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## OUR HISTORY AND REORGANIZATION

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### OUR HISTORY

Our first online marketplace was launched as “Alibaba Online” in December 1998. Originally, the website operated as a bulletin board service for businesses to post buy and sell trade leads. In June 1999, our lead founder and chairman, Jack Ma, and 18 other founders formed our parent company, Alibaba Group, and in September 1999, our major operating subsidiary in China, Alibaba China, was established to carry on the business of providing software and technology services for the operation of online B2B marketplaces. We set out below a chronological overview of our business milestones.

#### Business Milestones

- |               |   |   |
|---------------|---|---|
| October 2000  | : | Gold Supplier membership launched to serve China exporters.   |
| August 2001   | : | International TrustPass membership launched to serve exporters outside China.                                     |
| March 2002    | : | China TrustPass membership launched to serve SMEs engaging in domestic trade in China.                            |
| July 2002     | : | Keyword services launched on our international marketplace.   |
| November 2003 | : | TradeManager instant messaging software launched to enable users to communicate in real time on our marketplaces. |
| March 2005    | : | Keyword bidding launched on our China marketplace.  |
| April 2007    | : | Gold Supplier membership launched to serve Hong Kong exporters.   |

### OUR REORGANIZATION

Pursuant to a reorganization, or our Reorganization, the corporate entities, assets and liabilities comprising Alibaba Group’s B2B business were transferred to our company, and certain assets and personnel not related to the B2B business were transferred out of our company, in the steps summarized below. Diagrams showing our corporate and shareholding structure immediately before our Reorganization and immediately after completion of the Global Offering are set forth below on pages 63 and 64, respectively.

#### Corporate Reorganization

Our Reorganization involved a number of acquisitions of companies involved in, and/or the assets, liabilities and operations related to, the B2B business from companies within Alibaba Group. In determining the basis for the consideration for these intra-group transfers, we adopted the following approach:

- Companies with positive net asset value were transferred for consideration equal to their registered capital, in the case of PRC companies, and equal to their net asset value, in the case of non-PRC companies;
- Companies with negative net asset value were transferred for a nominal consideration of US\$1 (RMB8); and
- Assets, liabilities and operations related to the B2B business were transferred for consideration determined on the basis described below.

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These acquisitions and our incorporation of new subsidiaries as part of the Reorganization are described in more detail below.

<u>Effective Date</u>	<u>Event</u>
September 20, 2006	<ul style="list-style-type: none"><li>● Alibaba.com Limited was incorporated in the Cayman Islands.</li><li>● Alibaba.com Investment Holding Limited was incorporated in the British Virgin Islands.</li></ul>
October 5, 2006	<ul style="list-style-type: none"><li>● Alibaba.com China Limited was incorporated in Hong Kong.</li></ul>
December 7, 2006	<ul style="list-style-type: none"><li>● Hangzhou Alibaba Advertising Co., Ltd. (杭州阿里巴巴廣告有限公司) (formerly known as Hangzhou Alibaba Information Services Co., Ltd. (杭州阿里巴巴信息服務有限公司)), or Alibaba Hangzhou, was established in China.</li></ul>
January 2, 2007	<ul style="list-style-type: none"><li>● Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com, Inc. from Alibaba Group for cash consideration of approximately US\$3.2 million (RMB25.0 million), which represented the net asset value of the entity as of December 31, 2006.</li><li>● Alibaba.com China Limited acquired the entire equity interest in Inter Network Technology Limited from Alibaba.com China Holding Limited, a subsidiary of Alibaba Group, for consideration of US\$1 (RMB8). Inter Network Technology Limited is a holding company and its major asset is the entire equity interest in Alibaba (Shanghai) Technology Co., Ltd., an inactive company which has substantially ceased operations on a permanent basis.</li><li>● Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba Hong Kong from Alibaba Group for consideration of US\$1 (RMB8).</li><li>● Alibaba Hong Kong acquired all the assets, liabilities and operations related to the B2B business owned by AliPay E-commerce Corp. (formerly known as Alibaba.com E-Commerce Corp.), a subsidiary of Alibaba Group, for cash consideration of US\$30.0 million (RMB234.3 million), which amount took into account the fair value of the international user base of our international marketplace.</li></ul>
January 17, 2007	<ul style="list-style-type: none"><li>● Alibaba.com China Limited acquired the entire equity interests in Alibaba Software from Alibaba.com China Holding Limited, a subsidiary of Alibaba Group, for cash consideration of US\$6.0 million (RMB46.7 million), which represented the registered capital of the entity at the time of the transfer.</li></ul>
April 11, 2007	<ul style="list-style-type: none"><li>● Alibaba.com China Limited acquired the entire equity interests in Alibaba China from Alibaba.com China Holding Limited, a subsidiary of Alibaba Group, for cash consideration of US\$14.0 million (RMB108.2 million), which represented the registered capital of the entity at the time of the transfer.</li></ul>
May 14, 2007	<ul style="list-style-type: none"><li>● Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com Taiwan Holding Limited from Alibaba Group for consideration of US\$1 (RMB8).</li></ul>

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<u>Effective Date</u>	<u>Event</u>
May 23, 2007	● Alibaba.com Investment Holding Limited acquired the entire equity interest in Alibaba.com Japan Investment Holding Limited from Alibaba Group for consideration of US\$1 (RMB8).
June 4, 2007	● Alibaba.com Japan Investment Holding Limited acquired the entire equity interest in Alibaba.com Japan Holding Limited from Alibaba Group for consideration of US\$1 (RMB8).
June 30, 2007	● Alibaba Hangzhou acquired all the assets, liabilities and operations related to the B2B business owned by Zhejiang Alibaba E-Commerce Co., Ltd. (浙江阿里巴巴電子商務有限公司), an entity controlled by Alibaba Group, for consideration of RMB0.1 million, which represented the net book value of the assets, liabilities and operations that were transferred. Zhejiang Alibaba E-Commerce Co., Ltd. currently operates as an ICP company for Alipay.
July 10, 2007	● Alibaba.com China Limited acquired the entire equity interest in Beijing Sinya Online Information Technology Co. Ltd. (北京新雅在綫信息技術有限公司) from Alibaba.com China Holding Limited, a subsidiary of Alibaba Group, for consideration of US\$1 (RMB8).

We are not aware of any investigation or enquiry by the PRC regulatory authorities in relation to our corporate reorganization described above.

### ***Asset and Personnel Transfers***

During 2004, 2005 and 2006, we provided certain marketing and administrative services to Alibaba Group. Subsequent to December 31, 2006, this marketing and administrative function, which was not related to the B2B business, was transferred to Alibaba Group. This transfer, which took place during the first half of 2007, comprised mainly of the transfer of employees who provided marketing and administrative services to Alibaba Group. No consideration was paid for such transfer in line with market practice. No liabilities were transferred and the assets transferred were immaterial.

Between March and June 2007, Alibaba China transferred substantially all of the assets relating to Alisoft's business to Alibaba Group for consideration of RMB15.0 million because Alisoft develops, markets and delivers internet-based business management software targeting SMEs in China and its business is distinct from our business of operating B2B e-commerce websites. The remaining assets of Alisoft's business were transferred to Alibaba Group in July 2007. See "Relationship with Alibaba Group – Clear Delineation of Business" starting on page 134. In connection therewith, employees of our company who were dedicated to Alisoft's business were transferred to Alibaba Group during the six months ended June 30, 2007.

Subsequent to June 30, 2007, we transferred certain residential apartment units which were vacant and unrelated to the B2B business to Alibaba Group at a consideration of approximately RMB2.8 million, which represented the net book value of the premises transferred.

In connection with our Reorganization, we also entered into a series of intellectual property transfer and license agreements with Alibaba Group along the following general principles:

- trademarks, domain names and Internet keywords that are specific to the services and products of our B2B business will be owned by us;
- trademarks, domain names and Internet keywords that may currently or in the future be used by Alibaba Group will be owned by Alibaba Group and, to the extent relevant to our B2B business, Alibaba Group will license to us such trademarks, domain names and Internet keywords that it owns on a royalty-free basis;

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- patents will be owned by Alibaba Group and, to the extent relevant to our B2B business, Alibaba Group will license to us such patents that it owns;
- software registration, copyright and proprietary rights to software source codes will be owned by the business that developed such intellectual property; and
- third-party intellectual property rights used under license by Alibaba Group will be sub-licensed to us to the extent relevant to our B2B business and to the extent Alibaba Group has the right to do so.

Details of the intellectual property we own or which are being or will be transferred to or from us are set out in Appendix VII – “Statutory and General Information”.

### **The Employee Equity Exchange**

In the past, all share-based compensation granted to our employees was issued by Alibaba.com Corporation under four equity incentive plans adopted since the inception of Alibaba.com Corporation in 1999. Under these plans, options, restricted shares (which have since vested and been converted into shares of Alibaba.com Corporation) and, recently, restricted share units, or RSUs, were issued with respect to Alibaba.com Corporation’s shares. A high percentage of our employees and employees of other members of Alibaba Group received grants under these plans and the number of outstanding options and RSUs held by such employees is significant. In addition, existing and former employees own a significant number of Alibaba.com Corporation’s shares as a result of their exercise of options granted under the plans. See “Directors and Senior Management” starting on page 177 and Appendix VII – “Statutory and General Information” starting on page VII-1 for details of the existing employee incentive compensation plans of Alibaba.com Corporation. Employees who wish to acquire the Alibaba.com Corporation shares underlying an option have to exercise the option and pay the exercise price of the option. Employees who wish to acquire the Alibaba.com Corporation shares underlying an RSU only need to pay the par value of such shares.

In connection with our Reorganization and in preparation for the Global Offering, Alibaba Group restructured its employee incentive compensation plans to allow a certain proportion of existing options and RSUs relating to Alibaba.com Corporation’s shares to be exchanged for options issued by Alibaba.com Corporation to purchase our Shares held by Alibaba.com Corporation and RSUs relating to our Shares held by Alibaba.com Corporation, and a certain number of Alibaba.com Corporation’s shares to be exchanged for our Shares held by Alibaba.com Corporation. We call this arrangement the “Employee Equity Exchange”. The board of directors of Alibaba.com Corporation determined that it was in the best interests of Alibaba Group that eligible participants of the Employee Equity Exchange include only existing employees, directors and consultants of our company and Alibaba Group and not other shareholders.

Approximately 4,900 existing employees including directors of Alibaba Group and no more than five consultants of Alibaba Group participated in the Employee Equity Exchange. These consultants are individuals who are not connected persons (as defined in the Listing Rules) of the Company and they provide management, financial and other consulting services to Alibaba Group. Those who participated in the Employee Equity Exchange (other than founders and senior management of Alibaba Group) were permitted to exchange between 20% and 50% of their respective holdings of Alibaba.com Corporation securities under the Employee Equity Exchange. Our employees were entitled to exchange 50% of their holdings, whereas employees of other entities in the Alibaba Group were entitled to exchange a lower percentage. Founders and members of senior management of the Alibaba Group were only permitted to exchange an aggregate of up to 15% of their collective holdings, except that Jack Ma and Joseph Tsai were each permitted to exchange only up to 5% of their respective holdings.

The number of our Shares, the options to acquire our Shares and RSUs relating to our Shares under the Employee Equity Exchange was derived by applying an exchange ratio that was determined and approved by the board of directors of Alibaba Group based on the relative values of Alibaba

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Group and our company having considered analysis provided by an independent consultant. Similarly, the exercise price of the options exercisable for our Shares was also adjusted in accordance with the same ratio so that the aggregate exercise price of such options remained the same. The adjusted exercise price =  $A \times B / C$  where: A = old exercise price; B = number of shares in Alibaba.com Corporation underlying such options; and C = number of our Shares underlying new options. Under the Employee Equity Exchange, the aggregate Shares transferable to participants and Shares underlying options and RSUs to be exchanged by Alibaba.com Corporation in connection with the Employee Equity Exchange will represent approximately 8.8% of our outstanding Shares immediately following the completion of the Global Offering. The table below sets forth the breakdown by number of each type of security and by directors, employees and consultants of Alibaba Group, our directors and employees as well as the respective percentages of our outstanding Shares that these numbers will represent immediately following the completion of the Global Offering, in each case giving effect to the Employee Equity Exchange, based on the information of those participants who have agreed, or are expected to agree, to participate in the Employee Equity Exchange as of the Latest Practicable Date.

	Shares		Options		RSUs	
	(number)	(%)	(number)	(%)	(number)	(%)
Our directors . . . . .	49,355,613	1.0	—	—	—	—
Our employees (other than our directors) . . . . .	139,536,597	2.8	18,713,541	0.4	250,767	0.0
Directors, employees and consultants of Alibaba Group (other than our directors) . . . . .	<u>215,176,101</u>	<u>4.2</u>	<u>20,478,201</u>	<u>0.4</u>	<u>—</u>	<u>—</u>
Total . . . . .	<u>404,068,311</u>	<u>8.0</u>	<u>39,191,742</u>	<u>0.8</u>	<u>250,767</u>	<u>0.0</u>

The Shares that will be transferred to the participants under the Employee Equity Exchange (including the underlying Shares of the options and the RSUs) will be subject to a lock-up period, with 40% of the Shares (including the underlying Shares of the options and the RSUs) to be released from the lock-up after the expiry of six months from the completion of the Global Offering (the “First Lock-Up Period”). The remaining 60% will be released from the lock-up after a further six months (the “Second Lock-Up Period”). The Shares will be transferred to the participants accordingly after the expiry of the First Lock-Up Period and the Second Lock-Up Period. The Employee Equity Exchange will become effective upon the completion of the Global Offering, but the underlying Shares will only be transferred to the participants accordingly after the expiry of the First Lock-Up Period and the Second Lock-Up Period if the participants exercise their options or the RSUs vest. Save as provided above, the vesting schedules and other terms applicable to the original options and RSUs of Alibaba.com Corporation will remain the same for the new options and RSUs with respect to our Shares held by Alibaba.com Corporation. See “Statutory and General Information — Share Incentive Plans of Alibaba.com Corporation” starting on page VII-59. The terms of the Employee Equity Exchange were accepted by eligible directors, employees and consultants who elected to participate pursuant to individual agreements executed prior to the date of this prospectus.

Alibaba.com Corporation will not be issuing any options or RSUs on our Shares under the Employee Equity Exchange after Listing. The Company intends to grant options and RSUs under its Share Option Scheme and RSU Scheme, respectively, after Listing.

Persons holding options exercisable for Alibaba.com Corporation’s shares which have already vested had the choice of: (i) having a percentage of such options exchanged for options exercisable for our Shares under the Employee Equity Exchange, which we refer to as their Option Entitlement; or (ii) exercising their Option Entitlement for shares of Alibaba.com Corporation, all of which would then qualify for exchange for our Shares under the Employee Equity Exchange. In connection with this, Alibaba.com Corporation made available full recourse interest-bearing loans, with a term of two years, to our employees (other than our connected persons) and employees of the Alibaba Group in order to finance their exercise of their Option Entitlement. A significant number of our employees took these loans. The participating employees have charged shares of Alibaba.com Corporation held by them as security for these loans.

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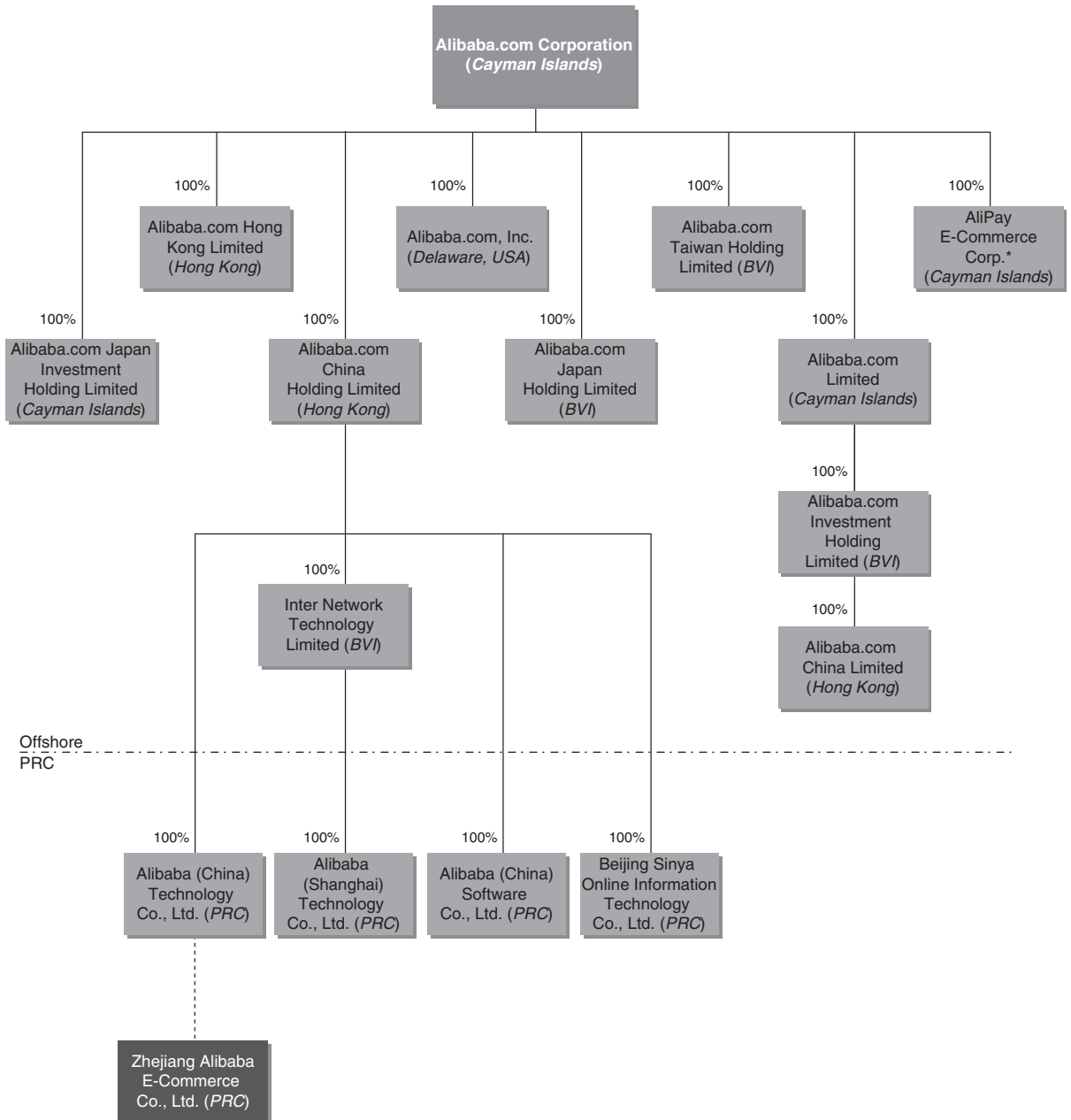
We are making available interest-bearing loans, with full recourse, to our employees in China to allow them to pay individual income tax due upon exercise of their Option Entitlement. The employees who take up these loans have also agreed to charge the shares of Alibaba.com Corporation they hold as security for these tax loans. The loans have a term of two years and bear rates of interest with reference to certain deposit rates as published by PBOC from time to time. If an employee defaults on a loan, we will be entitled to sell the charged shares. If the proceeds are not adequate to repay the loan, we will be entitled to procure the deduction of the shortfall from the employee's salary. If our employee defaults after leaving our employment and the proceeds from sale of the charged shares are inadequate to repay the loans, we will incur a loss if we fail to recover the loan receivable from our employee. As of the Latest Practicable Date, the total principal amount of loans drawn or expected to be drawn by our employees under this tax loan arrangement was approximately RMB30.3 million. We understand that Alibaba Group has made similar tax loan arrangements for its employees.

Our PRC counsel, Fangda Partners, has confirmed that the loans between us and our employees are not in violation of applicable PRC laws, rules and regulations.

# OUR HISTORY AND REORGANIZATION

## OUR CORPORATE STRUCTURE

The chart below illustrates the corporate and shareholding structure of the companies that comprised our B2B business immediately before our Reorganization.



**Notes:**

—— Denotes equity ownership

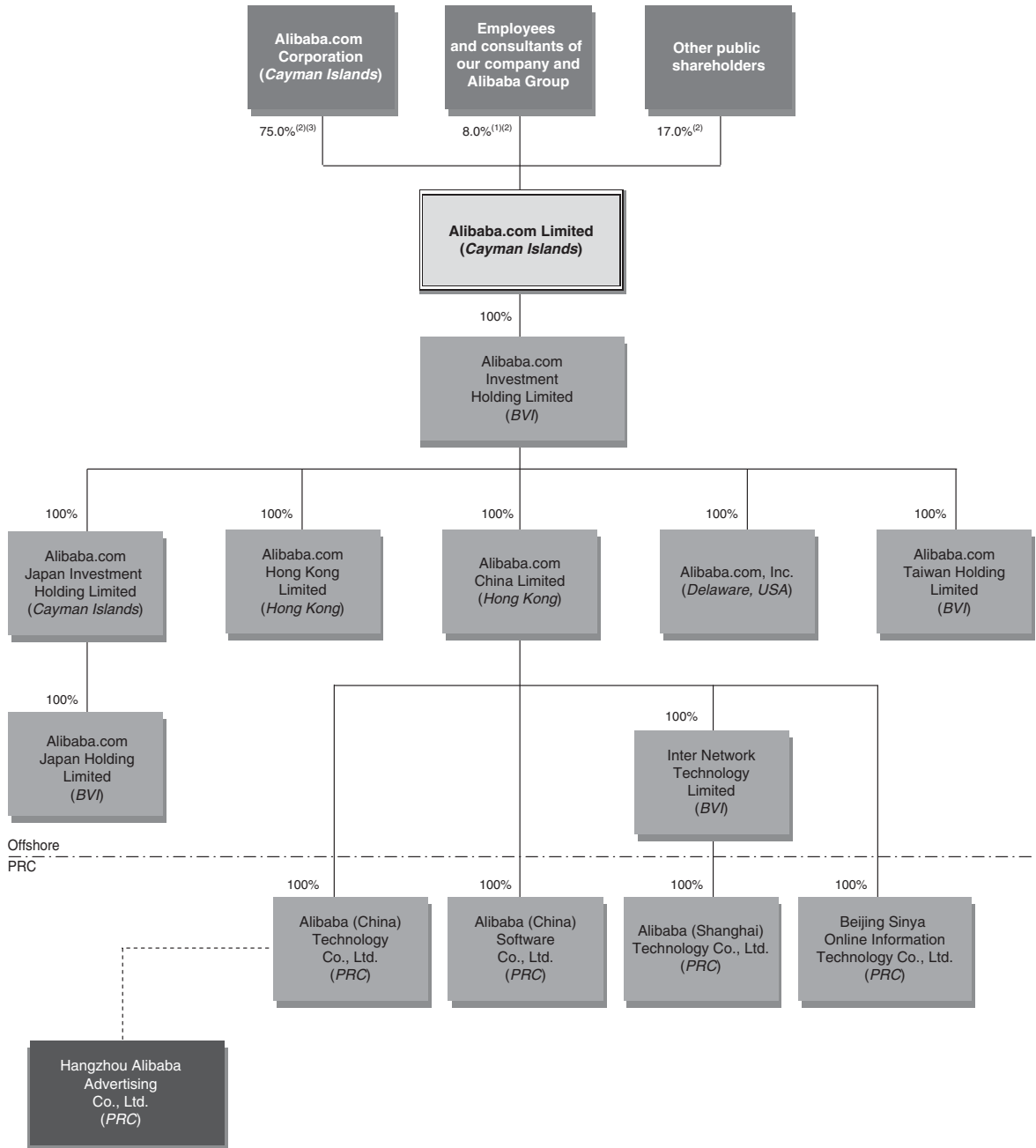
----- Denotes contractual relationship

\* Formerly known as Alibaba.com E-Commerce Corp.



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The chart below illustrates our corporate and shareholding structure after our Reorganization (including giving effect to the transfer of Shares but not the exercise of options and vesting of RSUs under the Employee Equity Exchange or exercise of any options or rights granted under the Pre-IPO Share Incentive Scheme) and immediately after the completion of the Global Offering but without giving effect to any exercise of the Over-Allotment Option. See the section entitled “Substantial Shareholders” starting on page 186 for more details on the corporate structure of Alibaba.com Corporation.



**Notes:**

— Denotes equity ownership

- - - - - Denotes contractual relationship



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- (1) Giving effect to the transfer of Shares (but not the exercise of options and vesting of RSUs) under the Employee Equity Exchange, approximately 2.7% of the Shares will not be treated as held by the public for the purposes of Rule 8.24 of the Listing Rules because these Shares were acquired upon exercise of options, the exercise of which was financed, wholly or partially, by our company or by Alibaba Group. See “— The Employee Equity Exchange” starting on page 60.
- (2) If full effect is given to the transfer of Shares underlying all outstanding options and RSUs subject to the Employee Equity Exchange and the Pre-IPO Share Incentive Scheme, each of (a) Alibaba.com Corporation, (b) the employees and consultants of our company and Alibaba Group, and (c) other public shareholders would hold approximately 72.8%, 10.2% and 17.0% of our Shares, respectively, before giving effect to any exercise of the Over-Allotment Option.
- (3) Includes Shares held directly or indirectly through its wholly-owned subsidiary.

### OUR COMPANY

The Company was incorporated in the Cayman Islands on September 20, 2006 with an issued share capital comprising one ordinary share of US\$1.00. Our entire issued share capital prior to the Global Offering is held by Alibaba Group.

On October 12, 2007, Alibaba Group passed a resolution to approve various matters, the net result of which was to:

- change the denomination of the par value of our shares from U.S. dollars to Hong Kong dollars;
- increase our authorized share capital from US\$50,000 divided into 50,000 shares of par value of US\$1.00 each to HK\$800,000 divided into 8,000,000,000 shares of par value of HK\$0.0001 each; and
- increase our issued share capital from US\$1.00 comprising one share of par value of US\$1.00 to HK\$482,500 divided into 4,825,000,000 ordinary shares of par value of HK\$0.0001 each.

### Our Principal Operating Entities

**Alibaba China.** Alibaba (China) Technology Co., Ltd. (阿里巴巴(中國)網絡技術有限公司), or Alibaba China, was established as a wholly foreign-owned enterprise under PRC law on September 9, 1999 and is our indirect wholly-owned subsidiary. It is one of our principal operating entities in the PRC, employing a substantial portion of our staff and is responsible for providing software and technology services to our registered users and paying members and providing technical support to Alibaba Hangzhou for the operations of our China marketplace website and technical support to Alibaba Hong Kong for the operations of our international marketplace website.

**Alibaba Software.** Alibaba (China) Software Co., Ltd. (阿里巴巴(中國)軟件有限公司), or Alibaba Software, was established on August 23, 2004 and is our indirect wholly-owned subsidiary. It is one of our principal operating entities in the PRC and owns the TrustPass software used in our business and develops, markets and sells software relevant to our business.

**Alibaba Hong Kong.** Alibaba.com Hong Kong Limited, or Alibaba Hong Kong, was incorporated on September 29, 1999 and is our indirect wholly-owned subsidiary. It is one of our principal operating entities outside the PRC and operates our international marketplace website.

**Alibaba Hangzhou.** Prior to our Reorganization, we operated our China marketplace through Zhejiang Alibaba E-Commerce Co., Ltd., a company established in China holding necessary licenses and permits for Internet information services and other services related to our B2B operations. Since Zhejiang Alibaba E-Commerce Co., Ltd. also operates non-B2B businesses of Alibaba Group, Alibaba Hangzhou was established on December 7, 2006, under PRC law, to hold the licenses and permits

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necessary for our China marketplace including the license for Internet information services, as part of our Reorganization. We operate our China marketplace through Alibaba Hangzhou under a series of contractual arrangements entered into between Alibaba Hangzhou and its shareholders and Alibaba China, which are further described below. See “— Structure Contracts” starting below.

### STRUCTURE CONTRACTS

Current PRC laws and regulations limit foreign investment in businesses providing value-added telecommunications services (including the provision of Internet information services) in China. See “Supervision and Regulation” starting on page 168. As a foreign-invested enterprise, our wholly-owned subsidiary, Alibaba China, does not have a license to provide Internet information services in China. Accordingly, we operate the website for our China marketplace through Alibaba Hangzhou, a PRC limited liability company holding a license to provide internet information services, owned by Jack Ma (80%), our lead founder and chairman, and Simon Xie (20%), one of our founders and directors. Our PRC legal counsel, Fangda Partners, has confirmed that no approval or license is required under PRC laws for Messrs. Ma and Xie to hold their equity interests in Alibaba Hangzhou.

Under our operating structure, 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 Hong Kong, Alibaba Hangzhou provides information services to enable our customers to publish such information on our China marketplace website and exchanges contents and information on our China marketplace with those on our international marketplace. Alibaba China pays a cost-plus fee to Alibaba Hangzhou for these services. In turn, Alibaba China provides technical services to Alibaba Hangzhou and is paid a fee for these services.

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

- an option to acquire all the equity interests in and/or the assets of Alibaba Hangzhou, as and when permitted by PRC laws, at a price capped at the amount of the capital contribution to Alibaba Hangzhou by its shareholders (in the 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 higher;
- an undertaking from Alibaba Hangzhou not to enter into any material business transaction and an undertaking from its shareholders not to approve any resolution relating to the same, without the prior written consent of Alibaba China;
- the right to exercise the rights of shareholders in Alibaba Hangzhou; and
- a pledge in our favor over the entire equity interests in Alibaba Hangzhou.

These 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 and we have the power to govern the financial and operating policies as well as, in substance, all of the voting rights of Alibaba Hangzhou. Each of the Structure Contracts may only be terminated or amended with the approval of our independent non-executive directors, except for statutory termination rights provided under PRC laws. See “Risk Factors” starting on page 24.

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In this connection, our PRC legal counsel, Fangda Partners, is of the opinion that:

- each of the Structure Contracts is legal, valid and binding on the contracting parties under PRC laws, rules and regulations;
- the execution, delivery, effectiveness, enforceability and performance of the Structure Contracts to which the PRC parties are a party do not violate any PRC laws, rules and regulations;
- neither the Structure Contracts nor our corporate structure described in this section contravenes any PRC laws, rules and regulations; and
- no filings, registrations, consents, approvals, permits, authorizations, certificates and licenses of any PRC government authorities, is currently required in connection with the execution, delivery, effectiveness and enforceability of each Structure Contract.

Prior to our Reorganization, we operated our China marketplace through Zhejiang Alibaba E-Commerce Co., Ltd. under substantially the same arrangements used to operate our China marketplace through Alibaba Hangzhou. In our combined financial statements included in Appendix I — “Accountants’ Report”, the financial results of the entity were also consolidated into our combined financial results as we had effective control over the entity whereby its economic risks and benefits were transferred to us through a series of agreements, including loan agreements, call option agreements and an operating agreement for the China marketplace, which had substantially the same effect as the Structure Contracts relating to Alibaba Hangzhou. The Structure Contracts with Alibaba Hangzhou deal with the business operations of the Group after Zhejiang Alibaba E-Commerce Co., Ltd. transferred the B2B business to Alibaba Hangzhou, which took place on June 30, 2007. The Structure Contracts will have a retrospective effect from July 1, 2007, except for the Loan Agreement (with a term starting from September 28, 2007) and the Equity Pledge Agreement (the pledge will be effective upon due registration in Alibaba Hangzhou’s company register).

However, the relevant PRC regulatory authorities may take a different view and determine that such contractual arrangements are in violation of applicable PRC laws, rules or regulations. If these contractual arrangements are found to be in violation of such PRC laws, rules or regulations, the relevant PRC regulatory authorities will have discretion to take action against Alibaba Hangzhou, its shareholders and Alibaba China for such violation, including unwinding the contractual arrangements or prohibiting us from expanding our business in China.

Set out below is a brief summary of the terms of the Structure Contracts.

### **Loan Agreement**

Alibaba China has entered into a Loan Agreement dated October 12, 2007 with Jack Ma and Simon Xie, (collectively, the “Alibaba Hangzhou Shareholders”), in the amount of RMB8,000,000 and RMB2,000,000, respectively, which has the following principal terms:

- the loan is interest-free and may only be used by the Alibaba Hangzhou Shareholders for the purpose of making a capital contribution to Alibaba Hangzhou;
- the equity interests held by the Alibaba Hangzhou Shareholders in Alibaba Hangzhou will be used as collateral to secure the loan; and
- if Alibaba China is allowed to own the equity interests in Alibaba Hangzhou, the Alibaba Hangzhou Shareholder may pre-pay the loan upon 30 days’ prior notice, and Alibaba China or any third party designated by Alibaba China may purchase the equity interests held by the Alibaba Hangzhou Shareholders in Alibaba Hangzhou at a price equal to the amount of the loan to the extent permitted under PRC laws, rules and regulations.

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The Loan Agreement has a term of 20 years commencing from September 28, 2007, and may be terminated: (1) by Alibaba China once it exercises the option to acquire the equity interests in Alibaba Hangzhou when it is allowed to do so by law; or (2) when Alibaba China issues a 30-day prior prepayment notice to the Alibaba Hangzhou Shareholders.

### Call Option Agreement

Alibaba China has entered into a Call Option Agreement dated October 12, 2007 with Alibaba Hangzhou and the Alibaba Hangzhou Shareholders pursuant to which:

- Alibaba China has the option to require: (i) the Alibaba Hangzhou Shareholders to transfer their equity in Alibaba Hangzhou; or (ii) Alibaba Hangzhou to transfer its assets, to Alibaba China, or such entities or individuals designated by Alibaba China, as and when permitted by PRC laws, rules and regulations or when either or both of Jack Ma and Simon Xie can no longer act as the registered shareholders of Alibaba Hangzhou;
- the consideration for any such transfer of equity will be the actual paid-up capital in Alibaba Hangzhou or such other minimum payment as required by PRC laws, rules and regulations, whichever is higher;
- the consideration for any such transfer of assets will be the net book value of such assets or such other minimum payment as required by PRC laws, rules and regulations, whichever is higher;
- the option may be exercised at any time and in any manner in the sole discretion of Alibaba China, subject to compliance with PRC laws, rules and regulations;
- Alibaba Hangzhou shall not declare or pay dividends to its shareholders without the consent of Alibaba China; and
- each of the shareholders of Alibaba Hangzhou has agreed to give up his right to receive any dividends from Alibaba Hangzhou and any proceeds received from the disposal of the equity interest he holds in Alibaba Hangzhou, which is in excess of the original registered capital he paid into Alibaba Hangzhou, and each shareholder has agreed to pay out such dividends or premium to Alibaba China.

The Call Option Agreement is effective from July 1, 2007 to the date on which all the equity interests in and the assets of Alibaba Hangzhou are transferred to Alibaba China and/or its nominees.

### Proxy Agreement

Alibaba China has entered into a Proxy Agreement dated October 12, 2007 with Alibaba Hangzhou and the Alibaba Hangzhou Shareholders, pursuant to which:

- the Alibaba Hangzhou Shareholders irrevocably authorize the PRC individuals designated by Alibaba China to exercise the shareholders' rights of the Alibaba Hangzhou Shareholders, including attending shareholders' meetings and exercising voting rights; and
- the Alibaba Hangzhou Shareholders are required to authorize such other proxies as Alibaba China may instruct.

The Proxy Agreement has an initial term of 20 years commencing from July 1, 2007 and is automatically renewable for further periods of one year. The Proxy Agreement may be terminated: (1) where Alibaba China or Alibaba Hangzhou fails to renew its business license; (2) by Alibaba China upon a material breach by Alibaba Hangzhou or its shareholders which fails to be cured within the prescribed period; or (3) by mutual agreement of the parties to the agreement.

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### Equity Pledge Agreement

The Alibaba Hangzhou Shareholders have entered into an Equity Pledge Agreement dated September 30, 2007 with Alibaba China (to which Alibaba Hangzhou is also a party) pursuant to which:

- the Alibaba Hangzhou Shareholders grant Alibaba China a continuing first priority security interest over their respective interests in the registered capital of Alibaba Hangzhou; and
- Alibaba China is entitled to exercise its right to sell Alibaba Hangzhou Shareholders' pledged interests in the registered capital of Alibaba Hangzhou, on the occurrence of any breach by the Alibaba Hangzhou Shareholders or Alibaba Hangzhou of any of their respective material obligations under any Structure Contract.

The Equity Pledge Agreement is effective from the date on which the agreement has been signed and the pledge has been duly registered in Alibaba Hangzhou's company register, and will expire on the date on which all the contractual and secured obligations under the agreement have been discharged.

According to the new PRC Property Rights Law (中華人民共和國物權法) which was promulgated on March 16, 2007 and which became effective on October 1, 2007, we may be required to register the pledge with the company registration authority. We intend to register the Equity Pledge Agreement in accordance with the PRC Property Rights Law (中華人民共和國物權法) as and when required. We will make timely registration with the company registration authority when it is so required.

### Business Cooperation Agreement for the China Marketplace

Alibaba China and Alibaba Hong Kong have entered into a Business Cooperation Agreement dated October 12, 2007 with Alibaba Hangzhou pursuant to which:

- Alibaba Hangzhou agrees to provide Internet information services to implement the online provision of services developed and provided by Alibaba China to our customers;
- Alibaba Hangzhou provides to our customers user accounts and allows them to upload their product listings and other information onto our China marketplace website;
- Alibaba China agrees to pay Alibaba Hangzhou a service fee on a cost-plus basis;
- Alibaba Hangzhou agrees not to provide services to any other party without the prior consent of Alibaba China;
- Alibaba China agrees to provide certain necessary technical consultancy and equipment to Alibaba Hangzhou; and
- Alibaba Hong Kong and Alibaba Hangzhou agree to exchange contents and information between our China and international marketplaces to the extent permitted by law.

The Business Cooperation Agreement for the China Marketplace has a term of 20 years commencing from July 1, 2007, and may be terminated: (1) by Alibaba China upon a material breach by Alibaba Hangzhou which fails to be cured within the prescribed period; or (2) by mutual agreement of the parties to the agreement.

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## OUR HISTORY AND REORGANIZATION

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### Exclusive Technical Services Agreement

Alibaba China has entered into an Exclusive Technical Services Agreement dated October 12, 2007 with Alibaba Hangzhou, pursuant to which Alibaba Hangzhou agrees to pay a fee to Alibaba China for the provision by Alibaba China of technical services required by Alibaba Hangzhou to support its operations, and to give Alibaba China exclusivity with respect to provision of the services. The fee payable by Alibaba Hangzhou is substantially all its pre-tax profits, and may be increased when Alibaba China is required to provide additional technical services. Technical services provided by Alibaba China under this agreement include:

- a license to Alibaba Hangzhou of all software either owned or licensed by Alibaba China which is necessary for the operation of Alibaba Hangzhou's business;
- the day-to-day management, maintenance and update of Alibaba Hangzhou's computer hardware and database;
- the development, maintenance and update of application software needed in Alibaba Hangzhou's business;
- technical training for relevant personnel of Alibaba Hangzhou;
- assistance in the collection and analysis of technical information about the operation of the website, including defects and errors with a view to improving the quality of the technical services provided under this agreement; and
- other services as may be required by Alibaba Hangzhou from time to time.

The Exclusive Technical Services Agreement has a term of 20 years commencing from July 1, 2007, and may be terminated: (1) by Alibaba China upon a material breach by Alibaba Hangzhou which fails to be cured within the prescribed period; or (2) by mutual agreement of the parties to the agreement.