



## ALIBABA.COM LIMITED

阿里巴巴網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1688)

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2007

## FINANCIAL AND OPERATION HIGHLIGHTS

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

- Strong growth of revenue by 59% to RMB2,163 million, mainly attributable to the increase in paying members and average spending per paying member
- Profit attributable to equity owners increased by 340% to RMB968 million
- Earnings per share increased by 358% to HK\$20.41 cents
- Total registered users increased 40% to 27.6 million
- Total storefronts increased 43% to 3.0 million
- Total paying members grew by 39% to over 305,000

## GROUP RESULTS

The Board of Directors (our “Board”) of Alibaba.com Limited (our “Company” or “Alibaba.com”) is pleased to announce the consolidated results of our Company and its subsidiaries (“we” or our “Group”) for the year ended December 31, 2007 together with the comparative figures for the last financial year as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue			
- International marketplace	4	1,547,695	991,869
- China marketplace	4	615,062	371,993
Total revenue		2,162,757	1,363,862
Cost of revenue		(280,113)	(237,625)
Gross profit		1,882,644	1,126,237
Sales and marketing expenses		(736,813)	(610,198)
Product development expenses		(131,495)	(105,486)
General and administrative expenses		(229,868)	(159,969)
Other operating income	5	19,877	17,912
Profit from operations	6	804,345	268,496
Finance income, net	7	345,099	22,892
Profit before income taxes		1,149,444	291,388
Income tax charges	8	(181,649)	(71,450)
Profit attributable to equity owners of the Company		967,795	219,938
Dividends	9	-	392,521
Earnings per share, basic and diluted (RMB)	10	RMB19.91 cents	RMB4.56 cents
Earnings per share, basic and diluted (HK\$ equivalent)	10	HK\$20.41 cents	HK\$4.46 cents

**CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007**

	Notes	2007 RMB'000	2006 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Lease prepayment		29,088	-
Property and equipment		158,992	113,304
Deferred tax assets		260,311	211,875
Prepayments, deposits and other receivables		27,067	-
Deferred costs	11	10,767	4,988
<b>Total non-current assets</b>		<u>486,225</u>	<u>330,167</u>
<b>Current assets</b>			
Amounts due from related companies		26,320	25,148
Prepayments, deposits and other receivables		48,143	36,389
Deferred costs		219,229	163,392
Restricted cash		-	781
Term deposits with original maturities of over three months		952,382	1,051,000
Cash and cash equivalents	12	4,321,170	437,804
<b>Total current assets</b>		<u>5,567,244</u>	<u>1,714,514</u>
<b>Total assets</b>		<u><u>6,053,469</u></u>	<u><u>2,044,681</u></u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital		486	-
Share premium		2,893,132	-
Capital reserve		(55,787)	354,533
Exchange reserve		20,357	3,937
Statutory reserves		119,615	58,223
Retained earnings/(Accumulated deficit)		635,278	(271,125)
<b>Total equity</b>		<u>3,613,081</u>	<u>145,568</u>

**CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007 (Cont'd)**

	Notes	2007 RMB'000	2006 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred revenue	13	70,194	37,146
<b>Current liabilities</b>			
Deferred revenue and customer advances	13	1,849,655	1,216,818
Trade payables		12,883	8,698
Amounts due to related companies		17,039	161,538
Other payables and accruals		337,085	172,281
Dividend payable		-	195,909
Current income tax liabilities		153,532	106,723
<b>Total current liabilities</b>		<u>2,370,194</u>	<u>1,861,967</u>
<b>Total liabilities</b>		<u>2,440,388</u>	<u>1,899,113</u>
<b>Total equity and liabilities</b>		<u>6,053,469</u>	<u>2,044,681</u>
<b>Net current assets/(liabilities)</b>		<u>3,197,050</u>	<u>(147,453)</u>
<b>Total assets less current liabilities</b>		<u>3,683,275</u>	<u>182,714</u>

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	2007 RMB'000	2006 RMB'000
<b>Cash flows from operating activities</b>		
Profit before income taxes	1,149,444	291,388
Adjustments for:		
Depreciation expense of property and equipment	59,016	54,043
Amortization of lease prepayment	244	-
Share-based compensation expense	152,077	113,904
Loss on disposals of property and equipment	17	483
Interest income	(406,307)	(23,159)
Exchange losses	61,208	267
Decrease/(Increase) in amounts due from related companies	6,468	(3,348)
(Increase)/Decrease in prepayments, deposits and other receivables	(28,176)	35,470
Increase in deferred costs	(61,616)	(28,054)
Decrease in restricted cash	781	-
Increase in deferred revenue and customer advances	699,496	469,251
Increase/(Decrease) in trade payables	4,185	(5,477)
Decrease in amounts due to related companies	(167,944)	(67,142)
Increase/(Decrease) in other payables and accruals	122,962	(24,462)
	<hr/>	<hr/>
Net cash provided by operating activities	1,591,855	813,164
Income tax paid	(182,638)	(82,493)
	<hr/>	<hr/>
Net cash generated from operating activities	1,409,217	730,671
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Decrease/(Increase) in term deposits with original maturities of over three months	98,618	(714,000)
Purchase of property and equipment and lease prepayment of land use rights	(139,812)	(96,690)
Proceeds from disposals of property and equipment	342	270
Deemed distributions to equity holder	(432,866)	-
Interest received	393,718	16,053
Net cash outflow arising from deemed disposals pursuant to the Reorganization	(21,947)	-
	<hr/>	<hr/>
Net cash used in investing activities	(101,947)	(794,367)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of ordinary shares	2,935,079	-
Payments for shares issuance costs	(112,249)	-
Dividends paid	(195,909)	(196,612)
	<hr/>	<hr/>
Net cash provided by/(used in) financing activities	2,626,921	(196,612)
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	3,934,191	(260,308)
Cash and cash equivalents at beginning of year	437,804	698,335
Effect of exchange rate for the year	(50,825)	(223)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<u>4,321,170</u>	<u>437,804</u>

## 1 General information

Alibaba.com Limited 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. Our Company is an investment holding company and was listed on The Stock Exchange of Hong Kong Limited on November 6, 2007.

We are principally engaged in the provision of software, technology and other services on the online business-to-business (“B2B”) marketplaces with the uniform resource locators [www.alibaba.com](http://www.alibaba.com) and [www.alibaba.com.cn](http://www.alibaba.com.cn) and under the trade name “Alibaba” (the “B2B services”).

These consolidated financial statements were approved for issue by our Board on March 18, 2008.

## 2 Basis of preparation

Together with Alibaba Group Holding Limited (our “ultimate holding company”) and its subsidiaries (together, “Alibaba Group”), we completed a reorganization in 2007. Pursuant to the reorganization, assets and liabilities comprising Alibaba Group’s B2B business were transferred to us (the “Reorganization”). The Reorganization was accounted for as a reorganization of business under common control, in a manner similar to a pooling-of-interests. The assets and liabilities transferred to us have been stated at Alibaba Group’s historical carrying amounts. The consolidated financial statements have been prepared as if our Company and current corporate structure had been in existence at all dates and during the years presented.

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

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

	2007 RMB’000	2006 RMB’000
Sales and marketing expenses	-	83,186
Product development expenses	-	6,748
General and administrative expenses	-	47,573
	<hr/>	<hr/>
Total	-	137,507
	<hr/> <hr/>	<hr/> <hr/>

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

## 2 Basis of preparation (Cont'd)

Subsequent to December 31, 2006, the Marketing and Administrative Function was transferred to other subsidiaries of Alibaba Group Holding Limited. In connection therewith, our employees who provided marketing and administrative services to Alibaba Group after the Reorganization were transferred to other subsidiaries of Alibaba Group Holding Limited during the year ended December 31, 2007.

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

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

The impact of the adoption of IFRS 7 and the amendments to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding our financial instruments and management of capital.

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

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

Our adoption of these standards and interpretations does not have any impact on our financial statements and has not led to any changes in our accounting policies.

## 3 Segment information

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

#### 4 Revenue

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

- (i) Other revenue received from our international marketplace mainly represents commission income from a fellow subsidiary for cross-selling certain software products.
- (ii) Other revenue received from our China marketplace mainly represents promotional income from certain third party customers.

#### 5 Other operating income

	2007 RMB'000	2006 RMB'000
Government grants (i)	17,215	13,500
Others	2,662	4,412
	<u>19,877</u>	<u>17,912</u>

- (i) Alibaba (China) Technology Co., Ltd. ("Alibaba China"), our wholly-owned subsidiary, received grants from government authorities in the PRC of RMB17,215,000. In 2006, Alibaba China received RMB13,500,000 government grants in relation to technology development in the PRC.

## 6 Profit from operations

Profit from operations is stated after charging the following:

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

- (i) Auditors' remuneration was borne by Alibaba Group Holding Limited, our ultimate holding company, for the year ended December 31, 2006.

## 7 Finance income, net

	2007 RMB'000	2006 RMB'000
Interest income (i)	406,307	23,159
Exchange losses	(61,208)	(267)
	<u>          </u>	<u>          </u>
	<u>345,099</u>	<u>22,892</u>

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

## 8 Income tax charges

	2007 RMB'000	2006 RMB'000
PRC current tax charge	230,085	155,730
Deferred tax credit	(48,436)	(84,280)
	<u>181,649</u>	<u>71,450</u>

(a) Cayman Islands and British Virgin Islands Profits Tax

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

(b) Hong Kong Profits Tax

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

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

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

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

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

## 8 Income tax charges (Cont'd)

### (c) PRC Enterprise Income Tax ("EIT") (Cont'd)

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

## 9 Dividends

	2007 RMB'000	2006 RMB'000
Dividends	-	392,521

Dividends declared in 2006 represented distributions by certain of our PRC subsidiaries prior to the Reorganization as described in Note 2. As such, the rates of dividends and the number of ordinary shares ranking for dividends were not presented for the year ended December 31, 2006 as such information was not meaningful.

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

## 10 Earnings per share

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

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

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

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

## 11 Deferred costs

Upon the receipt of service fees from paying members, we are obligated to pay certain costs related to the receipt of such service fees which primarily comprise sales commissions. The service fees are initially deferred and recognized in the income statement in the period in which the services are rendered (Note 13), as such, the related costs are also initially deferred and recognized in the income statement in the period the related service fees are recognized.

## 12 Cash and cash equivalents

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

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

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

## 13 Deferred revenue and customer advances

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS ENVIRONMENT

### *Buoyant China economy*

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

### *Growing importance of SMEs in China*

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

### *Ever-increasing Internet access and broadband penetration*

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

### *Leveraging more on online e-commerce platforms*

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

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

## BUSINESS REVIEW

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

### *International marketplace*

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

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

### **International marketplace operating data**

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

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

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

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

Note: (1) Excluding the United Kingdom

### ***International marketplace (Cont'd)***

We are devoted to developing and maintaining our sales infrastructure. In 2007, we expanded our geographical coverage substantially by opening 15 new offices in both coastal and inland cities in China, giving us a presence in 30 cities across the country, including Hong Kong. In the fourth quarter of 2007, we unified Gold Supplier membership fees to RMB 50,000 and upgraded our Gold Supplier product features by opening up unlimited product listings and providing a video. This change was well-received by our customers. We believe this product enhancement was a win-win strategy for Alibaba.com and our customers. While it increased the satisfaction of both buyers and sellers through the highly sought after product features, it also accelerated sales conversion. The simplified package helped raise the efficiency of the selling process and, more importantly, the unlimited product listing increased the opportunities for keyword sales. We expect keyword sales penetration will continue to grow in 2008.

#### Overseas expansion

In 2007, we began more actively exploring the overseas market, strengthening our network effects as well as increasing the number of international members to further create income opportunities. In April 2007, we suspended new International TrustPass sales in Hong Kong and migrated to the selling of Gold Supplier to meet customers' demands. We are also looking into introducing Gold Supplier memberships to other countries and regions, such as Taiwan, to further diversify our revenues from sources beyond Mainland China.

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

In October 2007, we officially opened our first European branch office in Geneva. Our presence in Europe will make it easier for SMEs in the region to conduct international trade through Alibaba.com, and it will localize user services and facilitate our development of the global trade business, attracting new members as well as better serving our customers.

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

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

## ***International marketplace (Cont'd)***

### Value-added services

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

### New products

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

### Community

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

## ***China marketplace***

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

## China marketplace (Cont'd)

### China marketplace operating data

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

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

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

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

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

#### Value-added services

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

#### Other products

Alibaba.com continues to be home to China's largest SME community. This is a valuable base to attract advertisers who wish to reach an SME audience. In 2007, we started monetizing the SME community by selling branded advertisements mainly on our home page and community pages. World-recognized brands such as HSBC, Samsung, IBM, Microsoft and BMW, and top Chinese brands such as Lenovo and China Netcom have become our branded placement customers.

#### Strategic initiatives

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

## ***Technology***

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

## ***Sales and customer services***

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

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

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

## FINANCIAL REVIEW

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

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

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

## Our Results

### Basis of preparation

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

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

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

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

### Revenue

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

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

## Revenue (Cont'd)

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

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

### International marketplace

Revenue from our international marketplace primarily consists of:

- Revenue from the sale of Gold Supplier membership packages and value-added services, which principally consist of the sale of keywords and premium placements, to Gold Supplier members;
- Revenue from the sale of International TrustPass membership packages; and
- Other revenue represents commission income we receive from Alisoft, a wholly-owned subsidiary of Alibaba Group, for cross-selling the software developed by Alisoft to our Gold Supplier members.

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

### China marketplace

Revenue from our China marketplace primarily consists of:

- Revenue from the sale of China TrustPass membership packages and value-added services, which mainly consist of keyword bidding and premium placements, to China TrustPass members; and
- Other revenue, which principally consists of online placement services that allow companies to display online branded advertisements in our China marketplace.

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

## Revenue (Cont'd)

### Revenue recognition

*Membership packages.* Our paying members typically enter into one- or two-year membership contracts with us. We typically collect the full amount of our fees at the time we enter into the contract, and we initially record the amounts received as customer advances. After we enter into a membership contract, we begin producing storefronts for our paying members and our paying members are required to go through certain third-party authentication and verification procedures. If a paying member does not pass the authentication and verification procedures, we refund to the paying member the full amount we received under the contract, less authentication and verification fees that we pay to the third-party service provider and other related expenses. After we complete our production processes and the paying member passes the authentication and verification procedures, we display the paying member's storefront in our marketplaces, and the amounts paid by the paying member become non-refundable. When we display the paying member's storefront in our marketplaces, amounts previously recorded as customer advances are transferred to deferred revenue, and the revenue in respect of the membership package is recognized ratably over the term of the membership contract.

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

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

## Cost of Revenue and Gross Profit

The following table presents, for the years indicated, a breakdown of cost of revenue and percentages of revenue of components of our cost of revenue:

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

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

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

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

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

## Profit From Operations

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

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

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

## Sales and Marketing Expenses

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

## Product Development Expenses

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

## **General and Administrative Expenses**

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

## **Other Operating Income**

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

## **Finance Income, Net**

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

## **Income Tax Charges**

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

## Income Tax Charges (Cont'd)

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

On March 16, 2007, the National People's Congress approved the New EIT Law. The New EIT Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%. In addition, among others, the New EIT Law provides for a preferential tax rate of 15% for enterprises qualified as HNTE. However, the detailed rules on the applicable requirements and procedures to apply for preferential tax treatment as HNTE have not yet been announced. In December 2007, Alibaba China obtained a certificate issued by the Science and Technology Department of Zhejiang Province confirming Alibaba China's status as a high and new technology enterprise. This certificate is valid for a period of two years from the date of issuance. In addition, our management has conducted research and consulted relevant third parties as well as performed certain due diligence procedures to confirm the view of our Board of Directors that Alibaba China will obtain its formal HNTE designation in 2008 under the New EIT Law upon the completion of certain administrative approval procedures. Consequently, Alibaba China used 15% in the computation of deferred taxes as of December 31, 2007. However, there is no assurance that Alibaba China will obtain the formal HNTE designation in 2008. If Alibaba China does not obtain the formal HNTE designation in 2008, its applicable enterprise income tax rate will become 25% in 2008 which would have a negative effect on our future results.

## Depreciation of Property and Equipment

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

The following table presents, for the years ended, the allocation of depreciation expenses and the percentages of revenue:

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

## Share-Based Compensation Expense

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

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

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

## Profit Attributable to Equity Owners

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

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Treasury Management**

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

### **Foreign Currency Exchange Exposure**

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

### **Interest Rate Exposure**

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

### **Credit Risk Exposure**

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

## Capital Structure

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

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

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

## Cash Flow

### *Net Cash Generated from Operating Activities*

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

## **Cash Flow (Cont'd)**

### *Net Cash Used in Investing Activities*

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

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

### *Net Cash Provided by (Used in) Financing Activities*

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **PLEDGE OF ASSETS AND CONTINGENT LIABILITIES**

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

## **OUTLOOK**

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

Our international marketplace is truly global and we plan to further improve our reach in developed countries such as Japan and emerging markets like India in 2008. Broadening our service geographically will further diversify our SME portfolio across different countries and will create new monetization opportunities. Economic fluctuations notwithstanding, SMEs will continue to benefit from the rise of dispersed manufacturing which generates increasing demand for cross-border business-to-business interactions, and e-commerce can help them leverage on this.

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

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

We remain positive about the long-term growth of our business. We plan to invest part of our profits and our capital into our geographic expansion, our development of new applications, our customer services and, most importantly, our people.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

We are committed to the establishment of good corporate governance practices and procedures. Our corporate governance principles emphasize accountability and transparency and we have adopted these in the best interests of our Company and our shareholders.

Our Company was listed in Hong Kong on November 6, 2007. We complied with the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period from the day of our listing to December 31, 2007. We will set out further information on our corporate governance practices in the Corporate Governance Report contained in 2007 Annual Report.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## REVIEW OF FINANCIAL STATEMENTS

We have established an audit committee with written terms of reference in compliance with the Listing Rules. The principal duties of our audit committee include the review of our audit plan and process with the auditors, the independence of auditors, our financial statements and system of internal controls. Our audit committee is composed of three non-executive directors, two of whom are independent non-executive directors, namely KWAUK Tek Ming, Walter (Committee Chairman), LONG Yong Tu and TSAI Chung, Joseph.

Our annual results for the year ended December 31, 2007 were reviewed by our audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

*As at the date of this announcement, the composition of our Board is as follows:*

*Chairman and Non-executive Director*

MA Yun, Jack

*Executive Directors*

WEI Zhe, David

WU Wei, Maggie

DAI Shan, Trudy

PENG Yi Jie, Sabrina

XIE Shi Huang, Simon

*Non-executive Directors*

TSAI Chung, Joseph

TSUEI, Andrew Tien Yuan

TSOU Kai-Lien, Rose

OKADA, Satoshi

*Independent Non-executive Directors*

LONG Yong Tu

NIU Gen Sheng

KWAUK Teh Ming, Walter

On behalf of the Board

MA Yun, Jack

Chairman

Hong Kong, March 18, 2008

A copy of this announcement can be obtained from our website at <http://ir.alibaba.com>