
OUR BUSINESS

OVERVIEW

We are the leading B2B e-commerce company in China. According to iResearch, we were the largest online B2B company in China in 2006 based on the number of registered users and had a majority of the B2B e-commerce market share in China by revenue. We operate two marketplaces — our international marketplace and our China marketplace. Our international marketplace (www.alibaba.com), which is in English, focuses on global importers and exporters and our China marketplace (www.alibaba.com.cn), which is in Chinese, focuses on suppliers and buyers trading domestically in China. According to Alexa.com, our combined international and China marketplaces were the most-visited websites in the world in two “Business” categories — “E-Commerce” and “International Business and Trade” — as measured by user traffic during the three months ended June 30, 2007.

Our online B2B marketplaces provide an efficient, trusted platform to facilitate e-commerce between business sellers, whom we refer to as “suppliers”, and wholesale buyers, whom we refer to as “buyers”. Suppliers and buyers come to our marketplaces to establish their presence on the Internet, identify potential trading partners and interact with each other to conduct business online. Suppliers, and in certain cases buyers, use our marketplaces to host their company profiles and catalogs in standardized formats, which we refer to as “storefronts”, and post product and service listings and trade leads, which we refer to as “listings”. Users can view storefronts and listings in over 30 industry categories and nearly 5,000 product categories by keyword searching or browsing through our online industry directory. For many suppliers wishing to market products and services through online channels, their storefronts or listings on our marketplaces are their only presence on the Internet. As of June 30, 2007, suppliers had established over 2.4 million storefronts on our marketplaces. In the first half of 2007, our users posted a monthly average of 2.9 million new listings on our marketplaces.

Through active listings, inquiry exchanges, instant messaging, discussion forums and other easy-to-use community features provided by us, suppliers and buyers have formed large, interactive online communities on our marketplaces. For example, during the month ended June 30, 2007, there were over 540,000 peak simultaneous online users of TradeManager, our instant messaging tool for trade communications. Users have formed many communities based on common business interests, which further facilitate interaction among them and enhance their community experience. Currently, our international and China marketplaces collectively host over 200 online forums and have over 4.2 million registered forum users.

In order to enhance the breadth and depth of our marketplaces, we offer basic features and services to all registered users at no charge. We earn our revenue from suppliers who purchase services from us, primarily membership packages that provide priority placement of supplier storefronts and listings in the industry directory and search results on our marketplaces. We refer to suppliers who subscribe for our membership packages as our “paying members”. We generate additional revenue by offering value-added services to our paying members, including purchases of additional keywords to improve rankings in search results on our marketplaces and premium placements on our web pages to increase exposure to potential buyers. We strive to balance these free and fee-based service offerings to ensure that we continue to grow our community of users and sustain our revenue growth.

We have experienced significant growth in our user base and revenue. Over the past three years, the number of our registered users increased from 6.0 million as of December 31, 2004 to 11.0 million as of December 31, 2005 and to 19.8 million as of December 31, 2006, and the number of our paying members grew from over 77,000 as of December 31, 2004 to over 141,000 as of December 31, 2005 and to over 219,000 as of December 31, 2006. During the same period, our revenue increased from RMB359.4 million in 2004 to RMB738.3 million in 2005 and to RMB1,363.9 million in 2006. As of June 30, 2007, we had 24.6 million registered users and over 255,000 paying members. Our revenue in the six months ended June 30, 2007 was RMB957.7 million.

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Our headquarters are located in Hangzhou, China.

The information contained at our websites, www.alibaba.com, www.alibaba.com.cn and www.alibaba.co.jp, is not a part of this prospectus.

OUR VALUE PROPOSITION

We believe our marketplaces offer the following value propositions to suppliers and buyers:



OUR STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

The leading online B2B marketplaces with powerful network effect.

Our international and China marketplaces are collectively the most-visited online B2B marketplaces in terms of user traffic. According to Alexa.com, our combined international and China marketplaces were the most-visited websites in the world in two “Business” categories — “E-Commerce” and “International Business and Trade” — based on user traffic for the three months ended June 30, 2007. Our international and China marketplaces are also two of the largest B2B marketplaces based on the number of registered users. As of June 30, 2007, our international marketplace had 3.6 million registered users globally, while our China marketplace had 20.9 million registered users. We are able to attract suppliers due to the large number of potential buyers who use our marketplaces, while at the same time the large number of suppliers and their listings attract more buyers, which in turn attracts more suppliers and listings. These factors create a powerful network effect that helps us to continue to grow our user base and expand our business. We believe the breadth and depth of our marketplaces are difficult to replicate and represent a significant competitive advantage as well as barrier to entry for potential competitors.

Premier global B2B e-commerce brand.

The “Alibaba” and “阿里巴巴” brand names, which we refer to collectively as the “Alibaba” brand names, are the leading B2B e-commerce brand names in China, and are among the most widely recognized Internet brand names globally. The “Alibaba” brand names have developed mainly through word-of-mouth promotion among our global community of suppliers and buyers, supplemented by our targeted marketing activities. Our international marketplace has been featured in each “Best of the Web” edition by Forbes magazine from 2000 to 2005 (the last “Best of the Web” edition of Forbes magazine was published in 2005). In addition, Fortune Small Business magazine named Alibaba.com as one of the six “best sites for global entrepreneurs” in July 2007. Awareness of the “Alibaba” brand enhances our ability to attract more registered users and paying members.

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Exclusive focus on the needs of SMEs in China and globally.

We focus exclusively on providing effective B2B e-commerce solutions to SMEs in China and around the world, and our service offerings provide a unique value proposition that meets the needs of SMEs in the B2B trade. For example, we provide tools to establish trust ratings for suppliers and buyers, thus facilitating the process of selecting potential trading partners. Furthermore, our fixed subscription fee model provides budget certainty for SMEs, thereby encouraging them to continue to grow their business on our marketplaces and source more business online without incurring additional costs. We believe our exclusive focus on the business needs of SMEs enables us to develop and offer better services and products for SMEs compared to those of other Internet companies that focus principally on consumers.

Strong community experience.

Our users have formed interactive communities on our marketplaces based on common interests, such as various business and industry topics. To enable these active communities on our marketplaces, we provide community features and tools such as instant messaging, discussion forums, user groups and blogs. Furthermore, we have dedicated teams of web operations staff focused on enhancing the community experience of our users. Our marketplaces offer a unique user experience where e-commerce is coupled with community, promoting user loyalty and trust. We believe our competitors are not able to easily replicate our ability to create, maintain and grow large communities of business people online.

Extensive sales force and comprehensive customer service.

We have developed a large, well-trained sales force that is strategically located in 30 cities across China and Hong Kong. As of June 30, 2007, our sales and customer service network consisted of over 1,900 full-time field sales employees, over 800 telephone sales employees and more than 400 full-time customer service employees. Our field and telephone sales teams are in direct daily contact with our current and prospective customers. Furthermore, our sales force is supported by our professional customer service team, which provides high quality customer support to ensure customer satisfaction, and also helps us identify customer needs and better understand market trends.

Continuous technology innovation to improve user experience.

We have an experienced product development team dedicated to improving our users' experience through continuous innovation. We have built a technology platform and designed product development processes to meet the dynamic needs of our users, and we have developed many new and enhanced features in response to requests, suggestions or feedback from our users and market trends that we discern. We believe that our continuous technology innovation allows us to offer functions, tools and features that effectively address the needs of, and provide significant value to, our users.

Seasoned management team and distinct corporate culture.

Our management team combines extensive experience in the e-commerce, Internet, technology and sourcing industries, with a proven track record of operating and managing online marketplaces successfully. In particular, Jack Ma, our lead founder and chairman, and other members of our core management team are among the pioneers of the Internet industry in China. David Wei, our chief executive officer, has extensive operational, managerial and financial experience in the retail and sourcing industries in China as well as internationally. Our core management team has accumulated extensive experience and expertise in competing in the Internet and e-commerce industry. Moreover, we have instilled among our employees a corporate culture of entrepreneurship, integrity and passion with an intense focus on customer satisfaction, which we have built and maintained through our six core corporate values system. See “— Our Corporate Values and Employees” starting on page 94.

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Strong relationship with Alibaba Group.

We believe we benefit from our relationship with Alibaba Group, our parent company. In addition to our B2B e-commerce business, Alibaba Group engages in other Internet businesses through its other subsidiaries and affiliates, including Taobao, Alipay, Yahoo! China, Alisoft, Koubei and Alimama. We have entered into agreements with Alibaba Group for the provision of cross-selling and cross-marketing services, including Alipay's online payment services relating to our China marketplace. In addition, pursuant to the recent cooperation agreement among Alibaba China, certain subsidiaries of Alibaba Group and Industrial and Commercial Bank of China Limited, or ICBC, the largest commercial bank in China, ICBC will provide online loan services to our paying members in China based on their credit history, including the online trust profiles maintained by us. We believe that these arrangements enable us to offer additional services to our users and paying members, which allow them to conduct business more easily through our online B2B marketplaces.

OUR STRATEGIES

Our mission is “讓天下沒有難做的生意” (which in English means “to make it easy to do business anywhere”). To accomplish this mission, we aim to make our marketplaces the most effective for SMEs in the world. Specifically, we plan to:

Increase the size of our marketplaces by expanding our user base and active listings.

We believe the breadth and quality of users and listings are critical to the success of our marketplaces. We will continue to leverage the network effect of our online marketplaces, our leading market position and the “Alibaba” brand names to increase our user base globally. In addition, we plan to specifically increase our targeted marketing efforts to our potential user base in different industries and geographic locations.

Enhance community experience to further improve user loyalty and activity.

We believe user loyalty and activity are critical to the success of our marketplaces. We intend to enhance user loyalty and activity in our marketplaces by continuing to develop and introduce new features and tools. Specifically, we plan to increase usage of our marketplaces and further facilitate communications among our users by enhancing our instant messaging service, online forums and other communication services. Moreover, we will continue to organize regular meetings, training and other offline events for our registered users and paying members to further build and strengthen the sense of community and user loyalty and increase user activity.

Further monetize our user base.

We seek to increase revenue by developing more paying members for our marketplaces. In addition, we seek to generate more revenue from our existing paying members through sales of value-added service offerings. These service offerings include additional keywords and premium placements.

Selectively expand into international markets.

We intend to expand our sales and customer service capabilities, directly or through third-party agents, to acquire more paying members and sell premium service offerings in countries and regions outside China. For example, we recently began offering the Gold Supplier membership packages to Hong Kong suppliers. In addition, we intend to develop country-specific marketplaces to provide tailored marketing services to exporters that wish to target specific countries or regions. For example, we plan to significantly upgrade our Japanese language website in late 2007 to attract more Japanese buyers and provide tailored service offerings to our Gold Supplier members and other Chinese suppliers who export to Japan. In this connection, we are in discussions with Softbank, one of the

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major shareholders of Alibaba.com Corporation, to form a joint venture to operate our Japanese website business under which Softbank would own a majority interest in the venture and we would enter into a revenue sharing arrangement pursuant to which, among other things, we would share revenue generated from sales to our Gold Supplier members equally with the joint venture entity.

Extend users' experience from "Meet at Alibaba" to "Work at Alibaba".

We believe that our online marketplace platform can be extended beyond pure trade marketing to address our users' daily business processes, such as customer relationship management and internal operations. We aim to enhance the loyalty of our user community by providing business applications through our marketplace platform and becoming an integral part of our users' business operations. For example, we recently introduced Alisoft Export Edition, an Internet-based business management software developed by Alisoft, to our China-based users. We strive to develop an ecosystem through our online marketplace platform where users can choose customized software based on their business needs, process transactions, maintain their customer database and manage their internal financial records.

Expand our business through selective acquisitions, investments, licensing arrangements or partnerships.

We intend to expand our business through selective acquisitions, investments, licensing arrangements or partnerships. Our objectives include expanding our user and revenue base, widening our geographic coverage, enhancing our content and service offerings, advancing our technology and strengthening our talent pool. We also plan to leverage our relationship with Alibaba Group to seek attractive cross-selling, cross-marketing and licensing arrangements and other opportunities.

OUR USERS

Our online marketplaces are open to all visitors, and anyone may browse and search the listings on our marketplaces. After becoming registered users, suppliers and buyers can participate in the online Alibaba community through establishing storefronts, posting listings, sending inquiries to potential trading partners and using our communication tools. Paying members of our marketplaces are entitled to additional services.

International Marketplace

The registered user base of our international marketplace extends to over 200 countries and regions around the world. Suppliers on our international marketplace are typically SME manufacturers or trading companies owned by entrepreneurs. Annual sales of these suppliers may range from a few million U.S. dollars to over US\$100.0 million (RMB751.6 million), and they typically employ between ten to a few hundred employees, or several thousand employees in the case of established manufacturers. Buyers using our international marketplace come from all over the world and include importers, trading companies, procurement departments of manufacturers, as well as agents and in-house sourcing organizations of global and regional retailers. The following table sets forth the number of registered users of our international marketplace as of the dates indicated:

	As of December 31,			As of June 30,	
	2004	2005	2006	2006	2007
Registered users	1,165,911	1,949,741	3,115,153	2,457,807	3,621,623

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As of June 30, 2007, our international marketplace had 245,061 registered users in China. The following table sets forth the top five countries and regions, other than China, of the registered users of our international marketplace as of June 30, 2007:

Country or region	Number of registered users in country or region	Percentage of total registered users of our international marketplace
1. United States	641,096	17.7%
2. European Union ⁽¹⁾	316,539	8.7%
3. India	296,011	8.2%
4. United Kingdom	222,883	6.2%
5. Canada	99,155	2.7%

Note:

(1) Excluding the United Kingdom.

China Marketplace

Users of our China marketplace are typically SMEs selling and buying industrial products, consumer products, raw materials and business services. These SMEs are typically owned and operated by a few individuals, and the decision-making processes of these SMEs are less complex than those of larger corporations. On our China marketplace, suppliers in many cases are also buyers. The majority of the registered users and paying members of our China marketplace are located in the more economically developed eastern and southern coastal areas of China. The following table sets forth the number of registered users of our China marketplace as of the dates indicated:

	As of December 31,			As of June 30,	
	2004	2005	2006	2006	2007
Registered users	4,840,641	9,019,214	16,649,073	12,963,774	20,933,290

The following table sets forth the top five provinces and municipalities of the registered users of our China marketplace as of June 30, 2007:

Province or municipality	Number of registered users in province or municipality	Percentage of total registered users of our China marketplace
1. Guangdong	4,509,861	21.5%
2. Zhejiang	1,783,048	8.5%
3. Jiangsu	1,376,242	6.6%
4. Shandong	1,101,336	5.3%
5. Shanghai	965,994	4.6%

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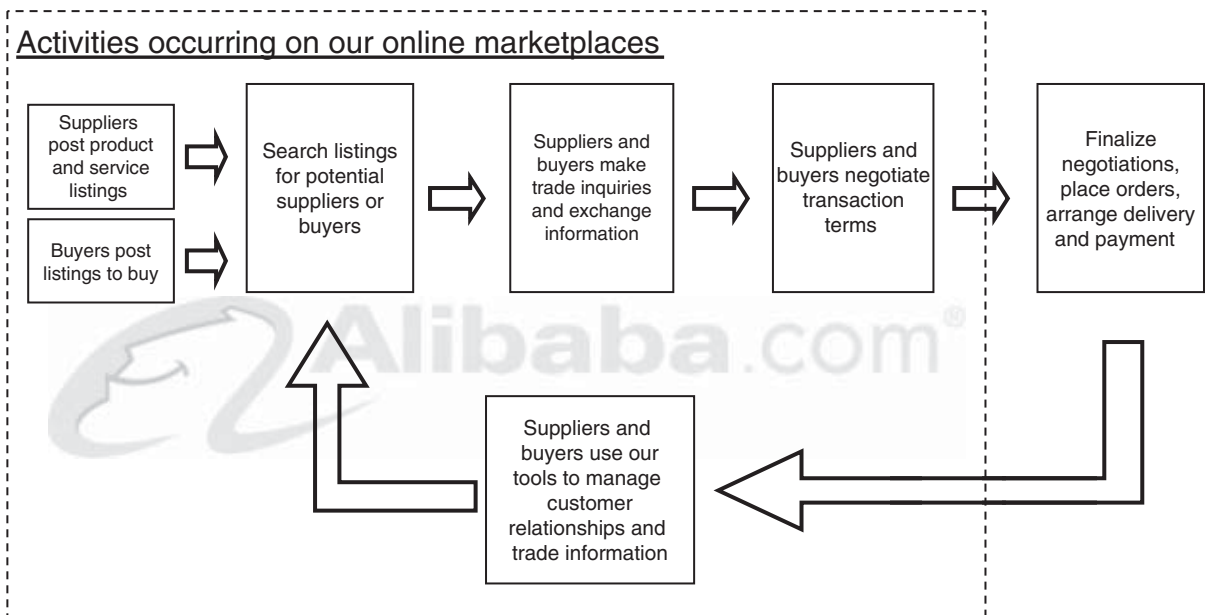
LISTINGS ON OUR MARKETPLACES

The listings displayed on our online marketplaces cover a wide range of products and services offered by users. We organize our listings by categories in an intuitive and easy-to-use industry directory to facilitate the browsing and viewing of listings. The major industry categories on our marketplaces include:

- Agriculture
- Apparel
- Automobile
- Business Services
- Chemicals
- Computer Hardware & Software
- Construction & Real Estate
- Electrical Equipment Supplies
- Electronic Components & Supplies
- Energy
- Environment
- Excess Inventory
- Fashion Accessories
- Food & Beverage
- Furniture & Furnishings
- Gifts & Crafts
- Health & Beauty
- Home Appliances
- Home Supplies
- Industrial Supplies
- Lights & Lighting
- Luggage, Bags & Cases
- Minerals, Metals & Materials
- Office Supplies
- Packaging & Paper
- Printing & Publishing
- Security & Protection
- Shoes & Accessories
- Sports & Entertainment
- Telecommunications
- Textiles & Leather Products
- Timepieces, Jewelry & Eyewear
- Toys
- Transportation

OUR SERVICES AND PRODUCTS

Our marketplaces offer a broad range of services and products for both suppliers and buyers. In order to maximize the size of and activity on our marketplaces and to grow a critical mass of market participants in our online community, we do not charge for many of these services and products. Instead, we offer fee-based membership packages and value-added services to suppliers who wish to enhance their marketing to potential buyers. In order to attract buyers, we allow them to search, find, communicate and conduct business with suppliers in our marketplaces free of charge. The following diagram illustrates the typical trading process among suppliers and buyers using our marketplaces.



Free Features of Our Marketplaces Available to all Users

We believe a high-quality user experience will lead to repeat usage of our marketplaces. Loyal users who keep coming back to our marketplaces, coupled with a growing base of new users, create a virtuous cycle that reinforces the appeal of our user community. To attract new users and increase

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usage levels of existing registered users, we have developed features on our marketplaces that are available to all users for free, thereby enhancing community affinity.

Basic Features for Buyers

Search. Buyers can search our large, proprietary database of suppliers and listings to retrieve specific listings relevant to their needs. Buyers are able to obtain search results that are based not only on an exact match of the keyword, but also on an intelligent dictionary of commercial products and associated terms. For example, a search for the keyword “mobile phone” may also turn up “handsets” in the search results. In addition, our iSearch technology provides enhanced search capabilities enabling buyers to search by supplier and product attributes based on relevant parameters such as product model, specification, price and geographic source in our China marketplace. We intend to launch the iSearch platform on our international marketplace in the future. See “ — Technology and Product Development — iSearch Platform” on page 91.

Trade Alert. Buyers registered with our marketplaces can subscribe for trade alerts that provide free updates of selected new suppliers and their listings. Buyers may tailor their subscription of trade alerts by choosing the keywords relevant to their business. Updates can be delivered through email or short message service to buyers’ mobile devices.

Post Buy Listings. Buyers who become our registered users may seek quotations and other information from potential suppliers by posting buy listings on our marketplaces. A buyer may phrase buy listings in his or her personal style and include a number of keywords that can be searched by suppliers. A sample buy listing from a furniture importer might read:

“Buy Garden Furniture — We are looking for modern design stainless steel outdoor furniture as well as all related objects, including umbrellas, teak or any other hardwood, combined stainless steel with natural stone or hardwood, etc.”

Basic Features for Suppliers

Storefronts. A registered supplier may display in our marketplaces a storefront that consists of a brief company profile containing the supplier’s contact information and a virtual showroom of the supplier’s products and services. As of June 30, 2007, we had over 0.6 million supplier storefronts on our international marketplaces and approximately 1.8 million supplier storefronts on our China marketplace.

Listings. Registered suppliers of our marketplaces may post product and service listings for free, either in the form of a selling lead or product description accompanied by a photograph.

Customer, Communication and Community Tools

Customer Relationship Management. Registered users of our marketplaces may use our account management tool to manage their user profile, such as user identification, password and information in their online storefronts and listings. The account management tool has built-in customer relationship management functions, which enable the user to manage contact lists of trading partners as well as communicate with these trading partners. For registered users of our China marketplace, the customer relationship management function also integrates a feature that allows users who have online accounts with Alipay to settle transactions online.

Communications. Our registered users may use TradeManager, our instant messaging tool, to communicate with trading partners in real time. TradeManager is a client-end software that may be downloaded from our marketplaces. For the month ended June 30, 2007, the aggregate peak number of simultaneous online TradeManager users on our international and China marketplaces was over 540,000.

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Online Forums, User Groups and Blogs. In order to foster interaction among registered users with similar interests, our marketplaces also host dozens of online forums and user groups. These forums cover a wide variety of topics, ranging from trade forums on insurance, trade terms, trade shows, business culture and business travel. Registered users of our China marketplace can also create their individual blogs on the China marketplace. As of June 30, 2007, our marketplaces had over 18.4 million postings in the online forums and hosted over 1.1 million blogs.

Services and Products for Paying Members

Our international marketplace focuses on global importers and exporters and our China marketplace focuses on suppliers and buyers trading domestically in China. As a result, we offer different membership packages with different services, features and pricing levels to paying members on our two marketplaces.

International Marketplace

We currently offer two membership packages for registered suppliers of our international marketplace — Gold Supplier and International TrustPass. The Gold Supplier membership package is for suppliers based in China and Hong Kong, while the International TrustPass membership package is for suppliers based outside China. The Gold Supplier membership package is available on a one-year or two-year term. The International TrustPass membership package is available on terms ranging from one to three years. The following table sets forth the number of paying members of our international marketplace as of the dates indicated:

	As of December 31, ⁽¹⁾			As of June 30,	
	2004	2005	2006	2006	2007
Paying Members	11,450	19,983	29,525	25,246	32,977
Gold Supplier Members	6,435	12,192	18,682	15,516	22,018
International TrustPass Members	5,015	7,791	10,843	9,730	10,959

Note:

(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 on our international marketplace.

Gold Supplier Membership

Our Gold Supplier members are located across China and operate in a variety of industries. The majority of our Gold Supplier members are SME exporters located in the Yangtze River Delta and the Pearl River Delta, two of the most economically developed regions in China. Our Gold Supplier membership package is offered at two price levels: the standard package starting from RMB40,000 per year and the premium package starting from RMB60,000 per year. As of June 30, 2007, the majority of our Gold Supplier memberships had a one-year term. Recently, we began offering the Gold Supplier membership package to suppliers located in Hong Kong. The prices of standard and premium Gold Supplier membership packages sold in Hong Kong start from HK\$41,600 (RMB40,000) and HK\$62,800 (RMB60,000) per year, respectively.

We intend to discontinue offering separate premium and standard Gold Supplier membership packages beginning in November 2007. In particular, we plan on offering a single Gold Supplier membership package that will incorporate all of the features and services currently available under the premium Gold Supplier membership package. We expect the price of the new Gold Supplier membership package to start from RMB50,000 per year for our customers in China and HK\$52,000 (RMB50,000) per year for our customers in Hong Kong.

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Our Gold Supplier membership package includes the following basic services:

Premium Storefront. A Gold Supplier member may set up premium storefronts with functions similar to a fully functional independent website. We also assist our Gold Supplier members in compiling, editing, integrating and processing the content that appears on their storefronts. For a Gold Supplier member who purchases the premium membership package, our storefront development staff also assists in producing a video introduction of the member's facilities as well as products and services that are to be displayed on such member's storefront.

Priority Placement. When users of our international marketplace search for listings, the listings and storefronts of our Gold Supplier members have priority placement in the search results and directories over those of International TrustPass members and suppliers who post their listings and storefronts for free. For similar listings and storefronts among Gold Supplier members, we determine the ranking based upon factors including the relevance to the specific keywords entered by users, the "freshness" of the listing and the total amount of fees paid by the member.

Customer Service. We provide high quality customer services and support to our Gold Supplier members, including dedicated account managers and call center service support. To enable our Gold Supplier members to conduct their business more effectively, we also provide them with training on matters relating to e-commerce and international trade.

We also offer our Gold Supplier members the following value-added services:

Additional Keywords. Our Gold Supplier members may purchase additional keywords to increase exposure of their listings and storefronts in our international marketplace. This increases the opportunity to show a Gold Supplier member's listings and storefront when buyers search for products and services or browse through our industry directory.

Premium Placements. We offer our Gold Supplier members a premium placement service that allows them to promote their listings and storefronts on our international marketplace by displaying a link at a designated position on selected web pages. Prices for premium placements are primarily based on the duration and location of such link.

International TrustPass Membership

We offer our International TrustPass membership packages to suppliers located outside China. The International TrustPass membership is currently offered for an annual subscription fee of US\$589 (RMB4,427). As of June 30, 2007, substantially all of our International TrustPass members subscribed for the one-year package. The following table sets forth the top five countries and regions of our International TrustPass members as of June 30, 2007.

Country or region	Number of International TrustPass members in country or region	Percentage of total International TrustPass members
1. Hong Kong	1,750	16.0%
2. United States	1,446	13.2%
3. Taiwan	1,152	10.5%
4. India	851	7.8%
5. South Korea	613	5.6%

In our directories and search results pages, listings and storefronts of our International TrustPass members rank below those of our Gold Supplier members but above those of suppliers who post their listings and storefronts for free. Our International TrustPass members need to prepare and develop their own storefronts by utilizing the standard storefront template provided by us. We also

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provide our International TrustPass members with online customer service as well as call center service support.

China Marketplace

We currently offer one membership package, China TrustPass, to registered suppliers of our China marketplace. The current price for the China TrustPass membership is RMB2,800 per year, which was increased in April 2007 from RMB2,300 per year. The following table sets forth the number of China TrustPass members as of the dates indicated.

	As of December 31, ⁽¹⁾			As of June 30, ⁽¹⁾	
	2004	2005	2006	2006	2007
China TrustPass members	66,472	121,631	189,573	158,073	222,576

Note:

(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 on our China marketplace.

Our China TrustPass membership package includes the following basic services:

Standard Storefronts and Trust Ratings. China TrustPass members can set up storefronts by utilizing the standard storefront template provided by us. We also include a trust rating system on their storefronts for other users to review and post comments on their trustworthiness and for China TrustPass members to display proof of their trustworthiness and good standing such as tax certificates, business licenses and product quality certifications.

Priority Placement. When users of our China marketplace search product and service listings, the listings and storefronts of our China TrustPass members have priority placement in the directories and search results over those of our registered users.

Customer Service. We provide our China TrustPass members with customer service and call center support as well as training on matters relating to e-commerce and domestic trade.

We also offer our China TrustPass members a value-added service that allows them to bid for keywords at prices established by an online auction mechanism. In particular, China TrustPass members can see the competing bids on the same keywords on our China marketplace website, enabling them to determine the bid required to secure a desired keyword and priority ranking in the search results of such keyword. We maintain, as well as continuously expand and refine, our keywords database.

Authentication and Verification Process for Paying Members

In order to provide confidence to buyers as well as differentiate our suppliers from others, we engage independent third-party agencies to authenticate and verify suppliers who intend to become paying members. If a supplier fails to pass the authentication and verification process, we will reject its membership application. The authentication procedure is designed to confirm the existence of the registered supplier under its business name and its business address that will appear on our marketplaces. The verification procedure is designed to confirm that the contact person of the registered supplier as indicated on our marketplaces is an authorized employee or representative of such registered supplier. Each paying member who has passed the authentication and verification process will be identified with "TrustPass" (誠信通) status on our marketplaces.

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Services for Other Customers

We have recently introduced online advertising services that allow branded advertisers to display online advertisements on our international and China marketplaces, including banners and other graphical or text advertisements. Rates for these online advertisements vary depending on several factors, including the term of the campaign and the size and position of the advertisement.

Major Customers and Suppliers

We do not have a single major customer. Our top five customers accounted for less than 5% of our revenue, our top five service providers accounted for approximately 43%, 29%, 25% and 31% of our purchases and our largest service provider accounted for approximately 18%, 8%, 10% and 15% of our purchases in each of the three years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007, respectively. None of our directors, their associates or any of our current shareholders (who to the knowledge of our directors owns more than 5% of our share capital) has any interest in any of our top five service providers which is required to be disclosed under the Listing Rules.

SALES FORCE AND CUSTOMER SERVICE

Our Sales Force

We market our services through both direct sales and online channels, and we devote significant resources to developing and maintaining our sales infrastructure. As of June 30, 2007, we had over 1,900 full-time field sales employees located in 30 cities across China and Hong Kong. We also maintained a team of over 800 telephone sales employees at our telephone sales centers in Hangzhou and Guangzhou as of the same date. We have recently opened a number of new field sales offices to expand our geographic coverage into Hong Kong as well as major northern and western Chinese cities, such as Beijing, Chengdu, Chongqing and Wuhan.

We sell our Gold Supplier membership packages primarily through our field sales force located in our sales offices in China and Hong Kong. Our field sales force typically makes over 100,000 face-to-face customer visits per month with existing and prospective customers. We sell our International TrustPass and China TrustPass membership packages primarily through our telephone sales team. With respect to our China TrustPass membership packages, we have, on a short-term trial basis, engaged distributors in Shanghai, Chongqing and five provinces to complement our telephone sales efforts, and we are currently evaluating whether to continue these arrangements in the future. Our telephone sales team typically makes over 800,000 telephone contacts per month with existing and prospective customers. We believe that such direct contact with customers by our field sales and telephone sales teams allows us to enhance our customer relationships as well as receive feedback for the improvement of our services.

We seek to foster an entrepreneurial spirit among our sales employees. In particular, we give them a degree of discretion in identifying prospective paying members, and we structure employee compensation packages to incentivize them. The substantial majority of the compensation we pay to our sales employees, including share-based compensation, is based on their performance.

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The following map shows the geographic coverage of our sales network as of June 30, 2007.



Customer Service

We place a high priority on providing our paying members with consistently high quality service and support, which we believe is critical to our long-term success. We have over the years invested significant financial, management and human resources to build and maintain a large customer service and support team, with more than 400 full-time customer service employees located in our Hangzhou, Guangzhou and Shanghai offices as of June 30, 2007. Our customer service and support team works closely with our sales force in identifying potential paying members, assisting in retaining existing paying members and providing customer care. Our customer service call centers are available to our paying members and registered users 15 hours a day during business days, handling general service inquiries as well as technical support issues in both Chinese and English. In addition to our call center service, we also provide customer service and support through email communications.

To maintain and improve our customer service, we conduct periodic customer surveys through email, by telephone or in face-to-face meetings. We conduct customer surveys each year to seek feedback from our customers on matters relating to our services and products. We carefully review and analyze customer feedback to identify and anticipate customer needs, track customer satisfaction levels and better understand market trends.

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MARKETING AND BRANDING

We employ a variety of methods to promote the “Alibaba” brand and attract potential registered users and paying members.

Focus on User Experience. Our registered user base has developed primarily through word-of-mouth as a result of positive user experience. We focus on continuously improving the quality of our services to our registered users and paying members, as we believe satisfied users and members are more likely to stay with us as well as recommend our services to others.

Online Community Building. To increase our user loyalty, we believe it is important to strengthen the sense of community among our registered users. In order to foster interaction among registered users with similar interests, our marketplaces host online forums and user groups for our users to share their information and views. We also allow registered users of our China marketplace to create individual blogs. In addition, we cooperate with an online broadcast service provider to deliver daily broadcasts of programs on business topics.

Offline User Education. We organize regular meetings and events for our registered users and SMEs who are interested in e-commerce. Every year we host “online merchants forums” at our sales offices across China and globally. At each “online merchants forum”, we typically invite several hundred suppliers and/or buyers to attend a half-day event during which we organize presentations and speeches to introduce the e-commerce basics and promote our marketplaces. After each forum, we identify the attendees who are interested in becoming our registered users or paying members, and invite them to e-commerce training sessions and networking workshops at our sales offices. Moreover, we organize “Open Sesame”, our dedicated buyer community program, for buyers from around the world. In 2006, we hosted such program in cities including Las Vegas, Philadelphia and Frankfurt.

Trade Marketing and Advertising Programs. To further promote the awareness of the “Alibaba” brand and our marketplaces among potential users, we also conduct general marketing and advertising activities, including outdoor advertisements, distribution of marketing materials at trade shows and other events, television, Internet advertising and print advertising in targeted publications. We have also established co-marketing partnerships with selected trade shows around the world. We offer Alibaba.com trade show partnership programs to trade show organizers who wish to promote their shows to our user base in relevant industries. In exchange, we have the opportunity to promote our marketplaces in their trade shows. In 2006, we participated in, or partnered with, over 40 major trade shows around the world encompassing major industries, including Canton Trade Fair in Guangzhou, China, International Consumer Electronics Show in Las Vegas, the United States and Hannover Messe in Hannover, Germany.

COMPETITION

According to iResearch, we had approximately 51% of the Chinese B2B e-commerce market share by revenue in 2006. We face competition in the B2B e-commerce market from both domestic and international competitors. Competitors of our international marketplace include Chinese and foreign Internet marketing service providers, such as the online directory operated by Global Sources. Competitors of our China marketplace include domestic B2B e-commerce platforms, such as the website operated by HC International. In addition, we also face indirect competition from other marketing service providers, including Internet search engines and traditional trading channels such as trade show organizers and trade magazine publishers, classified advertisements and outdoor advertising. The principal competitive factors include size of user base, number, quality and “freshness” of listings, community loyalty, ability to facilitate interactivity among users, brand recognition, technology, availability and ease of use of services, customer service and pricing.

TECHNOLOGY AND PRODUCT DEVELOPMENT

We have developed a proven technology platform with key proprietary technologies and applications that suit the needs of our B2B e-commerce marketplaces. To provide high quality

OUR BUSINESS

services on a large scale, we have built a highly scalable technology infrastructure that is based on a combination of our proprietary technologies and commercially available, licensed technologies, including the technologies licensed by Alibaba Group. We provide certain information technology services to Alibaba Group pursuant to the Technology Services Framework Agreement and we license certain third-party technology and Alibaba Group patents from Alibaba Group pursuant to the Technology and Intellectual Property Framework License Agreement. See “Connected Transactions — Continuing Connected Transactions” starting on page 155 and Appendix VII — “Statutory and General Information — Intellectual property rights” starting on page VII-12.

The key components of our technology platform include:

iSearch Platform. The iSearch platform is designed for highly targeted searches within our proprietary databases. In addition to the general text search function, iSearch platform provides additional search functions that improve search accuracy, such as search by scope and conditional filtering and aggregation of search results. Furthermore, to provide better search experience for our users, the iSearch platform is equipped with a synonym knowledge base of commercial products and associated terms that can be updated and refined through machine-learning technology.

Large Scale System Infrastructure. With a combination of proprietary in-house and third-party solutions, we have designed and built our system to handle large amounts of data flow with scalability and reliability. Our distributed architecture uses parallel computing technology and clusters of low-cost computers to handle high volume visits and process large amounts of information. In addition, our redundancy infrastructure and extensive monitoring system enable us to provide services with reliability and availability.

Anti-Fraud and Anti-Spam Technology. Our anti-fraud and anti-spam technology enables us to detect and monitor fraudulent activities and identify and filter spam messages. The accuracy and effectiveness of this technology are continuously improved through machine-learning capability and customizable rules.

We have implemented network security measures to protect us from unauthorized tampering with or security breaches of our system. These measures provide multi-level protection of our database and other key information technology systems. We have also adopted a detailed privacy policy that outlines the parameters in which we can collect and use information concerning our registered users and the extent to which other registered users of our marketplaces may have access to this information. By using our marketplace websites, users are required by us to acknowledge and consent to this policy, which is posted on our marketplace websites.

Our marketplaces are available 24 hours a day, seven days a week. Our servers are hosted both in China and outside China. Our system has been designed to reduce downtime in the event of outages and catastrophic occurrences. We have also adopted a contingency plan, including, among others, remote database backup and recovery, which enables us to respond promptly to network or system failure or other contingent events. Moreover, each of our key databases has multiple levels of backup for data storage and recovery. We have not experienced any system failure which resulted in the activation of the disaster recovery center.

In 2004, 2005 and 2006 and the six months ended June 30, 2007, our product development expenses were RMB19.2 million, RMB35.7 million, RMB105.5 million and RMB58.3 million, respectively. We have not capitalized any of these product development expenses.

As of June 30, 2007, our engineering and product development team consisted of almost 200 engineers. Members of our engineering team have won a number of technology awards such as “Top Ten Outstanding Database Engineers in China” in 2006 by China Computer Journals, a leading information technology journal in China, and “Best CRM Implementation in China — Internet Sector” by Greater China CRM, an institute focusing on customer relationship management in the Greater China region. Substantially all of our engineers are based at our headquarters in Hangzhou. We recruit most of our engineers in China and have established a recruiting and training program with Zhejiang

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University, one of the top engineering colleges in China. We also selectively recruit experienced engineers from the United States and elsewhere.

INTELLECTUAL PROPERTY

Our Intellectual Property

We believe the protection of our trademarks, copyrights, trade names, trade secrets, and other proprietary rights is critical to our business. We rely on a combination of trademark, fair trade practice, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and the “Alibaba” brand names. We also enter into confidentiality agreements with all of our employees and any third parties who may access our proprietary information, and we rigorously control access to our proprietary technology and information.

As of the Latest Practicable Date, we have registered trademarks, including “TRUSTPASS”, “诚信通”, and the TRUSTPASS logo, relating to our services and products with the Trademark Office of the State Administration for Industry and Commerce in the PRC. Pending applications, including “中国供应商” (“China Supplier”) and “Gold Supplier”, are in the process of being transferred to us by Alibaba Group. We have also obtained a license from Alibaba Group to use all its pending and registered trademarks, domain names and Internet keywords relating to “Alibaba” and the Alibaba logo registered in over 40 countries and territories, including Hong Kong, Japan, the United States, Canada, Australia, New Zealand, as well as countries in the European Union, Middle East, Southeast Asia, South America and Africa. If we undergo a “change in control” as defined under the license agreement, Alibaba Group will continue to grant us the license to use such trademark, domain names and Internet keywords upon payment of an annual license fee equivalent to 1% of our revenue or US\$5.0 million (RMB37.6 million), whichever is higher, for a period of three years following the date of such change in control. After the three-year period following the date of the “change in control”, Alibaba Group will continue to grant us the license to use such trademarks, domain names and Internet keywords, subject to our payment of a license fee based on the fair market value of a license to use such trademarks, domain names and internet keywords. See “Connected Transactions — Continuing Connected Transactions — Exempt Continuing Connected Transactions — House Brand Head License and Management Agreement” starting on page 157.

Certain trademarks and domain names relating to “Alibaba” are owned by, or will be assigned to, Alibaba Hangzhou as required for Alibaba Hangzhou to maintain its license to operate as a value-added telecommunication service provider. See “Supervision and Regulation — Regulations Relating to Foreign Investments in Value-Added Telecommunications Industry”. Pursuant to an assignment agreement with Alibaba Group relating to the trademarks and domain names that are owned by or will be assigned to Alibaba Hangzhou, upon the occurrence of a “change in control” event, which is defined in the assignment agreement to include, among others, Alibaba Group ceasing to own more than 50% of the voting interest in our company, we will be obligated to pay Alibaba Group US\$1.0 million (RMB7.5 million) per year for a period of three years for Alibaba Hangzhou’s continued ownership of such trademarks and domain names. Thereafter, Alibaba Hangzhou will be obligated to transfer such trademarks and domain names back to Alibaba Group or, alternatively, will continue to own such trademarks and domain names, subject to annual payments to Alibaba Group of an amount equal to the fair market value of a license for the use of such trademarks and domain names as determined by an independent valuer. See “Connected Transactions — Connected Transactions Pursuant to Our Reorganization — Trademarks and Domain Names Assignment Agreement” starting on page 154.

As of the Latest Practicable Date, we have four copyright registrations with the State Copyright Bureau of the PRC for software we independently developed for the B2B business.

OUR BUSINESS

Alibaba Group has filed over 60 patent applications related to our business in the PRC and Hong Kong. Alibaba Group has also filed a Patent Cooperation Treaty application with respect to an important invention covered by these patent applications. We have not jointly developed any of such pending patents with Alibaba Group or other third parties. We expect that Alibaba Group will continue to file further patent applications in major jurisdictions to protect its proprietary technologies, including those relevant to our business. We have obtained a license from Alibaba Group to use all patents relevant to the B2B business owned or to be owned by Alibaba Group, as well as a sub-license to use third-party patents relevant to the B2B business licensed to Alibaba Group. See “Connected Transactions — Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions subject to Reporting and Announcement Requirements — Technology and Intellectual Property Framework License Agreement” starting on page 162.

We, together with Alibaba Group, have registered over 40 domain names related to the B2B business, including alibaba.com, alibaba.com.cn and alibaba.cn, with various Chinese and foreign domain name registration services. We have also obtained a license to use domain names and Internet keywords that contain the word “Alibaba” or its Chinese equivalent.

See “Connected Transactions” starting on page 153 and Appendix VII — “Statutory and General Information — Intellectual property rights” for more details regarding our intellectual property rights.

Our Licensing Arrangements

We have entered into the following license agreements with Alibaba Group:

- a house brand head license and management agreement pursuant to which Alibaba Group granted us a license to use, in connection with the B2B business on an exclusive basis, all pending and registered “Alibaba” brand names, the Alibaba logo or a combination of such trademarks, as well as domain names and Internet keywords owned by Alibaba Group (including those in the process of being transferred to Alibaba Group containing the words “Alibaba” or its Chinese equivalent); and
- a technology and intellectual property framework license agreement pursuant to which Alibaba Group: (i) granted to us, to the extent relevant to the B2B business, a renewable license to use all patents, pending patents and related know-how in existence as of the Latest Practicable Date, including a license of any future patents the development of which was undertaken by our company on behalf of Alibaba Group pursuant to the Technology Services Framework Agreement; (ii) agreed to grant to us, immediately upon our request, to the extent relevant to our B2B business, a renewable sub-license to use all technology and intellectual property that Alibaba Group has an existing license to use from a third party and which Alibaba Group is permitted to sub-license to us as of the Latest Practicable Date; and (iii) agreed to grant to us, immediately upon our request, to the extent relevant to our B2B business, an option to use all technology and intellectual property that Alibaba Group may license from third parties in the future, to the extent Alibaba Group has the right to sub-license such rights. There is currently no technology or intellectual property relevant to the B2B business that Alibaba Group is not permitted to sub-license to us.

See “Connected Transactions — Continuing Connected Transactions” on page 155, “Risk Factors — Risks Related to Our Business and Industry — Failure by Alibaba Group to meet its obligations under certain arrangements entered into with us in connection with our restructuring could have a material and adverse effect on our business and prospects” on page 37 and “Risk Factors — Risks Related to Our Business and Industry — Loss of our right to use the “Alibaba” brand names, or unauthorized use of our brand names by third parties as well as expenses incurred in protecting the value of our brand names and maintaining and enhancing brand recognition of our company, may significantly reduce our revenue and profitability” on page 26.

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Protection of Third-Party Intellectual Property

We have received in the past, and expect to continue to receive in the future, allegations that certain of our users' listings on our marketplaces infringe third-party intellectual property rights. To protect third-party intellectual property rights, we have adopted an intellectual property protection policy, and have established procedures to promptly remove the alleged infringing listings after we are notified of the specific product details and provided with appropriate supporting documentation relating to the alleged intellectual property infringement. In addition, we perform voluntary reviews of listings on our marketplaces from time to time and may remove certain listings that offer products that appear to infringe upon third-party intellectual property rights. Moreover, our user contracts provide that we may terminate the accounts of users that are found to have infringed upon third-party intellectual property rights.

We have been involved in claims relating to intellectual property right infringement in connection with listings by our users, including claims involving counterfeit or pirated products listed on our marketplaces. These claims occur from time to time in the ordinary course of our business and have not had any material adverse effect on our business. See "Risk Factors — Risks Related to Our Business and Industry — Our business and brand image may be harmed by fraud or intellectual property right infringement committed by our users and substandard or potentially controversial products and services provided by suppliers, and we may be subject to vicarious product liability claims for defective products sold by our users" starting on page 31.

OUR CORPORATE VALUES AND EMPLOYEES

We believe that attracting, developing and maintaining a highly talented and motivated workforce is critical to our success. We take great pride in our corporate culture, and our employees have embraced the following six corporate core values:

- *Customer first.* The interests of our community of users and paying members must be our first priority.
- *Team work.* We expect our employees to collaborate as a team. We encourage input from our employees in the decision-making process, and expect every employee to commit to the team's objectives.
- *Embrace change.* We operate in a fast-evolving industry. We ask our employees to maintain flexibility, continue to innovate and adapt to new business conditions and practice.
- *Integrity.* Integrity is at the heart of our business as trust is an essential element of a marketplace. We expect our employees to uphold the highest standards of integrity and to deliver on their commitments.
- *Passion.* Our employees are encouraged to act with passion whether it is serving customers or developing new services and products.
- *Commitment.* Our employees have a dedicated focus and commitment to understanding and delivering on the needs of Chinese and global SMEs.

We aim to retain the best talent through a combination of career development opportunities, a positive work environment and performance-linked compensation.

- *Career development.* We provide systematic training and career development to our employees. We have implemented extensive training programs for our employees, including Ali-Classroom and Ali-Night School. We also require our new employees to participate in, as well as pass, a job training program ranging from two to four weeks. In addition, we provide

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our employees with regular training programs so that they can hone their professional skills, gain deeper understanding of our business operations, and stay abreast of market trends.

- *Positive work environment.* We seek to maintain a positive work environment by fostering team work and transparency. We believe that many employees rate their job satisfaction by the quality of their colleagues, and we encourage our employees to interact and share experiences with their colleagues in both formal and informal settings. We also promote open communications between our employees and senior management, through regular informal meetings and email communications, as well as encourage managers to be accessible to their team members.
- *Performance-based compensation.* We believe we offer a competitive performance-based compensation package to our employees, which consists of base salary, cash bonus, equity-based compensation and other benefits. To evaluate our employees' performance, we have developed a clearly-defined performance measurement system that gives 50% weighting to their achievement of our six core values and 50% weighting to their performance as assessed by key performance indicators. This evaluation system forms the basis of an employee's performance rating which directly affects the determination of the employee's compensation.

We consider our relations with our employees to be good. Our employment policies and practice comply with applicable PRC laws and regulations in all material aspects. Alibaba was named as the "Best Employer" by China Central Television in 2005 and was included in China Business News and Corporate Research Foundation's list of "China Top Employers" in 2006.

Excluding the employees not related to B2B business, we had 4,437 full-time employees as of June 30, 2007, substantially all of whom are based in China. The following table sets out the number and percentage of the full-time employees of our B2B business by function as of the dates indicated:

	As of December 31, ⁽¹⁾						As of June 30,	
	2004		2005		2006		2007	
	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total
Sales and marketing . . .	1,146	66.0%	1,599	68.1%	2,356	69.5%	3,183	71.7%
Customer service	204	11.7	305	13.0	448	13.2	476	10.7
Web operations	140	8.1	166	7.1	173	5.1	207	4.7
Engineering and product development	124	7.1	148	6.3	176	5.2	266	6.0
Legal, finance, human resources and administration	123	7.1	129	5.5	239	7.0	305	6.9
Total	1,737	100.0%	2,347	100.0%	3,392	100.0%	4,437	100.0%

Note:

(1) The number of employees presented in this table does not include employees not related to the B2B business. For the total number of our employees, including those not related to the B2B business, see note 8 to our combined financial statements included in Appendix I — "Accountants' Report".

PROPERTIES

Our principal executive offices and base of operations are located in Hangzhou, China. We also have field sales offices in 30 cities across China and Hong Kong, and we maintain offices in Hong Kong, Switzerland and the United States. We lease most of the premises we currently occupy from unrelated third parties. As of August 31, 2007, these leases comprised an aggregate of approximately 44,138 square meters of gross floor area.

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We have entered into an agreement, effective June 2007, to acquire the land use rights for land totaling approximately 60,000 square meters in Hangzhou, China, for the construction of a new corporate campus to accommodate our growth. We plan to begin construction of the campus once the acquisition has been completed.

According to an independent valuation, our property interests had no commercial value as of August 31, 2007. See Appendix IV — “Property Valuation”.

As of August 31, 2007, we occupied 70 leased properties in China comprising an aggregate of approximately 22,179 square meters of gross floor area for which our lessors are not able to provide us with evidence of their valid and enforceable building ownership rights, the relevant title documents or evidence of their rights or authority to lease or sub-lease such properties or have not completed the registration of the leases. These properties comprise approximately 50% of the gross floor area of our total leased properties and principally consist of office premises, with one of our offices in Hangzhou accounting for approximately 11,005 square meters of the total gross floor area of these properties.

We are not aware of any challenge being made by any third party on the titles of any of these leased properties that might affect our current occupation. In the event a dispute arises regarding the title to any of these leased properties, we may encounter difficulties in continuing to use the property and may be required to relocate. In such circumstance, we do not believe that any such relocation would have a material adverse effect on our business or operations or would cause significant disruption to our business since these leased properties are non-specialized, generic properties which are not crucial to our operations and for which alternative premises may be easily obtained. In addition, we do not believe that any immediate steps need to be taken with respect to these leased properties because we have not received any indication that we might be required to vacate any of the premises. Moreover, in the event that any lease is terminated due to any title dispute, we will be entitled to claim damages in accordance with the terms of the relevant lease and PRC law.

In relation to these properties, we will continue to use our reasonable efforts to procure that the relevant lessors obtain the required property certificates or otherwise perfect our lease, including completing outstanding registrations, identifying the legal owner of the relevant property and executing a new lease with such legal owner. If we are unable to reach agreement with any relevant legal owner or, if there is an actual risk of relocation, we will endeavour to find a suitable replacement property without delay.

As of August 31, 2007, we occupied nine leased properties in China comprising an aggregate of approximately 2,242 square meters of gross floor area for which the current use does not conform to the approved usage of such properties. We may be ordered by the relevant authorities to cease such use of the properties. However, these properties are non-specialized, generic properties which are not crucial to our operations and for which alternative premises can be easily obtained.

If we are required to vacate any of the above premises, we will use our reasonable efforts to minimize losses or disruption to our business and operations and relocate to properties with valid titles. In addition, Alibaba Group has also undertaken to indemnify us from, among other things, any costs, expenses and operating and business losses arising from the relocation of the business or assets from these properties (to the extent that we do not receive adequate compensation from the relevant lessor). For more details of the indemnity, please see Appendix VII — “Statutory and General Information”.

INSURANCE

We maintain property insurance to cover potential damages to our property and equipment. We also provide medical, unemployment and other insurance to our employees as required by applicable PRC law. Our property insurance policy covers losses resulting from natural disasters, accidents, equipment failure and equipment misuse. In addition, we carry business interruption insurance that

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covers revenue losses resulting from the occurrence of these events. We believe that our current insurance coverage is adequate to cover material property damage and business interruption risks.

LEGAL PROCEEDINGS

From time to time, we have been involved in litigation relating to copyright, trademark and patent infringement, defamation, unfair competition, contract disputes and other matters in the ordinary course of our business. As of the Latest Practicable Date, the estimated potential claims against us from ongoing litigation totaled approximately RMB1.0 million. We believe that these legal proceedings will not result in material liability to us nor will they have a material adverse effect on our business, financial condition and results of operations.

Although we have implemented standard procedures to take down listings by our users that allegedly infringe the intellectual property rights of third parties, we have limited control over the nature or types of the listings posted by users of our marketplaces. The infringement of intellectual property rights by our users may result in litigation and harm our business and reputation. See “Risk Factors — Risks Related to Our Business and Industry — Our business and brand image may be harmed by fraud or intellectual property right infringement committed by our users and substandard or potentially controversial products and services provided by suppliers, and we may be subject to vicarious product liability claims for defective products sold by our users” on page 31.

Trademark Dispute

We have been in dispute with Beijing Zhengpu Science and Technology Development Co., Ltd., or Zhengpu, a PRC software company, in respect of the registration of a number of marks in several key trademark classes consisting of variations of the “Alibaba” brand names in Chinese and English, in some cases together with the Alibaba logo, in China. Neither we nor any of our shareholders, directors, members of senior management or their respective associates has any relationship (business or otherwise) with Zhengpu.

Zhengpu’s Unsuccessful Trademark Registration Applications

Our B2B e-commerce websites were first launched in December 1998 under the trade name “Alibaba”. Zhengpu filed five trademark applications with the PRC Trademark Office for “阿里巴巴 Alibaba”, four in classes 35, 38, 41 and 42, filed in May 1999 and one in class 39, filed in March 2000. After their filings, we initiated our opposition against and application for cancellation of the registration of these trademarks by Zhengpu on the basis of Article 31 of the PRC Trademark Law, which prohibits any person from attempting to register with unfair means any trademark that has been used by another person and has already gained a “sufficient degree of recognition” through that person’s use. We succeeded in our opposition and cancellation application through administrative proceedings before the PRC Trademark Office and the PRC Trademark Review and Adjudication Board, and Zhengpu lost its appeals in Beijing No. 1 Intermediate People’s Court and, finally, the Beijing People’s High Court. In the ruling in our favor with respect to Zhengpu’s applications, the Beijing No. 1 Intermediate People’s Court as the trial court and the Beijing People’s High Court as the final appeals court found, among other things, that our mark “Alibaba (阿里巴巴)” had already gained a “sufficient degree of recognition” prior to Zhengpu’s applications in May 1999, and that Zhengpu’s applications were made in violation of PRC Trademark Law.

Alibaba Trademark Applications

Currently, we have 11 and Alibaba Group has two pending trademark applications for registration of several variations of the “Alibaba” brand names in Chinese and English, in some cases together with the Alibaba logo. Zhengpu has initiated opposition proceedings in the PRC Trademark Office with respect to 11 of these applications. We and Alibaba Group have won the opposition proceedings with respect to three applications, and the opposition proceedings with respect to the remaining eight applications are still pending. Zhengpu is currently appealing their unsuccessful opposition proceedings before the PRC Trademark Review and Adjudication Board.

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We are confident that the PRC Trademark Review and Adjudication Board will reach a decision in our favor, and we are confident about our prospects on any appeal from the decision of the PRC Trademark Review and Adjudication Board. See “Risk Factors — Risks Relating to Our Business and Industry — Loss of our right to use the “Alibaba” brand names, or unauthorized use of the “Alibaba” brand names by third parties as well as expenses incurred in protecting the value of the “Alibaba” brand names and maintaining and enhancing brand recognition of our company, may significantly reduce our revenue and profitability” on page 26.

We have been advised by Fangda Partners, our PRC counsel, that: (i) based on current evidence, Zhengpu is unlikely to be able to establish any valid legal ground to challenge the trademark applications submitted by us and Alibaba Group; and (ii) while the relevant trademark applications are pending, we and Alibaba Group may limit third-party use of these trademarks under the PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》). However, the protection under the PRC Anti-Unfair Competition Law may be more limited than the protection available for registered trademarks.

Based on information from our trademark agent, we know of no party other than Zhengpu that has challenged any of our or Alibaba Group’s trademark applications.