unit scheme (the "RSU Scheme") pursuant to which a total of 135,100,000 unissued ordinary shares of the Company were reserved and were available for grant of share options or RSUs. In 2010, the Company refreshed the combined scheme limit of the RSU Scheme and the Share Option Scheme to 156,000,000 ordinary shares. This pool of shares reserved for future grant of share options or RSUs represented 3.09% (2009: 2.68%) of the issued share capital of the Company as of December 31, 2010.

In 2010, the Company also adopted the Share Award Scheme which is substantially similar to the RSU Scheme except that (i) it is also open to directors of the Company and its subsidiaries; and (ii) shares awarded under the Share Award Scheme are purchased from the open market whereas shares awarded pursuant to the RSU Scheme are from newly issued ordinary shares of the Company. Pursuant to the Share Award Scheme, the Group has established the Equity Incentive Trust. The trustee will exercise its power to purchase ordinary shares of the Company on the market and transfer ordinary shares of the Company to the participants in accordance with the vesting condition of Share Award Scheme. Participants are not entitled to dividends on any awarded shares that are not yet transferred to them.

Share options granted under the Share Option Scheme

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 Share Option Scheme of the Company are as follows:

	2009		**2010**	
	Weighted average exercise price(i) HK$	Number of underlying shares(ii) ('000)	**Weighted average exercise price(i) HK$**	**Number of underlying shares(ii) ('000)**
Outstanding as of January 1	11.95	14,808	**9.76**	**42,951**
Granted	8.82	30,881	**16.00**	**13,246**
Exercised	5.54	(11)	**7.20**	**(1,640)**
Cancelled	11.05	(2,727)	**12.00**	**(6,775)**
Outstanding as of December 31	9.76	42,951	**11.26**	**47,782**
Vested and exercisable as of December 31	15.63	1,818	**9.98**	**11,214**

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

(ii) Number of underlying shares represents the number of ordinary shares that are issuable by the Company upon exercise of the relevant options.

27 SHARE-BASED COMPENSATION (Continued)

(a) Share-based incentive schemes operated by the Group (Continued)

Share options granted under the Share Option Scheme (Continued)

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

	2009		2010	
Exercise price [i]	Number of underlying shares[ii] ('000)	Weighted average remaining contractual life (years)	**Number of underlying shares[ii] ('000)**	**Weighted average remaining contractual life (years)**
HK$5.54 – HK$7.25	31,745	5.2	**26,958**	**4.1**
HK$12.74 – HK$14.57	1,990	4.5	**2,447**	**4.4**
HK$16.12 – HK$17.62	2,290	6.0	**12,633**	**5.1**
HK$19.86 – HK$20.60	6,926	4.6	**5,744**	**3.4**
	42,951	5.1	**47,782**	**4.3**

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

(ii) Number of underlying shares represents the number of ordinary shares that are issuable by the Company upon exercise of the relevant options.

The significant inputs into the Black-Scholes Model in determining the fair value of the share options granted by the Company under Share Option Scheme during the years presented are as follows:

	2009	**2010**
Risk-free annual interest rate	1.17% to 1.66%	**1.14% to 1.73%**
Dividend yield	0%	**0%**
Expected life (years)	4.25 to 4.38	**4.25 to 4.38**
Expected volatility [i]	51.75% to 52.72%	**53.56% to 54.52%**
Weighted average fair value of each share option	HK$3.77	**HK$6.76**

(i) Expected volatility is assumed based on the historical volatility of the Company as well as its comparable companies in the period that has the same length of the expected life.

27 SHARE-BASED COMPENSATION (Continued)

(a) Share-based incentive schemes operated by the Group (Continued)

RSUs granted under the RSU Scheme

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 RSU Scheme of the Company are as follows:

	2009		2010	
	Weighted average grant date fair value[i] HK$	Number of underlying shares ('000)	Weighted average grant date fair value[i] HK$	Number of underlying shares ('000)
Outstanding as of January 1	16.87	4,064	**10.70**	**19,892**
Granted	9.84	19,103	**15.13**	**25,936**
Vested	18.39	(1,334)	**9.38**	**(4,190)**
Cancelled	9.88	(1,941)	**13.72**	**(3,991)**
Outstanding as of December 31	10.70	19,892	**13.58**	**37,647**

(i) Grant date fair value represents the fair value of the ordinary shares of the Company at the time of grant.

Restricted shares granted under the Share Award Scheme

Movements in the number of shares held for the Share Award Scheme for the year ended December 31, 2010 (2009: nil) are as follows:

	Shares held for the Share Award Scheme ('000)	Awarded shares ('000)
Outstanding as of January 1	**–**	**–**
Purchased (Note 24(c))	**2,750**	**–**
Granted [i]	**(1,600)**	**1,600**
Outstanding as of December 31	**1,150**	**1,600**

(i) The weighted average fair value of the awarded shares, calculated based on the market prices of the Company's ordinary shares at the grant date, was HK$14.10.

27 SHARE-BASED COMPENSATION (Continued)

(a) Share-based incentive schemes operated by the Group (Continued)

Put options and earn-in arrangement of HiChina

Upon the acquisition of HiChina (Note 1), the Group has granted put options which are exercisable on certain specified dates over a three-year period from 2011 to 2013, to certain founder shareholders of HiChina. On the condition that HiChina meets certain post-completion performance milestones, these shareholders may require the Group to further acquire up to a 14.67% equity interest in HiChina from them for a maximum consideration of RMB104.5 million (US$15.3 million).

In addition, the Group has also agreed, among other things, that it might transfer certain earn-in shares of HiChina to certain key employees, subject to these employees achieving other post-completion performance milestones to be set based on the ongoing business strategies and objectives of HiChina on an annual basis over each of the five years starting 2010.

As the vesting of put options is conditional on employment-related elements, the fair value of the put options is recognized as share-based compensation expense over the vesting period. Similarly, the fair value of the earn-in shares is also accounted for as share-based compensation expense in the consolidated statement of comprehensive income upon vesting.

Share-based compensation expense for schemes operated by the Group

In 2010, the Group recognized share-based compensation expense of RMB246,532,000 (2009: RMB110,992,000) in connection with all the share-based incentive schemes operated by the Group.

(b) Share-based incentive schemes operated by the ultimate holding company

Senior management equity incentive scheme

In 2010, the ultimate holding company adopted the senior management equity incentive scheme, pursuant to which selected senior management of the ultimate holding company (including certain directors and senior management of the Group) were invited to subscribe for rights to acquire ordinary shares of the ultimate holding company. These rights, subject to non-compete provision but without any vesting conditions upon employment or other services, are exercisable after the dates as specified in the relevant agreements. As certain participants of the scheme are employees of the Group, deemed share-based compensation expense from accounting perspectives, measured by the difference between the fair value of the rights and the related subscription price, of RMB56,956,000 was recognized in full by the Group in 2010 (2009: nil).

The fair value of the rights to acquire ordinary shares of the ultimate holding company was determined based on the Black-Scholes Model. The significant inputs into the Black-Scholes Model in determining the grant date fair value were as follows:

Risk-free annual interest rate	1.32%-1.42%
Dividend yield	0%
Expected life (years)	5.00
Expected volatility (i)	55.00%
Weighted average fair value of each right	US$2.32

(i) Expected volatility is assumed based on the historical volatility of the share price of the comparable companies of the ultimate holding company in a period that has the same length of expected life.

27 SHARE-BASED COMPENSATION (Continued)

(b) Share-based incentive schemes operated by the ultimate holding company (Continued)

Share-based awards relating to ordinary shares of the Company and the ultimate holding company

Certain employees of the Group have participated in various share-based incentive schemes of the ultimate holding company. Share options and RSUs relating to ordinary shares of the ultimate holding company under such plans were granted to the directors and employees of the Group, mainly prior to the Initial Public Offering of the Company, to acquire ordinary shares of the ultimate holding company. A proportion of these share-based awards have been exchanged for share options and RSUs to acquire the Company's ordinary shares held by the ultimate holding company pursuant to an equity exchange program with these employees undertaken in 2007. As of December 31, 2010, 12,898,436 (2009: 18,464,691) ordinary shares of the Company are subject to exchange by the ultimate holding company.

The ultimate holding company also granted share options, RSUs and other rights to acquire the Company's ordinary shares held by it to the directors and employees of the Group pursuant to a pre-IPO share incentive scheme and other share-based incentive schemes of the ultimate holding company. As of December 31, 2010, 58,366,600 (2009: 66,450,750) share options, RSUs and rights granted under the aforesaid schemes are outstanding, of which 41,269,800 (2009: 32,402,750) are vested and exercisable/redeemable.

Share-based compensation expense for schemes operated by the ultimate holding company

In 2010, the Group recognized share-based compensation expense of RMB94,439,000 (2009: RMB89,393,000) in connection with all share-based incentive schemes including the senior management equity incentive scheme operated by the ultimate holding company.

(c) Share-based compensation expense by function

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

	2009 RMB'000	**2010 RMB'000**
Cost of revenue	15,874	**26,365**
Sales and marketing expenses	55,667	**95,096**
Product development expenses	32,805	**71,476**
General and administrative expenses	96,039	**148,034**
Total	200,385	**340,971**

28 DEFERRED REVENUE AND CUSTOMER ADVANCES

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

	2009 RMB'000	2010 RMB'000
Deferred revenue	2,558,898	**3,071,663**
Customer advances	878,077	**1,362,724**
	3,436,975	**4,434,387**
Less: Current portion	(3,232,690)	**(4,101,442)**
Non-current portion	204,285	**332,945**

All service fees received in advance are initially recorded as customer advances. These amounts are transferred to deferred revenue upon commencement of the rendering of services by the Group and are recognized in the consolidated statement of comprehensive income in the period in which the services are rendered. In general, service fees received in advance are non-refundable after such amounts are transferred to deferred revenue.

29 TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2009 RMB'000	2010 RMB'000
0 – 30 days	23,794	**14,266**
31 days – 60 days	–	**333**
61 days – 90 days	–	**188**
Over 90 days	113	**1,194**
Total	23,907	**15,981**

30 OTHER PAYABLES AND ACCRUALS

	Group	
	2009 RMB'000	2010 RMB'000
Non-current portion		
Put liability and compensatory liability in relation to the acquisition of a 14.67% equity interest in HiChina (Note 1)	67,602	**53,666**
Current portion		
Accrued salaries, bonuses, sales commissions and staff benefits	314,961	**389,338**
Accrued advertising and promotion expenses, professional fees and others	200,547	**296,137**
Accrued purchases of property and equipment	134,278	**57,705**
Put liability and compensatory liability in relation to the acquisition of a 14.67% equity interest in HiChina (Note 1)	–	**31,191**
Deferred consideration in relation to the initial acquisition of an 85% equity interest in HiChina	43,530	**–**
Other taxes payable	92,261	**84,890**
	785,577	**859,261**
Total	853,179	**912,927**

	Company	
	2009 RMB'000	2010 RMB'000
Accrued professional fees and others	6,007	**11,172**

31 DEFERRED TAX ASSETS AND LIABILITIES

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 amounts shown in the consolidated balance sheet are determined after appropriate offset.

	2009 RMB'000	**2010 RMB'000**
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	13,534	**19,578**
– Deferred tax assets to be recovered within 12 months	59,631	**81,754**
	73,165	**101,332**
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	(67,224)	**(117,223)**
– Deferred tax liabilities to be settled within 12 months	(2,417)	**(13,632)**
	(69,641)	**(130,855)**
Deferred tax assets/(liabilities), net	3,524	**(29,523)**

The movement of deferred tax assets/(liabilities), net is as follows:

	2009 RMB'000	**2010 RMB'000**
As of January 1	310,025	**3,524**
Charged to the consolidated statement of comprehensive income (Note 12)	(26,256)	**(26,986)**
Reversal of deferred tax assets arising from change in tax filing basis (i)	(256,766)	**–**
Deferred tax assets arising from the acquisition of HiChina	12,021	**–**
Deferred tax liabilities arising from the acquisition of HiChina	(35,500)	**–**
Deferred tax liabilities arising from the acquisitions of Vendio and Auctiva	–	**(41,145)**
Exchange differences	–	**943**
Settlement of withholding tax of previous year	–	**34,141**
As of December 31	3,524	**(29,523)**

(i) Pursuant to the new PRC Enterprise Income Tax Law and Guoshuihan [2008] No. 875, taxable income should be computed on an accrual basis for enterprise income tax puspose. As a result, Alibaba China changed its enterprise income tax filing basis from cash basis to accrual basis in 2009.

31 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is 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, 2009	318,345	9,842	42,492	370,679
(Charged)/Credited to the consolidated statement of comprehensive income (Note 12)	–	(496)	8,381	7,885
Reversal of deferred tax assets arising from change in tax filing basis	(318,345)	–	925	(317,420)
Deferred tax assets arising from the acquisition of HiChina	10,786	233	1,002	12,021
As of January 1, 2010	**10,786**	**9,579**	**52,800**	**73,165**
Credited to the consolidated statement of comprehensive income (Note 12)	**15,430**	**3,821**	**10,261**	**29,512**
As of December 31, 2010	**26,216**	**13,400**	**63,061**	**102,677**

(i) Others primarily represent accrued expenses which are not deductible until paid under PRC tax laws.

Deferred tax liabilities

	Direct selling costs RMB'000	Withholding tax on unremitted earnings[(i)] RMB'000	Others RMB'000	Total RMB'000
As of January 1, 2009	(60,654)	–	–	(60,654)
Charge to the consolidated statement of comprehensive income (Note 12)	–	(34,141)	–	(34,141)
Reversal of deferred tax liabilities arising from change in tax filing basis	60,654	–	–	60,654
Deferred tax liabilities arising from the acquisition of HiChina	–	–	(35,500)	(35,500)
As of January 1, 2010	**–**	**(34,141)**	**(35,500)**	**(69,641)**
(Charged)/Credited to the consolidated statement of comprehensive income (Note 12)	**–**	**(60,013)**	**3,515**	**(56,498)**
Deferred tax liabilities arising from the acquisitions of Vendio and Auctiva	**–**	**–**	**(41,145)**	**(41,145)**
Exchange differences	**–**	**–**	**943**	**943**
Settlement of withholding tax of previous year	**–**	**34,141**	**–**	**34,141**
As of December 31, 2010	**–**	**(60,013)**	**(72,187)**	**(132,200)**

(i) The Group recognized related deferred tax liabilities of RMB60,013,000 (2009: RMB34,141,000) on the retained earnings of Alibaba China of RMB1,200,250,000 (2009: RMB680,000,000), which is anticipated to be distributed as dividends by Alibaba China to finance the business development outside the PRC. As of December 31, 2010, there were unrecognized deferred income tax liabilities of RMB67,382,000 (2009: RMB56,500,000), relating to withholding tax payable for undistributed profits of Alibaba China and certain other PRC subsidiaries amounting to RMB1,347,632,000 (2009: RMB1,130,000,000). Since the Directors consider that the timing for the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future, no withholding tax has been provided.

31 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Deferred tax liabilities (Continued)

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. Alibaba China used a tax rate of 15%, which represents a preferential tax rate for enterprises qualified as High and New Technology Enterprises, in the computation of deferred tax assets as of December 31, 2010 (2009: 15%). In addition, the Group did not recognize deferred tax assets of RMB66,501,000 (2009: RMB40,048,000) primarily in respect of the accumulated tax losses of subsidiaries incorporated in Hong Kong, Singapore and the United States, and of a branch set up in Taiwan, subject to the agreement by the relevant tax authorities, amounting to RMB268,835,000 (2009: RMB240,704,000). These tax losses are allowed to be carried forward to offset against future taxable profits. Carry forward of tax losses in Hong Kong and Singapore have no time limit, while the tax losses in the United States and Taiwan will expire, if unused, in the following years:

The United States:	Years ending December 31, 2019 through 2030; and
Taiwan:	Years ending December 31, 2018 through 2019.

Further, the Group did not recognize deferred tax assets of RMB11,433,000 (2009: RMB23,072,000) in respect of the accumulated tax losses of subsidiaries incorporated in the PRC, subject to the agreement by the PRC tax authorities, amounting to RMB48,343,000 (2009: RMB92,289,000). Carry forward of these tax losses will expire, if unused, in the years ending December 31, 2011 through 2015.

32 SHORT-TERM BANK BORROWINGS

Short-term bank borrowings, all denominated in United States dollars, are analyzed as follows:

	2009 RMB'000	2010 RMB'000
Wholly repayable within five years	–	**92,718**

The carrying amounts of short-term bank borrowings approximate their fair values, as the impact of discounting is not significant.

33 SUPPLEMENTARY INFORMATION TO CONSOLIDATED CASH FLOW STATEMENT

Acquisitions of Vendio and Auctiva

In July and August 2010, the Group acquired 100% equity interests in Vendio and Auctiva respectively through two separate acquisitions, for a combined consideration of RMB233,220,000. Vendio operates an e-commerce platform which provides a one-stop solution for small businesses that are selling online across multiple online channels while Auctiva is engaged in the development of listing, marketing and management tools for eBay sellers.

Details of the purchase consideration, the net assets acquired and goodwill, in aggregate, are as follows:

	RMB'000
Purchase consideration	
Cash paid	**233,220**

The assets and liabilities recognized as a result of the acquisitions, in aggregate, are as follows:

	RMB'000
Cash and cash equivalents	**15,594**
Property and equipment (Note 15)	**4,698**
Computer software and technology (Note 16)	**64,242**
Trademark/domain names (Note 16)	**9,283**
Customer relationships (Note 16)	**27,587**
Trade and other receivables	**21,484**
Trade and other payables	**(34,848)**
Deferred revenue	**(2,838)**
Net deferred tax liabilities (Note 31)	**(41,145)**
Net identifiable assets acquired	**64,057**
Goodwill (Note 16)	**169,163**
Total purchase consideration	**233,220**

The fair value of the acquired identifiable assets includes RMB101,112,000 intangible assets as stated above.

Acquisition-related costs of RMB19,556,000 have been included in general and administrative expenses of the consolidated statement of comprehensive income.

The contribution to the Group's turnover or profit attributable to equity owners from these newly acquired subsidiaries since the respective dates of acquisition or as if the acquisitions have had occurred as of the beginning of the year is not significant.

34 CONTINGENCIES

As of December 31, 2010, the Group did not have any material contingent liabilities or guarantees (2009: nil).

35 COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for are analyzed as follows:

	2009 RMB'000	2010 RMB'000
Contracted but not provided for:		
Purchase of property and equipment	32,257	**6,471**
Construction of a corporate campus	20,586	**17,508**
	52,843	**23,979**

Pursuant to the agreements signed between Alibaba China and The Bureau of State Land and Resources of Hangzhou Municipality, on March 9, 2010, the Group paid RMB35,600,000 (Note 20) as deposits for the land use rights in the PRC for a period of 50 years for the second phase of the corporate campus to be constructed. The Group has committed that the total investment for the construction would not be less than RMB667,000,000 by March 2012.

(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 are as follows:

	2009 RMB'000	2010 RMB'000
No later than 1 year	43,308	**55,304**
Later than 1 year and no later than 5 years	23,520	**41,703**
More than 5 years	–	**1,540**
Total	66,828	**98,547**

36 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 elsewhere disclosed, the following significant related party transactions were carried out during the year:

(a) Recurring transactions

	2009 RMB'000	2010 RMB'000
Expenses paid or payable to the ultimate holding company for certain technology, intellectual property and related know-how (Note i)	(73,486)	**(52,976)**
House brand head license fee paid or payable to the ultimate holding company (Note ii)	(2,000)	**(2,000)**
Purchase of advertising, promotion and technology services from (Note iii):		
– a substantial shareholder of the ultimate holding company and its subsidiaries	(12,806)	**(10,374)**
– a fellow subsidiary	(8,531)	**(10,000)**
Total	(21,337)	**(20,374)**
Cross-selling of promotion and related services with fellow subsidiaries (Note iv)	2,697	**(1,934)**
Cross-selling of promotion and related services with associated companies (Note v)	8,303	**12,364**
Reimbursement from fellow subsidiaries for the provision of administrative services (Note vi)	11,434	**5,836**
Reimbursement from fellow subsidiaries for the provision of technology services (Note vii)	14,764	**5,518**
Purchase of administrative services from fellow subsidiaries (Note viii)	–	**(9,613)**
Purchase of technology services from a fellow subsidiary (Note ix)	(2,550)	**(4,932)**
Purchase of customer support services from an associated company (Note x)	–	**(21,142)**

36 RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring transaction

	2009 RMB'000	**2010 RMB'000**
Purchase of property and equipment from fellow subsidiaries (Note xi)	(2,579)	**(2,936)**

(i) These represent expenses paid or payable by the Group for the use of certain technology, intellectual property and related know-how provided by the ultimate holding company. The expenses are calculated based on a mutually agreed basis.

(ii) This represents license fee paid or payable by the Group to the ultimate holding company at a fixed fee of RMB2 million per annum.

(iii) These represent charges paid or payable by the Group to various related companies and a fellow subsidiary in relation to the purchase of keywords and display advertisements on websites operated by various related companies as well as certain technology and related services from a fellow subsidiary. These charges are calculated based on market rates of the related services.

(iv) These represent net amount paid or payable or received or receivable by the Group to fellow subsidiaries for the cross-selling of the Group's website inventory, website and storefront creation services and online software tools and services. These charges are calculated based on a pre-determined percentage of the underlying transaction amount.

(v) This represents charge received or receivable by the Group from the associated companies for the cross-selling of products of the associated companies. The charge is calculated based on a pre-determined percentage of the underlying transaction amount.

(vi) These represent charges received or receivable by the Group for the provision of administrative services to fellow subsidiaries. The charges are determined on a cost basis.

(vii) These represent charges received or receivable by the Group for the provision of technology services to fellow subsidiaries. The charges are calculated based on actual cost incurred in providing such services plus a margin of 15%.

(viii) These represent charges paid or payable by the Group to fellow subsidiaries for the administrative services provided by those fellow subsidiaries. The charges are determined on a cost basis.

(ix) This represents charge paid or payable by the Group to a fellow subsidiary for the technology services provided by that fellow subsidiary. The charge is calculated based on actual cost incurred in providing such services plus a margin of 15%.

(x) These represent charges paid or payable by the Group to an associated company for the provision of customer support services. The charges are determined on a cost basis.

(xi) These represent amounts paid or payable by the Group for the purchase of certain property and equipment from fellow subsidiaries. These charges are based on the net book value of the property and equipment transferred.

36 RELATED PARTY TRANSACTIONS (Continued)

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 are considered to be of a similar nature and have a similar value, such transactions are not regarded as revenue-generating transactions and thus no revenue or expense were recognized.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

(c) Balances with related parties

	Group	
	2009 RMB'000	2010 RMB'000
Amounts due from related companies:		
Ultimate holding company	10,917	**1,115**
Fellow subsidiaries	27,008	**38,419**
Total	37,925	**39,534**
Amounts due to related companies:		
Ultimate holding company	1,676	**18,517**
Fellow subsidiaries	16,797	**5,109**
Subsidiary of a substantial shareholder of the ultimate holding company	1,742	**22,341**
Total	20,215	**45,967**

	Company	
	2009 RMB'000	2010 RMB'000
Amounts due from subsidiaries:		
Non-current portion (Note 17)	1,565,157	**1,565,157**
Current portion (Note 17)	1,530,401	**1,482,730**
Total	3,095,558	**3,047,887**
Amount due from an associated company	205	**199**
Amount due to the ultimate holding company	(1,676)	**(2,234)**
Amounts due to subsidiaries (Note 17)	(49,637)	**(70,843)**

Except for the amounts due from subsidiaries included under non-current portion in the Company's balance sheets, the amounts due from/(to) the 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 their fair values due to short-term maturity.

36 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management personnel compensation

Remuneration for key management personnel represented amounts paid to the Company's directors as disclosed in Note 10.

37 FINANCIAL RISK MANAGEMENT

The Group's major financial assets and liabilities include cash and cash equivalents, time deposits, available-for-sale investments, prepayments, deposits and other receivables, amounts due from/to related companies, trade payables, other payables and accruals and short-term bank borrowings. The details of these financial assets and financial liabilities are disclosed in the respective notes to the financial statements. The risks associated with these financial assets and liabilities and the policies on how to mitigate these risks are set out below. The Group's management regularly monitors the exposures and implements timely and effective policies to mitigate potential risks.

(a) Currency risk

Currency 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 Renminbi which is the functional currency of the Company and the Group's key operating subsidiaries. Renminbi is not freely convertible into other currencies. All foreign currency exchange transactions in the PRC must be effected through the State Administration of Foreign Exchange.

Sensitivity analysis

As of December 31, 2010, most of the foreign currency denominated monetary assets and liabilities being held by the Group were denominated in United States dollars and Hong Kong dollars (2009: same). As of December 31, 2010, if Renminbi had strengthened/weakened 2% against United States dollars and Hong Kong dollars with all other variables held constant, profit attributable to equity owners for the year would have been increased/decreased by RMB27,241,000 (2009: decreased/increased RMB5,574,000) as a result of foreign exchange gains/losses on translation of United States dollars and Hong Kong dollars denominated monetary assets and liabilities.

Exchange differences arising from translation of results and financial positions of certain Group companies from functional currencies to the presentation currency are dealt with as a movement in exchange reserve. As of December 31, 2010, if Renminbi had strengthened/weakened 2% against United States dollars with all other variables held constant, the Group's equity would have been decreased/increased by RMB12,627,000 (2009: RMB18,612,000).

(b) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest-bearing assets including all cash and cash equivalents, term deposits with original maturities of over three months as well as the short-term bank borrowings obtained during the year.

Sensitivity analysis

As of December 31, 2010, 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 RMB47,833,000 (2009: RMB36,044,000) higher/lower, mainly as a result of higher/lower interest income on bank balances.

37 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 and other investments held at banks and at other financial institutions. All of the Group's cash and other investments are placed with financial institutions of sound credit quality and most of which bears maximum original maturities of less than 12 months.

The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(d) Liquidity risk

The Group has maintained its own treasury function, which reports to the Group's Chief Financial Officer, to monitor the current and expected liquidity requirements and aims to maintain flexibility by keeping sufficient cash and available bank facilities to meet its commitment over the foreseeable future in accordance with its strategic plans.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivate financial liabilities which are based on contractual undiscounted principal cash flows and the earliest date on which the Group is required to pay.

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but not exceeding 2 years RMB'000	More than 2 years but not exceeding 5 years RMB'000
The Group				
As of December 31, 2010				
Trade payables	**15,981**	**15,981**	**–**	**–**
Amounts due to customers	**220,612**	**220,612**	**–**	**–**
Amounts due to related companies	**45,967**	**45,967**	**–**	**–**
Other payables and accruals	**912,927**	**859,261**	**27,544**	**26,122**
Dividend payable	**943,695**	**943,695**	**–**	**–**
Short-term bank borrowings	**92,718**	**92,718**	**–**	**–**
Total	**2,231,900**	**2,178,234**	**27,544**	**26,122**

37 FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but not exceeding 2 years RMB'000	More than 2 years but not exceeding 5 years RMB'000
The Group				
As of December 31, 2009				
Trade payables	23,907	23,907	–	–
Amounts due to related companies	20,215	20,215	–	–
Other payables and accruals	853,179	785,577	22,534	45,068
Total	897,301	829,699	22,534	45,068
The Company				
As of December 31, 2010				
Amounts due to subsidiaries	**70,843**	**70,843**	**–**	**–**
Amount due to the ultimate holding company	**2,234**	**2,234**	**–**	**–**
Other payables and accruals	**11,172**	**11,172**	**–**	**–**
Dividend payable	**944,210**	**944,210**	**–**	**–**
Total	**1,028,459**	**1,028,459**	**–**	**–**
As of December 31, 2009				
Amounts due to subsidiaries	49,637	49,637	–	–
Amount due to the ultimate holding company	1,676	1,676	–	–
Other payables and accruals	6,007	6,007	–	–
Total	57,320	57,320	–	–

(e) Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern while maximizing the returns to shareholders and benefits to other stakeholders. In order to achieve these objectives, the Group will periodically review its capital structure, with consideration on the macroeconomic conditions, prevailing interest rate and adequacy of cash flows generating from operations, and adjust it through the payment of dividends, issue of new shares or debts, the repurchase of shares and redemption of existing debt.

37 FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair value estimation

The fair values of the Group's financial assets and financial liabilities are determined as follows:

- The fair value of the listed investments traded in active liquid markets are determined with reference to the published price quotations;
- The fair values of financial instruments that are not traded in active market are made with reference to amounts as determined by discounted cash flow valuation techniques; and
- The carrying amounts of the Group's financial assets and financial liabilities measured by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments approximate their fair value.

The fair values of the Group's financial assets and liabilities are not materially different from their carrying value.

The following table provides an analysis of available-for-sale investments that are measured subsequent to initial recognition at fair value, grouped into levels based on the degree to which the fair value is observable.

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	Group Fair value measurement as of December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total amount**
	RMB'000	RMB'000	RMB'000	RMB'000
Debt securities in the PRC, at fair value (Note 19)	–	325,862	–	325,862

38 SUBSEQUENT EVENTS

In November 2010, the Group entered into an agreement to acquire a 65% equity interest in Shenzhen One-Touch Enterprise Service Limited ("One-Touch"), a provider of one-stop import and export services to small and medium enterprises in China. The transaction was completed in January 2011 and the first instalment of the purchase consideration was paid. The second and third instalment of the consideration will be paid in 2012 and 2014 and will be adjusted based on the operating and financial performance of One-Touch in 2011 and 2013. The Group is in the process of assessing the fair value of the assets and liabilities acquired with an external valuer.

In January 2011, the Group purchased a 25% equity interest in Sinosoft Technology Group Ltd ("Sinosoft"). Sinosoft, through its wholly-owned subsidiary, Nanjing Skytech, develops and provides export VAT refund software products and related services in China. The transaction was completed and the consideration was paid in January 2011.

39 COMPARATIVE FIGURES

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,				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Revenue	1,363,862	2,153,310	3,004,127	3,874,728	**5,557,586**
Gross profit	1,126,237	1,867,238	2,603,476	3,340,290	**4,626,570**
Profit from operations	268,496	765,861	1,141,700	1,072,970	**1,536,538**
Profit before income taxes	291,388	1,110,960	1,364,820	1,176,419	**1,706,457**
Profit attributable to equity owners of the Company	219,938	929,311	1,154,503	1,013,026	**1,469,464**
Share-based compensation	113,904	156,194	181,959	200,385	**340,971**
Dividends	–	–	–	888,261	**950,538**
Earnings per share Basic and diluted (HK$)	N/A	20 cents	26 cents	23 cents	**33 cents**

CONSOLIDATED BALANCE SHEETS

	As of December 31,				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Assets and liabilities					
Property and equipment	113,304	163,773	386,545	783,122	**781,145**
Goodwill	–	–	–	202,631	**367,787**
Liquid funds and investments	1,488,804	5,273,552	6,612,324	7,288,831	**9,940,013**
Deferred revenue and customer advances	(1,253,964)	(1,935,673)	(2,294,397)	(3,436,975)	**(4,434,387)**
Other net assets/(liabilities)	(202,576)	97,620	202,589	180,540	**(851,493)**
Total assets and liabilities	145,568	3,599,272	4,907,061	5,018,149	**5,803,065**
Equity					
Share capital	–	486	486	485	**485**
Reserves	145,568	3,598,786	4,906,575	4,976,605	**5,752,764**
Equity attributable to equity owners of the Company	145,568	3,599,272	4,907,061	4,977,090	**5,753,249**
Non-controlling interests	–	–	–	41,059	**49,816**
Total equity	145,568	3,599,272	4,907,061	5,018,149	**5,803,065**
Net current assets/(liabilities)	(147,453)	3,169,645	4,234,401	4,045,829	**4,655,406**
Total assets less current liabilities	182,714	3,674,484	5,025,338	5,359,677	**6,320,531**

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