You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our combined financial statements included in Appendix I — "Accountants' Report", which has been prepared in accordance with IFRS, and Appendix II — "Unaudited Pro Forma Financial Information", in each case together with the accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

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.

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.

Prior to our Reorganization, we were operated as part of Alibaba Group and not as a stand-alone entity. Our company was incorporated in the Cayman Islands on September 20, 2006 to hold the B2B business of Alibaba Group. As part of our Reorganization, the corporate entities, assets and liabilities comprising the B2B business of Alibaba Group were transferred to our company in 2007. See "— Our Reorganization" starting on page 101. All of our financial information presented in this prospectus, including our combined financial statements included in Appendix I — "Accountants' Report", has been prepared as if our company and current corporate structure had been in existence since January 1, 2004, and, for periods prior to January 1, 2007, includes expenses of Alibaba Group not related to the B2B business.

We have grown significantly since our inception. Our revenue has increased rapidly over the past three years, from RMB359.4 million in 2004 to RMB1,363.9 million in 2006, representing a compound annual growth rate of 94.8%. Our growth has been driven by the following factors:

- *Growth in our user base and network effect*. Our websites are attractive to suppliers only if sufficient buyers use our marketplaces to identify and conduct business with such suppliers, while our marketplaces are attractive to buyers only if sufficient items of interest are offered by suppliers through our websites. We have experienced rapid growth in the number of registered users since our predecessor company began offering B2B e-commerce services in 1999. Our total registered user base increased rapidly from 6.0 million as of December 31, 2004 to 24.6 million as of June 30, 2007. The rapid growth of our user base has been driven by the continued growth of the PRC export market and domestic economy, as well as an increase in usage of online platforms for commercial activity by SMEs in China. In particular, according to iResearch, the number of SMEs in China using third-party B2B e-commerce platforms grew from 1.0 million, or 4.5% of total SMEs in China, in 2002 to 8.8 million, or 28.0% of total SMEs in China, in 2006. Our growing user base has resulted in an online community with a powerful network effect — as the size of our user base grows, our marketplaces become more valuable to suppliers and buyers. The network effect of our growing user base increases the value proposition of our marketplaces to paying members and enables us to attract new paying members, as well as retain existing paying members.

- *Growth of paying member base.* Our revenue growth has been driven by our ability to attract new suppliers to become paying members and retain and renew existing paying members. We have grown our sales force and customer service team from over 900 and 200, respectively, as of December 31, 2004 to over 2,800 and 400, respectively, as of June 30, 2007. The continued expansion of our sales and customer service capabilities allows us to maintain the infrastructure to acquire and serve more paying members.

- *Increased sales of value-added services*. Our revenue growth has also been driven by increased sales of value-added services to our paying members. Our principal value-added services include the sale of additional keywords and premium placement services to our Gold Supplier members, as well as keyword bidding for our China TrustPass members. Sales of our value-added services have been driven by an increase in the number of paying members and an increase in customer awareness and acceptance of these services that resulted from our sales and marketing efforts. Our revenue growth will depend in part on our ability to continue increasing our sales of value-added services.

Our profit before income taxes increased from RMB28.5 million in 2004 to RMB103.4 million in 2005 and RMB291.4 million in 2006, and from RMB89.5 million in the six months ended June 30, 2006 to RMB399.8 million in the same period in 2007. In each of 2004, 2005, 2006 and the six months ended June 30, 2006, profit before income taxes included expenses of Alibaba Group not related to the B2B business, which were RMB9.6 million, RMB67.3 million, RMB137.5 million and RMB81.2 million, respectively. Beginning on January 1, 2007, as a result of our Reorganization, expenses of Alibaba Group not related to the B2B business are no longer included in our financial results. See "— Our Reorganization" starting on page 101. Accordingly, our financial condition and results of operations in the six months ended June 30, 2007 may not be comparable to our financial condition and results of operations in the same period in 2006.

We have incurred, and expect to continue to incur, significant share-based compensation expenses. In 2004, 2005, 2006 and the six months ended June 30, 2006 and 2007, our share-based compensation expenses were RMB11.4 million, RMB48.9 million, RMB113.9 million, RMB53.4 million and RMB54.5 million, respectively. See "— Share-Based Compensation Expenses" starting on page 108.

Applicable PRC regulations currently limit foreign ownership of companies that provide value-added telecommunications services, which include Internet information services. As a result, we operate the website for our China marketplace through Hangzhou Alibaba Advertising Co., Ltd., or Alibaba Hangzhou, a company owned by Jack Ma, our lead founder and chairman, and Simon Xie, one of our founders and directors, both of whom are PRC citizens. Alibaba Hangzhou holds the licenses necessary to operate our China marketplace website in China, and we have contractual arrangements with Alibaba Hangzhou and its shareholders that allow us to effectively control Alibaba Hangzhou. As a result, notwithstanding our lack of share ownership in Alibaba Hangzhou, we consolidate Alibaba Hangzhou's financial results in our combined financial statements under International Financial Reporting Standards, or IFRS, because these contractual arrangements effectively transfer the economic risks and benefits of Alibaba Hangzhou to us.

OUR REORGANIZATION

Our company and Alibaba Group completed a reorganization pursuant to which the corporate entities, assets and liabilities comprising Alibaba Group's B2B business were transferred to our company. See "Our History and Reorganization" starting on page 57. As Alibaba Group owned or controlled our B2B business before our Reorganization and continues to control our company after our Reorganization, we have accounted for our Reorganization as a business combination under common control in a manner similar to a pooling-of-interests. The assets and liabilities transferred to our company have been stated at Alibaba Group's historical carrying amounts. All of our financial information presented in this prospectus, including our combined financial statements included in Appendix I — "Accountants' Report", has been prepared as if our company and current corporate structure had been in existence since January 1, 2004. Moreover, as we were operated as part of Alibaba Group and not as a stand-alone company prior to our Reorganization, certain transactions we entered into with Alibaba Group may not have been on normal commercial terms. As a result, the financial information and financial statements included in this prospectus may not reflect what our historical financial condition and results of operations would have been had we been operated on a stand-alone basis and not as part of the Alibaba Group, and they are not necessarily indicative of our future financial condition and results of operations. Although the financial information and financial statements included in this prospectus do not include revenue of Alibaba Group not related to the B2B business, our combined financial statements for periods prior to January 1, 2007 include expenses of Alibaba Group not related to the B2B business. These expenses, which primarily relate to certain marketing and administrative services provided to other businesses controlled by Alibaba Group, are included in our combined financial statements because these expenses related to the historical business activities of the entities that comprised our company before our Reorganization. See notes 1(b) and 1(c) to our combined financial statements included in Appendix I — "Accountants' Report". As a result of our Reorganization, however, our combined financial statements for the six months ended June 30, 2007 do not include expenses of Alibaba Group not related to the B2B business, and we do not expect such expenses to be included in our combined financial statements in future periods. To the extent we provide marketing, administrative and other similar services to Alibaba Group in future periods, we expect Alibaba Group to reimburse us on a cost basis pursuant to the Administrative Services Sharing Framework Agreement. See "Connected Transactions" starting on page 153.

The following table sets forth, for the periods indicated, expenses of Alibaba Group not related to the B2B business:

	Year ended December 31,			Six months ended June 30,	
	2004	2005	2006	2006	2007
				(Unaudited)	
	(in thousands of RMB)				
Sales and marketing expenses	—	35,959	83,186	58,661	—
Product development expenses	—	1,414	6,748	3,705	—
General and administrative expenses	9,594	29,972	47,573	18,818	—
Total	9,594	67,345	137,507	81,184	—

SELECTED COMBINED FINANCIAL AND OPERATING DATA

The following table sets forth our combined results of operations for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	(in thousands of RMB, except percentages)									
Revenue										
International marketplace	254,765	70.9%	527,227	71.4%	991,869	72.7%	431,481	72.7%	695,398	72.6%
China marketplace	104,670	29.1	211,070	28.6	371,993	27.3	162,156	27.3	260,965	27.3
Others	—	—	—	—	—	—	—	—	1,353	0.1
Total	359,435	100.0	738,297	100.0	1,363,862	100.0	593,637	100.0	957,716	100.0
Cost of revenue(1)	(62,569)	(17.4)	(126,509)	(17.1)	(237,625)	(17.4)	(109,131)	(18.4)	(122,717)	(12.8)
Gross profit	296,866	82.6	611,788	82.9	1,126,237	82.6	484,506	81.6	834,999	87.2
Sales and marketing expenses(1)(2)	(194,773)	(54.2)	(393,950)	(53.4)	(610,198)	(44.8)	(299,034)	(50.3)	(307,428)	(32.1)
Product development expenses(1)(2)	(19,151)	(5.4)	(35,678)	(4.8)	(105,486)	(7.7)	(47,256)	(8.0)	(58,278)	(6.1)
General and administrative expenses(1)(2)	(57,639)	(16.0)	(101,082)	(13.7)	(159,969)	(11.7)	(59,820)	(10.1)	(88,432)	(9.2)
Other operating (loss) income, net	(426)	(0.1)	14,465	1.9	17,645	1.3	800	0.1	1,190	0.1
Profit from operations	24,877	6.9	95,543	12.9	268,229	19.7	79,196	13.3	382,051	39.9
Interest income	3,591	1.0	7,876	1.1	23,159	1.7	10,340	1.8	17,699	1.8
Profit before income taxes	28,468	7.9	103,419	14.0	291,388	21.4	89,536	15.1	399,750	41.7
Income tax credits (charges)	45,393	12.6	(32,965)	(4.5)	(71,450)	(5.3)	(28,253)	(4.8)	(104,543)	(10.9)
Profit for the year/period attributable to equity owners	73,861	20.5%	70,454	9.5%	219,938	16.1%	61,283	10.3%	295,207	30.8%

Notes:

(1) Includes share-based compensation expenses, which are allocated as follows:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	(in thousands of RMB, except percentages)									
Cost of revenue	1,936	0.5%	8,766	1.2%	23,335	1.7%	13,258	2.2%	6,207	0.7%
Sales and marketing expenses	5,259	1.5	26,920	3.6	50,068	3.7	21,975	3.7	21,517	2.2
Product development expenses	1,382	0.4	5,126	0.7	16,344	1.2	7,727	1.3	6,582	0.7
General and administrative expenses	2,838	0.8	8,079	1.1	24,157	1.8	10,442	1.8	20,183	2.1
Total share-based compensation expenses	11,415	3.2%	48,891	6.6%	113,904	8.4%	53,402	9.0%	54,489	5.7%

(2) Includes expenses of Alibaba Group not related to the B2B business as follows:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	(in thousands of RMB, except percentages)									
Sales and marketing expenses	—	—	35,959	4.9%	83,186	6.1%	58,661	9.9%	—	—
Product development expenses	—	—	1,414	0.2	6,748	0.5	3,705	0.6	—	—
General and administrative expenses	9,594	2.7%	29,972	4.0	47,573	3.5	18,818	3.2	—	—
Total	9,594	2.7%	67,345	9.1%	137,507	10.1%	81,184	13.7%	—	—

The following table sets forth the number of our paying members as of the dates indicated:

	As of December 31,(1)			As of June 30,(1)	
	2004	2005	2006	2006	2007
International marketplace					
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
China marketplace					
China TrustPass members	66,472	121,631	189,573	158,073	222,576
Total	77,922	141,614	219,098	183,319	255,553

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 marketplaces. We do not begin recognizing revenue in respect of our membership packages until our paying member's storefront has been activated. See "— Revenue Collection and Recognition" starting on page 105.

REVENUE

We generate revenue primarily by selling membership packages and value-added services to suppliers participating in our international and China marketplaces. The following table sets forth the principal components of our revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	(in thousands of RMB, except percentages)									
International marketplace										
Gold Supplier	245,330	68.3%	511,402	69.3%	967,858	71.0%	420,612	70.9%	680,252	71.0%
International TrustPass	9,435	2.6	15,825	2.1	24,011	1.7	10,869	1.8	15,146	1.6
China marketplace										
China TrustPass	103,261	28.7	208,258	28.2	369,653	27.1	161,633	27.2	258,422	27.0
Other revenue	1,409	0.4	2,812	0.4	2,340	0.2	523	0.1	2,543	0.3
Others	—	—	—	—	—	—	—	—	1,353	0.1
Total	359,435	100.0%	738,297	100.0%	1,363,862	100.0%	593,637	100.0%	957,716	100.0%

International Marketplace

Revenue from our international marketplace primarily consists of:

- revenue from the sale of Gold Supplier membership packages and value-added services, which principally consist of the sale of additional keywords and premium placements, to Gold Supplier members; and
- revenue from the sale of International TrustPass membership packages.

Revenue from our international marketplace increased from RMB254.8 million in 2004 to RMB527.2 million in 2005 and RMB991.9 million in 2006, and from RMB431.5 million in the six months ended June 30, 2006 to RMB695.4 million in the same period in 2007. The revenue growth during these periods was primarily due to an increase in Gold Supplier members and an increase in sales of value-added services. Revenue from the sale of our International TrustPass membership packages also increased during these periods, but such revenue accounted for a relatively small portion of our international marketplace revenue.

China Marketplace

Revenue from our China marketplace primarily consists of:

- revenue from the sale of China TrustPass membership packages and value-added services, which mainly consists of keyword bidding, to China TrustPass members; and
- other revenue, which principally consists of online advertising services that allow customers who are not our paying members to display online advertisements on our China marketplace.

Revenue from our China marketplace increased from RMB104.7 million in 2004 to RMB211.1 million in 2005 and RMB372.0 million in 2006, and from RMB162.2 million in the six months ended

June 30, 2006 to RMB261.0 million in the same period in 2007. The revenue growth during these periods was generally driven by an increase in China TrustPass members and an increase in sales of our keyword bidding service.

Other Revenue

Other revenue consists of commission income we receive from Alibaba Group as a sales agent to sell software services developed by Alisoft. After the completion of the Global Offering, our cross-selling arrangements with Alibaba Group will be governed by the Cross-Selling Services Framework Agreement. See "Connected Transactions" starting on page 153.

Other revenue in the six months ended June 30, 2007 was RMB1.4 million. We did not have other revenue in prior periods as we entered into our cross-selling arrangements with Alibaba Group in the first half of 2007.

Revenue Collection and Recognition

Membership Packages

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

Value-Added Services

Keyword Purchases and Premium Placements. Our Gold Supplier members may purchase additional keywords beyond the keywords included in their membership packages to increase the exposure of their listings and storefronts on our international marketplace. We also offer our Gold Supplier members a premium placement service that allows them to promote their listings and storefronts on our international marketplace by displaying links at designated positions on our website. We collect fees for sales of these value-added services upfront, and we initially record the fees we receive as customer advances. Once the value-added service becomes activated for the Gold Supplier member, we reclassify the amounts we received as deferred revenue, and revenue is generally recognized in respect of the service ratably over the term of the relevant Gold Supplier membership contract in accordance with our revenue recognition policy. See note 2 to our combined financial statements included in Appendix I — "Accountants' Report".

Keyword Bidding. Our China TrustPass members may purchase additional keywords through a monthly program that allows members to bid for keywords at prices that are established by an auction mechanism. We collect fees for keyword bidding in the month the member makes a successful bid, and we recognize the revenue in respect of such service in the following month during which the service of displaying links to the paying member's storefront and listings in relevant keyword search results is delivered.

COST OF REVENUE, GROSS PROFIT AND GROSS MARGIN

The following table sets forth our revenue, cost of revenue and gross profit for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	(in thousands of RMB, except percentages)									
Revenue	359,435	100.0%	738,297	100.0%	1,363,862	100.0%	593,637	100.0%	957,716	100.0%
Cost of revenue										
Business taxes and surcharges	(18,063)	(5.0)	(37,208)	(5.0)	(69,394)	(5.1)	(30,142)	(5.1)	(49,122)	(5.1)
Authentication and verification expenses	(6,030)	(1.7)	(10,638)	(1.4)	(15,540)	(1.1)	(7,405)	(1.2)	(8,683)	(0.9)
Bandwidth and depreciation expenses	(6,498)	(1.8)	(20,851)	(2.8)	(30,983)	(2.3)	(14,309)	(2.4)	(16,722)	(1.8)
Staff costs and other expenses	(31,978)	(8.9)	(57,812)	(7.9)	(121,708)	(8.9)	(57,275)	(9.7)	(48,190)	(5.0)
Total	(62,569)	(17.4)	(126,509)	(17.1)	(237,625)	(17.4)	(109,131)	(18.4)	(122,717)	(12.8)
Gross profit	296,866	82.6%	611,788	82.9%	1,126,237	82.6%	484,506	81.6%	834,999	87.2%

The principal components of our cost of revenue include:

- business taxes and related surcharges paid by our principal operating subsidiaries in China;
- authentication and verification expenses, which are service fees paid to third parties in connection with the authentication and verification of our paying members;
- bandwidth and depreciation expenses, which include bandwidth and co-location fees and depreciation expenses for our computers, servers, call center equipment and other equipment relating to our web operations and customer service centers; and
- staff costs and other expenses, which include salaries, bonuses, other benefits and share-based compensation expenses relating to our web operations and customer service employees, customer training expenses, production expenses, and other incidental expenses relating to our web operations and customer service centers, including rental expenses, office expenses and telecommunication expenses.

Our cost of revenue varies largely as a function of our revenue and the size of our user base. Accordingly, we expect cost of revenue as a percentage of our revenue to remain relatively stable in the near future.

In 2004, 2005, 2006 and the six months ended June 30, 2006 and 2007, our gross profit, which is equal to revenue less cost of revenue, was RMB296.9 million, RMB611.8 million, RMB1,126.2 million, RMB484.5 million and RMB835.0 million, respectively, and our gross margin, which is equal to gross profit divided by revenue, was 82.6%, 82.9%, 82.6%, 81.6% and 87.2%, respectively.

OPERATING EXPENSES AND PROFIT FROM OPERATIONS

Our operating expenses consist of sales and marketing expenses, product development expenses and general and administrative expenses. Share-based compensation expenses have been, and are expected to continue to be, significant components of each of these categories of operating expenses. The following table sets forth the principal components of our operating expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	(in thousands of RMB, except percentages)									
Revenue	359,435	100.0%	738,297	100.0%	1,363,862	100.0%	593,637	100.0%	957,716	100.0%
Cost of revenue	(62,569)	(17.4)	(126,509)	(17.1)	(237,625)	(17.4)	(109,131)	(18.4)	(122,717)	(12.8)
Gross profit	296,866	82.6	611,788	82.9	1,126,237	82.6	484,506	81.6	834,999	87.2
Operating expenses										
Sales and marketing expenses	(194,773)	(54.2)	(393,950)	(53.4)	(610,198)	(44.8)	(299,034)	(50.3)	(307,428)	(32.1)
Product development expenses	(19,151)	(5.4)	(35,678)	(4.8)	(105,486)	(7.7)	(47,256)	(8.0)	(58,278)	(6.1)
General and administrative expenses	(57,639)	(16.0)	(101,082)	(13.7)	(159,969)	(11.7)	(59,820)	(10.1)	(88,432)	(9.2)
Total	(271,563)	(75.6)	(530,710)	(71.9)	(875,653)	(64.2)	(406,110)	(68.4)	(454,138)	(47.4)
Other operating (loss) income, net	(426)	(0.1)	14,465	1.9	17,645	1.3	800	0.1	1,190	0.1
Profit from operations	24,877	6.9%	95,543	12.9%	268,229	19.7%	79,196	13.3%	382,051	39.9%

Sales and Marketing Expenses

Sales and marketing expenses are the largest component of our operating expenses. Our sales and marketing expenses primarily consist of staff costs, including sales commission and share-based compensation expenses, for our sales and marketing personnel, advertising and promotion expenses, and other incidental expenses relating to our sales and marketing efforts, including rental expenses of our sales offices, depreciation expenses, telecommunication expenses and travel-related expenses. Our sales and marketing expenses are generally recognized as they are incurred. Sales commissions are initially deferred when paid and expensed ratably over the period of the service contract to which the commission relates. We expect our sales and marketing expenses to increase in future periods as we continue to expand the size and geographic coverage of our sales force and increase our advertising and promotional activities.

Product Development Expenses

Product development expenses primarily include staff costs, including share-based compensation expenses, for our research and development employees and other incidental expenses incurred by our research and development department, including depreciation expenses relating to research and development equipment and facilities, office expenses and rental expenses, fees for third-party software developers and telecommunication expenses. In 2006, product development expenses also included a royalty payment, including related withholding tax payments, to Alibaba Group of RMB30.2 million, which represented approximately 2.2% of our revenue, pursuant to an intellectual property license agreement we entered into with Alibaba Group during the year. After the completion of the Global Offering, the intellectual property license royalty payment arrangements will be governed by the Technology and Intellectual Property Framework License Agreement we entered into with Alibaba Group in connection with our Reorganization. See "Connected Transactions" starting on page 153. In 2004, 2005, 2006 and the six months ended June 30, 2007, no research and development expense was capitalized. We expect our product development expenses to increase in future periods as we plan to invest additional resources in developing new service and product offerings, including additional services and products for our users and paying members.

General and Administrative Expenses

General and administrative expenses consist mainly of staff costs relating to our management and administrative employees and other incidental expenses, including depreciation expenses relating to our administrative offices and office equipment, office expenses, professional service fees, travel-related expenses, telecommunication expenses and rental expenses. We expect our general and administrative expenses to increase in future periods as we continue to expand our business operations and incur additional costs to fulfill the requirements of being a publicly listed company.

Other Operating (Loss) Income

Other operating (loss) income primarily consists of government grants and foreign currency exchange losses. Government grants primarily relate to grants by the PRC government in connection with our investments in technology development in China. These grants are generally non-recurring and do not impose any additional obligations on our company. Exchange gains and losses generally arise from fluctuations of the Renminbi against the currencies in which certain of our bank deposits and ordinary course business expenses are denominated.

Profit from Operations and Operating Margin

Profit from operations is equal to our gross profit less operating expenses, after taking into account other operating (loss) income. Operating margin is equal to profit from operations divided by revenue. In 2004, 2005, 2006 and the six months ended June 30, 2006 and 2007, our profit from operations was RMB24.9 million, RMB95.5 million, RMB268.2 million, RMB79.2 million and RMB382.1 million, respectively, and our operating margin was 6.9%, 12.9%, 19.7%, 13.3% and 39.9%, respectively.

Share-Based Compensation Expenses

Alibaba Group, our parent company, operates equity award plans pursuant to which our employees and employees of Alibaba Group have been granted options to purchase shares of Alibaba Group at specified exercise prices. In general, all equity-based awards granted by Alibaba Group are subject to a four-year vesting schedule under which 25% of such options vest upon the first anniversary of the vesting commencement date and ratably monthly or annually thereafter. The exercisable period ranges from six years to ten years from the date of grant. In our combined financial statements included in Appendix I — "Accountants' Report", share-based compensation expenses arising from the granting of equity-based awards by Alibaba Group to our employees are allocated to and included as part of our company's expenses. In 2004, 2005, 2006 and the six months ended June 30, 2006 and 2007, share-based compensation expenses were RMB11.4 million, RMB48.9 million, RMB113.9 million, RMB53.4 million and RMB54.5 million, respectively, all of which were related to share options granted to our employees under Alibaba Group's equity award plans.

Share-based compensation expenses are accounted for based on the fair value of equity-based awards granted. The fair value of the share option granted is measured at grant date using the Black-Scholes valuation model, taking into account the terms and conditions upon which the share-based awards were granted. Share-based compensation expenses are recognized over the respective vesting period during which the employees become unconditionally entitled to the equity-based awards. See note 22 to our combined financial statements included in Appendix I — "Accountants' Report". At each balance sheet date, we revise our estimates of the number of equity-based awards that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the income statement over the remaining vesting period. See "— Critical Accounting Policies — Recognition of Share-Based Compensation Expenses" on page 112.

Share-based compensation expenses were significantly lower in 2004 than in 2005 and 2006, primarily because we did not recognize any share-based compensation expenses in respect of share options that were granted on or before November 7, 2002 or share options that were granted after November 7, 2002 and vested before January 1, 2005 in accordance with the transitional provisions of IFRS 2, "Share-Based Payment". See note 2 to our combined financial statements included in Appendix I — "Accountants' Report". Share-based compensation expenses increased significantly in 2005 and 2006 principally as a result of a significant increase in the fair value of the options granted.

In connection with our Reorganization, all equity-based awards granted by Alibaba Group to our employees, as well as its other employees, will be restructured whereby a portion of these equity-based awards would be exercisable or exchangeable into our outstanding ordinary shares held by Alibaba Group. See "Our History and Reorganization — The Employee Equity Exchange" starting on page 60.

Pursuant to the Pre-IPO Share Incentive Scheme, Alibaba Group granted a substantial amount of options to our employees to purchase Shares held by Alibaba Group. Moreover, prior to the completion of the Global Offering, we expect to adopt the Share Option Scheme and the RSU Scheme. See Appendix VII — "Statutory and General Information" and "Directors and Senior Management" starting on page 177. As we intend to continue to grant equity-based awards to attract, motivate and retain employees, we expect our share-based compensation expenses will increase significantly in future periods.

Depreciation of Property and Equipment

In 2004, 2005, 2006 and the six months ended June 30, 2006 and 2007, our depreciation expenses were RMB11.5 million, RMB28.9 million, RMB54.0 million, RMB24.1 million and RMB27.3 million, respectively. The following table sets forth the allocation of our depreciation expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2004	% of revenue	2005	% of revenue	2006	% of revenue	2006	% of revenue	2007	% of revenue
							Unaudited			
	(in thousands of RMB)									
Cost of revenue	4,426	1.2%	14,136	1.9%	21,056	1.6%	9,897	1.7%	10,853	1.1%
Sales and marketing expenses	1,826	0.5	4,389	0.6	8,349	0.6	3,288	0.6	5,083	0.6
Product development expenses	2,602	0.7	5,040	0.7	9,931	0.7	4,785	0.8	4,273	0.4
General and administrative expenses	2,681	0.8	5,291	0.7	14,707	1.1	6,114	1.0	7,100	0.8
Total depreciation expenses	11,535	3.2%	28,856	3.9%	54,043	4.0%	24,084	4.1%	27,309	2.9%

We expect our depreciation expenses to increase after the completion of our new corporate campus in Hangzhou, China, which is expected to occur in late 2009.

INCOME TAXES

PRC Income Tax

Substantially all of our income tax expenses in 2004, 2005, 2006 and the six months ended June 30, 2007 were related to PRC income tax incurred by Alibaba China, our major operating subsidiary. Each of Alibaba China and our other subsidiaries incorporated in China is subject to Enterprise Income Tax on its taxable income as reported in its statutory financial statements prepared under accounting principles generally accepted in China and adjusted in accordance with the relevant tax laws and regulations in China. Pursuant to such laws and regulations, foreign-invested enterprises incorporated in China are subject to Enterprise Income Tax at a statutory rate of 33% (30% national enterprise income tax plus 3% local income tax) unless they qualify for certain tax exemptions or reductions, such as those available to qualified High- and New-Technology Enterprises and software enterprises. In 2004, 2005, 2006 and the six months ended June 30, 2007, Alibaba China, as a High- and New-Technology Enterprise, was entitled to a reduced national enterprise income tax rate of 15% pursuant to the Implementation Rules of the PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises issued on June 30, 1991. In 2004, 2005 and 2006, Alibaba China did not receive any exemption or reduction of the local income tax. As a result, Alibaba China's applicable income tax rate was 18% (15% national enterprise income tax plus 3% local income tax) in those years. In 2007, pursuant to PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises, the relevant PRC tax authorities exempted Alibaba China from the 3% local income tax for the year ending December 31, 2007, and will re-evaluate this local income tax exemption annually thereafter. Furthermore, pursuant to the Implementation Rules of the PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises issued on July 1, 1991, Alibaba China was eligible for a two-year income tax holiday and 2004 was the final year that it was exempted from national enterprise income tax. Based on the above, the applicable tax rate of Alibaba China in effect was 3%, 18%, 18% and 15% in 2004, 2005, 2006 and the six months ended June 30, 2007, respectively.

Alibaba Software qualified as a High- and New-Technology Enterprise in 2007. As a result, beginning in 2007, its applicable income tax rate will be 18% (15% national enterprise income tax plus 3% local income tax). Moreover, Alibaba Software was certified as a software enterprise in 2007 and, pursuant to the Circular on Certain Tax Policies Regarding Encouragement of Software Development Industry and Integrated Circuit Industry issued on September 22, 2000, Alibaba Software is eligible to apply for a five-year tax holiday that consists of a two-year exemption from national enterprise income tax and a three-year 50% reduction of national enterprise income tax.

On March 16, 2007, the PRC National People's Congress adopted the PRC Enterprise Income Tax Law, which will become effective from January 1, 2008. The PRC Enterprise Income Tax Law imposes a tax rate of 25% on all enterprises incorporated in China, including foreign-invested enterprises, and eliminates many tax exemptions, reductions and preferential treatments available under current tax laws and regulations. However, under the PRC Enterprise Income Tax Law, existing preferential tax treatments could be grandfathered for enterprises that were established before March 16, 2007. If Alibaba China and Alibaba Software continue to meet the requirements for the existing preferential tax treatments, they would be entitled to grandfathered tax treatment for up to five years, subject to the detailed implementation rules of the PRC Enterprise Income Tax Law: (i) in the case of preferential tax rates, gradually increasing to 25% for a period of up to five years from January 1, 2008; or (ii) in the case of an income tax holiday for a specified term, if the tax holiday has not yet started because of tax losses, it may be deemed to commence from the first effective year of the PRC Enterprise Income Tax Law.

Under the PRC Enterprise Income Tax Law, as is the case under current law, companies designated as High- and New-Technology Enterprises may enjoy a reduced national enterprise income tax rate of 15%. However, the PRC Enterprise Income Tax Law does not define which type of companies would qualify as High- and New-Technology Enterprises and regulations governing the requirements of such qualification have not been issued under the PRC Enterprise Income Tax Law.

As a result, we cannot assure you that Alibaba China or Alibaba Software will qualify as High- and New-Technology Enterprises under the PRC Enterprise Income Tax Law. Moreover, the PRC Enterprise Income Tax Law provides that a withholding income tax rate of 20% could be applicable to dividends payable by companies incorporated in China to foreign shareholders (under the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation on Income, the withholding tax rate is up to 5% if the recipient of the dividend is a Hong Kong resident that owns at least 25% of the equity interest in the company making the dividend payment). Unlike the current tax law, the PRC Enterprise Income Tax Law does not specifically exempt withholding tax for corporations paying dividends to their foreign shareholders. The PRC Enterprise Income Tax Law may provide a reduction of withholding tax on dividend payments to foreign shareholders. However, the detailed regulations have not been issued. As a result, Alibaba China and Alibaba Software may be required to withhold such income tax when paying dividends to their parent company. See "Risk Factors — Risks Related to China — The implementation of the PRC Enterprise Income Tax Law may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of your investment" starting on page 42.

Cayman Islands Profits Tax

Our company and subsidiaries incorporated in the Cayman Islands are not subject to any income or capital gains tax under the current laws of the Cayman Islands.

Hong Kong Profits Tax

Our subsidiaries incorporated in Hong Kong, including Alibaba Hong Kong, our wholly-owned subsidiary that has operated our international marketplace since January 2, 2007 and which earns revenue from our customers outside China, are subject to Hong Kong profits tax at the rate of 17.5%. In 2004, 2005, 2006 and the six months ended June 30, 2007, we did not make any provisions for Hong Kong profits tax as our subsidiaries incorporated in Hong Kong did not have any estimated assessable profit in those periods. Prior to January 1, 2007, our international marketplace was operated by a subsidiary of Alibaba Group incorporated in the Cayman Islands, and such subsidiary also did not have any estimated assessable profit in 2004, 2005 and 2006 for Hong Kong profits tax purposes. Subject to agreement with the relevant tax authorities, Alibaba Hong Kong had estimated tax losses of RMB131.5 million as of June 30, 2007 that could be carried forward to offset future taxable profits.

Deferred Taxation

Deferred income tax is provided in full, using the liability method, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in our combined financial statements. Deferred income tax is determined using tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred income tax asset is realized or when the deferred income tax liability is settled.

The calculation and payment of Enterprise Income Tax follow cash-basis accounting, as opposed to accrual basis accounting under IFRS, in respect of the fees we collect from the sale of our membership packages and value-added services and the related sales commissions we pay. As a result, our payment of Enterprise Income Taxes gives rise to deferred tax assets. In 2004, 2005 and 2006, sales of our membership packages and value-added services increased significantly. As a result, deferred tax assets also increased significantly in these periods. As of December 31, 2004, 2005 and 2006, our deferred tax assets were RMB58.8 million, RMB127.6 million and RMB211.9 million, respectively. Our deferred tax assets decreased from RMB211.9 million as of December 31, 2006 to RMB209.1 million as of June 30, 2007, primarily because Alibaba China was exempted from the 3% local income tax in 2007, which required the assumption of a lower tax rate upon which tax benefits may be realized in the future, and resulted in a downward adjustment of our deferred tax asset balance. See note 28 to our combined financial statements included in Appendix I — "Accountants' Report".

HOLDING COMPANY STRUCTURE

We are a holding company with no operations other than ownership of operating subsidiaries in Hong Kong, China and elsewhere that, together with Alibaba Hangzhou, own and operate the B2B business. As a result, we rely on dividends and other distributions paid by our operating subsidiaries, including funds to pay dividends to our shareholders or necessary to service any debt we may incur. If our operating subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict the ability of our operating subsidiaries to pay dividends or make other distributions to us. In addition, PRC law permits payment of dividends to us by our operating subsidiaries in China only out of their net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, our operating subsidiaries in China are also required to set aside a portion of their net income, if any, each year to fund certain reserve funds. These reserves are not distributable as cash dividends. See note 24 to our combined financial statements included in Appendix I — "Accountants' Report".

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are set forth in note 2 to our combined financial statements included in Appendix I — "Accountants' Report". The preparation of our combined financial statements requires our management to make estimates and assumptions that affect the amount reported in our combined financial statements. These estimates and assumptions are periodically re-evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and assumptions. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations, because the application of these policies requires significant management estimates, and the reporting of materially different amounts could result if different estimates or assumptions were used.

Recognition of Share-Based Compensation Expenses

Since the commencement of our business, our employees have participated in Alibaba Group's equity award plans. The fair value of options and RSUs at the time of grant is expensed over the vesting period of the options and RSUs based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, we treat each vesting installment of a graded vesting award as a separate share option or RSU grant, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expenses. For example, based on a four-year vesting schedule under which 25% of such options or RSUs vested upon the first anniversary of the vesting commencement date and the remaining 75% vesting ratably annually thereafter, under the accelerated graded attribution approach, the percentages of the share-based compensation expenses recognized in our income statement in the first, second, third and fourth years following the grant date would be 52.0%, 27.1%, 14.6% and 6.3%, respectively.

Our management uses the Black-Scholes option pricing model to determine the fair value of the options granted, which is based on fair value and various attributes of the underlying shares of Alibaba Group. Significant estimates and assumptions are required to be made in determining the parameters for applying the Black-Scholes option pricing model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. The fair value of RSUs granted is measured on the grant date based on the fair value of the underlying shares of Alibaba Group. In addition, we are required to estimate the expected percentage of grantees that will remain in employment with us at the end of the vesting period. We only recognize an expense for options and RSUs that are expected to vest over the vesting period during which the grantees become unconditionally entitled to the options or RSUs. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of our share options and RSUs as well as the amount of equity awards that are expected to vest, which may in turn significantly impact the determination of our share-based compensation expenses.

Recognition of Income Taxes and Deferred Tax Assets

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

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

Depreciation of Property and Equipment

The costs of property and equipment are charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. We estimate the useful lives of property and equipment based on the period over which the assets are expected to be available for use. Estimates of the useful lives of property and equipment are based on a collective assessment of technology and industry conditions, asset retirement activity and our experience with similar assets. The estimated useful lives of property and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on the use of such assets. Changes in such estimates could significantly affect our results of operations. In particular, a reduction in the estimated useful lives of property and equipment would increase depreciation expenses and reduce operating income. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives of the assets:

Computer equipment	Three years
Furniture and office equipment	Three years
Leasehold improvements	Two to three years (the shorter of the remaining lease period or the estimated useful life)
Buildings	20 years

RESULTS OF OPERATIONS

Six Months ended June 30, 2007 Compared to Six Months ended June 30, 2006

As a result of our Reorganization, our results of operations in the six months ended June 30, 2007 do not include expenses of Alibaba Group not related to the B2B business, while our results of operations in the same period in 2006 include such expenses. See "— Our Reorganization" starting on page 101 and notes 1(b) and 1(c) to our combined financial statements included in Appendix I — "Accountants' Report". As a result, our results of operations for these periods may not be comparable.

Revenue

Our total revenue increased by 61.3% from RMB593.6 million in the six months ended June 30, 2006 to RMB957.7 million in the same period in 2007.

International Marketplace. Revenue from our international marketplace increased by 61.2% from RMB431.5 million in the six months ended June 30, 2006 to RMB695.4 million in the same period in 2007. This increase was primarily due to an increase in the number of Gold Supplier members, as well as an increase in sales of value-added services. The increase in Gold Supplier members was principally a result of increasing penetration of our existing geographic markets, as well as the continued expansion in geographic coverage of our sales force. Revenues from value-added services increased mainly because more of our Gold Supplier members purchased such services.

China Marketplace. Revenue from our China marketplace increased by 60.9% from RMB162.2 million in the six months ended June 30, 2006 to RMB261.0 million in the same period in 2007. This increase was largely due to an increase in the number of China TrustPass members, which in turn was principally the result of our telephone sales efforts to convert registered users into paying members. Sales of value-added services, which primarily consists of keyword bidding, increased in the six months ended June 30, 2007, mainly due to increased customer awareness and acceptance of the keyword bidding service.

Other Revenue. Other revenue in the six months ended June 30, 2007 was RMB1.4 million. Such revenue is related to commission income we received from Alibaba Group as a sales agent to sell software services developed by Alisoft. We did not have other revenue in prior periods as we entered into our cross-selling arrangements with Alibaba Group in the first half of 2007. After the completion of the Global Offering, our cross-selling arrangements with Alibaba Group will be governed by the Cross-Selling Services Framework Agreement. See "Connected Transactions" starting on page 153.

Cost of Revenue, Gross Profit and Gross Margin

Our cost of revenue increased by 12.4% from RMB109.1 million in the six months ended June 30, 2006 to RMB122.7 million in the same period in 2007.

Our cost of revenue increased mainly as a result of the continued expansion of our business. In particular:

- business taxes and related surcharges, as well as authentication and verification expenses, were higher as a result of the increase in revenue;

- staff costs and other expenses increased primarily because of the expansion of our web operations and customer service centers; and

- bandwidth and depreciation expenses were higher mainly because of increased user traffic on our websites, which required us to pay higher bandwidth and co-location fees, as well as acquire additional servers and related computer equipment.

As a percentage of revenue, cost of revenue decreased from 18.4% in the six months ended June 30, 2006 to 12.8% in the same period in 2007, because, among other reasons, cost of revenue in the six months ended June 30, 2006 included a non-recurring expense of RMB15.0 million relating to technology consultation and advisory fees paid to a subsidiary of Alibaba Group for the installation of an online payment platform on our China marketplace. We did not incur a similar cost in the six months ended June 30, 2007. Cost of revenue decreased as a percentage of revenue also because of lower share-based compensation expenses for our web operations and customer service staff, as well as increased economies of scale.

Our gross profit increased by 72.3% from RMB484.5 million in the six months ended June 30, 2006 to RMB835.0 million in the same period in 2007. Gross margin was 81.6% in the six months ended June 30, 2006 and 87.2% in the same period in 2007.

Sales and Marketing Expenses

Our sales and marketing expenses increased by 2.8% from RMB299.0 million in the six months ended June 30, 2006 to RMB307.4 million in the same period in 2007. Our sales and marketing expenses increased mainly as a result of increased sales costs in connection with our revenue growth, which was partially offset by a decrease in advertising and promotion expenses. Advertising and promotion expenses were lower in the six months ended June 30, 2007, largely because advertising and promotion expenses in the same period in 2006 included expenses of Alibaba Group not related to the B2B business. In the six months ended June 30, 2006, sales and marketing expenses not related to the B2B business were RMB58.7 million. Sales and marketing expenses in the six months ended June 30, 2006 and 2007 included share-based compensation expenses of RMB22.0 million and RMB21.5 million, respectively.

As a percentage of revenue, sales and marketing expenses decreased from 50.3% in the six months ended June 30, 2006 to 32.1% in the same period in 2007. This was primarily due to decreased advertising and promotion expenses and increased economies of scale, which resulted in our sales costs increasing at a lower rate than that of the increase in our revenue.

Product Development Expenses

Our product development expenses increased by 23.3% from RMB47.3 million in the six months ended June 30, 2006 to RMB58.3 million in the same period in 2007. Product development expenses increased mainly due to an increase in royalty fees paid to Alibaba Group pursuant to the intellectual property license agreement we entered into with Alibaba Group in 2006. An increase in staff costs due to an increase in the number of research and development employees and an increase in professional fees for third-party software development also contributed to the increase in our product development expenses during this period. Product development expenses in the six months ended June 30, 2006 and 2007 included share-based compensation expenses of RMB7.7 million and RMB6.6 million, respectively, and product development expenses in the six months ended June 30, 2006 included expenses of Alibaba Group not related to the B2B business of RMB3.7 million. As a percentage of revenue, product development expenses decreased from 8.0% in the six months ended June 30, 2006 to 6.1% in the same period in 2007.

General and Administrative Expenses

Our general and administrative expenses increased by 47.8% from RMB59.8 million in the six months ended June 30, 2006 to RMB88.4 million in the same period in 2007. Our general and administrative expenses increased mainly as a result of the expansion of our business. In particular, we had a significant increase in staff costs that resulted from an increase in the number of administrative and management employees and an increase in average staff costs per employee due to a number of management personnel added after June 30, 2006. General and administrative expenses in the six months ended June 30, 2006 and 2007 included share-based compensation expenses of RMB10.4 million and RMB20.2 million, respectively, and general and administrative expenses in the six months ended June 30, 2006 included expenses of Alibaba Group not related to the B2B business of RMB18.8 million. As a percentage of revenue, general and administrative expenses decreased from 10.1% in the six months ended June 30, 2006 to 9.2% in the same period in 2007.

Other Operating Income, Net

Our other operating income increased by 48.8% from RMB0.8 million in the six months ended June 30, 2006 to RMB1.2 million in the same period in 2007. This increase was mainly due to exchange gains resulting from the appreciation of the Renminbi against the currencies in which certain of our ordinary course business expenses were denominated.

Profit from Operations and Operating Margin

As a result of the foregoing, profit from operations increased by 382.4% from RMB79.2 million in the six months ended June 30, 2006 to RMB382.1 million in the same period in 2007. Operating margin was 13.3% in the six months ended June 30, 2006 and 39.9% in the same period in 2007.

Interest Income

Interest income increased by 71.2% from RMB10.3 million in the six months ended June 30, 2006 to RMB17.7 million in the same period in 2007, principally as a result of an increase in term deposits with original maturities of over three months. The increase in term deposits was primarily due to an increase in cash generated from operating activities.

Profit Before Income Taxes

As a result of the foregoing, profit before income taxes increased by 346.5% from RMB89.5 million in the six months ended June 30, 2006 to RMB399.8 million in the same period in 2007.

Income Tax Charge

Income tax charge increased by 270.0% from RMB28.3 million in the six months ended June 30, 2006 to RMB104.5 million in the same period in 2007. This increase was primarily due to the increase in taxable profit from our operations in China. In the six months ended June 30, 2006 and 2007, our effective tax rate was 31.6% and 26.2%, respectively, which were higher than Alibaba China's applicable PRC income tax rate of 18% and 15%, respectively. In the six months ended June 30, 2006, our effective tax rate was higher than Alibaba China's applicable PRC income tax rate primarily because the share-based compensation expenses we incurred were not deductible for tax purposes. In the six months ended June 30, 2007, our effective tax rate was higher than Alibaba China's applicable PRC income tax rate mainly because of the effects of the reduction in deferred tax assets relating to Alibaba China's local income tax exemption. See "— Income Taxes — Deferred Taxation" on page 111. In the six months ended June 30, 2007, non-deductible share-based compensation expenses represented a significantly lower percentage of taxable profits than in the same period in 2006. See note 11 in Appendix I — "Accountants' Report".

Profit for the Period Attributable to Equity Owners

As a result of the foregoing, profit for the period attributable to equity owners increased by 381.7% from RMB61.3 million in the six months ended June 30, 2006 to RMB295.2 million in the same period in 2007.

Year ended December 31, 2006 Compared to Year ended December 31, 2005

Revenue

Our total revenue increased by 84.7% from RMB738.3 million in 2005 to RMB1,363.9 million in 2006.

International Marketplace. Revenue from our international marketplace increased by 88.1% from RMB527.2 million in 2005 to RMB991.9 million in 2006. This increase was primarily due to an increase in the number of Gold Supplier members, as well as an increase in sales of value-added services. This was principally a result of increasing penetration of our existing geographic markets, as well as the continued expansion in geographic coverage of our sales force. Revenue from our international marketplace also increased in part because a greater percentage of our Gold Supplier members purchased the premium Gold Supplier membership package.

China Marketplace. Revenue from our China marketplace increased by 76.2% from RMB211.1 million in 2005 to RMB372.0 million in 2006. This increase was largely due to an increase in the number of China TrustPass members, which in turn was principally the result of our telephone sales efforts to convert registered users into paying members. Sales of value-added services, which primarily consist of keyword bidding, also increased in 2006, mainly due to increased customer awareness and acceptance of this service, as well as the effects of providing this service for the full year, as our keyword bidding service was introduced in our China marketplace in the first half of 2005.

Cost of Revenue, Gross Profit and Gross Margin

Our cost of revenue increased by 87.8% from RMB126.5 million in 2005 to RMB237.6 million in 2006. As a percentage of revenue, cost of revenue increased from 17.1% in 2005 to 17.4% in 2006. Our cost of revenue increased mainly as a result of the continued expansion of our business. In particular:

- business taxes and related surcharges, as well as authentication and verification expenses, were higher as a result of the continued increase in revenue;
- bandwidth and depreciation expenses were higher mainly because of increased user traffic on our websites, which required us to pay higher bandwidth and co-location fees, as well as acquire additional servers and related computer equipment; and
- staff costs and other expenses increased primarily because of the continued expansion of our web operations and customer service centers.

Our cost of revenue in 2006 also included a non-recurring payment of RMB30.0 million to a subsidiary of Alibaba Group for technology consultation and advisory fees relating to the installation of an online payment platform on our China marketplace. The technology consultation and advisory fee of RMB30.0 million was determined by mutual agreement between Alibaba Group and us, and may not have been on normal commercial terms as we were operated as part of Alibaba Group and not as a stand-alone entity.

Our gross profit increased by 84.1% from RMB611.8 million in 2005 to RMB1,126.2 million in 2006. Gross margin was 82.9% in 2005 and 82.6% in 2006.

Sales and Marketing Expenses

Our sales and marketing expenses increased by 54.9% from RMB394.0 million in 2005 to RMB610.2 million in 2006. Our sales and marketing expenses increased mainly as a result of increased sales costs in connection with our revenue growth, as well as an increase in advertising and promotion expenses not related to the B2B business. In 2005 and 2006, sales and marketing expenses included expenses of Alibaba Group not related to the B2B business of RMB36.0 million and RMB83.2 million, respectively. In addition, sales and marketing expenses in 2005 and 2006 included share-based compensation expenses of RMB26.9 million and RMB50.1 million, respectively.

As a percentage of revenue, sales and marketing expenses decreased from 53.4% in 2005 to 44.8% in 2006. This was primarily due to increased economies of scale, which resulted in our staff costs and advertising and promotion expenses increasing at a lower rate than that of the increase in our revenue. In addition, advertising and promotion expenses as a percentage of revenue were substantially higher in 2005 due to significant expenses incurred in connection with an advertising campaign in the second half of 2005 to build brand awareness, which we did not incur in 2006.

Product Development Expenses

Our product development expenses increased by 195.7% from RMB35.7 million in 2005 to RMB105.5 million in 2006. As a percentage of revenue, product development expenses increased from 4.8% in 2005 to 7.7% in 2006. Our product and development expenses in 2006 included royalty fees paid to Alibaba Group pursuant to the intellectual property license agreement we entered into with Alibaba Group in 2006. An increase in staff costs due to an increase in the number of research and development employees, together with higher depreciation expenses due to an increase in research and development equipment and facilities in connection with the continued expansion of our product development efforts, also contributed to the increase in our product and development expenses in 2006. Product development expenses in 2005 and 2006 also included share-based compensation expenses of RMB5.1 million and RMB16.3 million, respectively, as well as expenses of Alibaba Group not related to the B2B business of RMB1.4 million and RMB6.7 million, respectively.

General and Administrative Expenses

Our general and administrative expenses increased by 58.3% from RMB101.1 million in 2005 to RMB160.0 million in 2006. Our general and administrative expenses increased mainly as a result of an increase in general and administrative expenses not related to the B2B business, as well as an increase in share-based compensation expenses associated with our management and administrative employees. In 2005 and 2006, general and administrative expenses included expenses of Alibaba Group not related to the B2B business of RMB30.0 million and RMB47.6 million, respectively. In 2005 and 2006, general and administrative expenses also included share-based compensation expenses of RMB8.1 million and RMB24.2 million, respectively. As a percentage of revenue, general and administrative expenses decreased from 13.7% in 2005 to 11.7% in 2006. This was primarily due to increased economies of scale, which resulted in our staff costs increasing at a lower rate than the increase in our revenue.

Other Operating Income, Net

Our other operating income increased by 22.0% from RMB14.5 million in 2005 to RMB17.6 million in 2006. This increase was mainly the result of an increase in grants we received from the PRC government, which was partially offset by a decrease in other income. Other income decreased in 2006 primarily because other income in 2005 included a non-recurring service fee relating to staff costs and office expenses paid to us by a subsidiary of Alibaba Group in 2005, which we did not receive in 2006.

Profit from Operations and Operating Margin

As a result of the foregoing, profit from operations increased by 180.7% from RMB95.5 million in 2005 to RMB268.2 million in 2006. Operating margin was 12.9% in 2005 and 19.7% in 2006.

Interest Income

Interest income increased by 194.0% from RMB7.9 million in 2005 to RMB23.2 million in 2006, principally as a result of a significant increase in term deposits with original maturities of over three months. The increase in term deposits was primarily due to an increase in cash generated from operating activities.

Profit Before Income Taxes

As a result of the foregoing, profit before income taxes increased from RMB103.4 million in 2005 to RMB291.4 million in 2006.

Income Tax Charge

Income tax charge increased from RMB33.0 million in 2005 to RMB71.5 million in 2006. This increase was primarily due to the increase in taxable profit from our operations in China. Our effective tax rate was 31.9% in 2005 and 24.5% in 2006. In each of 2005 and 2006, our effective tax rate was higher than Alibaba China's applicable PRC income tax rate of 18% primarily because the share-based compensation expenses we incurred were not deductible for tax purposes. Our effective tax rate in 2005 was higher than our effective tax rate in 2006, mainly because we had higher non-utilizable tax losses in 2005 than in 2006.

Profit for the Year Attributable to Equity Owners

As a result of the foregoing, profit for the year attributable to equity owners increased by 212.2% from RMB70.5 million in 2005 to RMB219.9 million in 2006.

Year ended December 31, 2005 Compared to Year ended December 31, 2004

Revenue

Our total revenue increased by 105.4% from RMB359.4 million in 2004 to RMB738.3 million in 2005.

International Marketplace. Revenue from our international marketplace increased by 106.9% from RMB254.8 million in 2004 to RMB527.2 million in 2005. This increase was primarily due to an increase in the number of Gold Supplier members. The increase in the number of Gold Supplier members was principally a result of increased penetration of our existing geographic markets, as well as the expansion in geographic coverage of our sales force. Revenue from our international marketplace also increased in part because a greater percentage of our Gold Supplier members purchased the premium Gold Supplier membership package. Sales of value-added services increased in 2005, largely as a result of our sales and marketing efforts.

China Marketplace. Revenue from our China marketplace increased by 101.7% from RMB104.7 million in 2004 to RMB211.1 million in 2005. This increase was largely due to an increase in the number of China TrustPass members, which in turn was principally due to our telephone sales efforts to convert registered users into paying members. Sales of value-added services also increased in 2005, mainly due to sales of our keyword bidding service, which we introduced in the first half of 2005.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenue increased by 102.2% from RMB62.6 million in 2004 to RMB126.5 million in 2005. Our cost of revenue increased mainly as a result of the expansion of our business. In particular:

- business taxes and related surcharges, as well as authentication and verification expenses, were higher as a result of the increase in revenue;

- bandwidth and depreciation expenses were higher mainly because of increased user traffic on our websites, which required us to pay higher bandwidth and co-location fees, as well as acquire additional servers and related computer equipment; and

- staff costs and other expenses increased primarily because of the expansion of our web operations and customer service centers.

As a percentage of revenue, costs of revenue decreased from 17.4% in 2004 to 17.1% in 2005.

Our gross profit increased from RMB296.9 million in 2004 to RMB611.8 million in 2005. Gross margin was 82.6% in 2004 and 82.9% in 2005.

Sales and Marketing Expenses

Sales and marketing expenses increased by 102.3% from RMB194.8 million in 2004 to RMB394.0 million in 2005. Our sales and marketing expenses increased mainly as a result of increased sales costs in connection with our revenue growth, as well as increased advertising and promotion expenses. In particular, we launched an advertising campaign in the second half of 2005 that significantly increased our advertising and promotion expenses. Sales and marketing expenses in 2004 and 2005 included share-based compensation expenses of RMB5.3 million and RMB26.9 million, respectively, and sales and marketing expenses in 2005 included expenses of Alibaba Group not related to the B2B business of RMB36.0 million. As a percentage of revenue, sales and marketing expenses decreased from 54.2% in 2004 to 53.4% in 2005.

Product Development Expenses

Product development expenses increased by 86.3% from RMB19.2 million in 2004 to RMB35.7 million in 2005. Product development expenses increased primarily as a result of higher staff costs, which was mainly the result of an increase in the number of our research and development employees. Product development expenses in 2004 and 2005 included share-based compensation expenses of RMB1.4 million and RMB5.1 million, respectively, and product development expenses in 2005 included expenses of Alibaba Group not related to the B2B business of RMB1.4 million. As a percentage of revenue, product development expenses decreased from 5.4% in 2004 to 4.8% in 2005.

General and Administrative Expenses

General and administrative expenses increased by 75.4% from RMB57.6 million in 2004 to RMB101.1 million in 2005. Our general and administrative expenses increased mainly as a result of the expansion of our business. In particular, we had a significant increase in staff costs resulting from an increase in average staff costs per employee. As a percentage of revenue, general and administrative expenses decreased from 16.0% in 2004 to 13.7% in 2005. This was primarily due to our benefiting from increased economies of scale, which resulted in our staff costs increasing at a lower rate than the increase in our revenue. General and administrative expenses in 2004 and 2005 included share-based compensation expenses of RMB2.8 million and RMB8.1 million, respectively, as well as expenses of Alibaba Group not related to the B2B business of RMB9.6 million and RMB30.0 million, respectively.

Other Operating (Loss) Income, Net

We had other operating losses of RMB0.4 million in 2004, compared to other operating income of RMB14.5 million in 2005. Our other operating income in 2005 was largely due to a non-recurring service fee we received from one of Alibaba Group's subsidiaries in 2005, as well as the receipt of certain grants from the PRC government in connection with our investments in technology development in China. The other operating loss in 2004 was primarily due to foreign currency exchange losses and losses on disposal of certain property and equipment.

Profit from Operations and Operating Margin

As a result of the foregoing, profit from operations increased by 284.1% from RMB24.9 million in 2004 to RMB95.5 million in 2005. Operating margin was 6.9% in 2004 and 12.9% in 2005.

Interest Income

Interest income increased by 119.3% from RMB3.6 million in 2004 to RMB7.9 million in 2005, principally due to a significant increase in term deposits with original maturities of over three months and cash and cash equivalents. The increase in term deposits and cash and cash equivalents was primarily due to an increase in cash generated from operating activities.

Profit before Income Taxes

As a result of the foregoing, profit before income taxes increased by 263.3% from RMB28.5 million in 2004 to RMB103.4 million in 2005.

Income Tax Credit (Charge)

We recognized an income tax credit of RMB45.4 million in 2004 and an income tax charge of RMB33.0 million in 2005.

The income tax credit of RMB45.4 million in 2004 was derived primarily from the recognition of deferred tax assets of RMB54.4 million, less the incurrence of Enterprise Income Tax expense of RMB9.0 million. As Alibaba China was exempt from the national enterprise income tax in 2004, taxable income in respect of upfront service fees received in connection with sales of membership packages and value-added services by Alibaba China in 2004 were subject only to a 3% local income tax. Because a substantial portion of these upfront service fees would not be recognized as revenue until 2005 when Alibaba China's applicable tax rate would become 18%, we recognized a deferred tax asset and a corresponding income tax credit in 2004 based on an estimated tax rate of 18% in respect of taxable income derived from services fees to be recognized as revenue in 2005. The deferred tax asset recognized in 2004 was reversed in 2005 when the corresponding revenue and income tax expenses were recognized.

Our effective tax rate was 31.9% in 2005. Our effective tax rate in 2005 was higher than the income tax rate of 18% applicable to Alibaba China, primarily because share-based compensation expenses in 2005 we incurred were not deductible for tax purposes. In addition, certain of our subsidiaries had non-utilizable tax losses in 2005.

Profit for the Year Attributable to Equity Owners

As a result of the foregoing, profit for the year attributable to equity owners decreased by 4.6% from RMB73.9 million in 2004 to RMB70.5 million in 2005.

LIQUIDITY AND CAPITAL RESOURCES

We fund our operations primarily by cash generated from our operations. As of June 30, 2007, we had cash and cash equivalents and term deposits with original maturities of over three months of RMB1,762.9 million. As of June 30, 2007, we did not have any outstanding borrowings.

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2004	2005	2006	2006	2007
				(Unaudited)	
	(in thousands of RMB)				
Net cash generated from operating activities	236,548	650,098	730,671	299,474	564,407
Net cash used in investing activities					
Increase in term deposits with original maturities of over three months	—	(337,000)	(714,000)	(410,000)	(151,000)
Purchase of property and equipment and prepayment for land use rights	(32,306)	(73,742)	(96,690)	(55,769)	(82,368)(1)
Deemed cash outflow pursuant to the Reorganization	—	—	—	—	(21,947)
Other	2,525	8,568	16,323	5,960	9,936
Subtotal	(29,781)	(402,174)	(794,367)	(459,809)	(245,379)
Net cash provided by (used in) financing activities	87,745	9,090	(196,612)	(196,612)	(195,909)
Net increase (decrease) in cash and cash equivalents	294,512	257,014	(260,308)	(356,947)	123,119

Note:

(1) Includes prepayment for land use rights of RMB28,478,000.

Net Cash Generated from Operating Activities

Net cash generated from operating activities was RMB299.5 million in the six months ended June 30, 2006 compared to RMB564.4 million in the same period in 2007. The increase in net cash generated from operating activities during this period was principally the result of an increase in our profit before income taxes and an increase in deferred revenue associated with increased sales of our membership packages and value-added services, which were partially offset by an increase in income tax paid, a decrease in amounts due to related companies and an increase in prepayments, deposits and other receivables. The increase in prepayments, deposits and other receivables in the six months ended June 30, 2007 related primarily to prepayments of certain expenses relating to the preparation for the Global Offering and an increase in interest receivables.

Net cash generated from operating activities was RMB650.1 million in 2005 compared to RMB730.7 million in 2006. The increase in net cash generated from operating activities in 2006 was principally the result of an increase in our profit before income taxes, an increase in deferred revenue associated with increased sales of our membership packages and value-added services and an increase in non-cash expenses, including share-based compensation expenses and depreciation expenses, which were partially offset by a decrease in amounts due to related companies, as well as a decrease in other payables and accruals resulting from a reduction in other taxes payable. Other taxes payable decreased in 2006 primarily because we recorded significant taxes payable in 2005 relating to our withholding of individual income taxes of RMB86.5 million payable by employees in connection with exercises of share options, and we paid these taxes in 2006. After our payment of these taxes in 2006, we had no further liability with respect to such taxes.

Net cash generated from operating activities was RMB236.5 million in 2004 compared to RMB650.1 million in 2005. The increase in net cash generated from operating activities in 2005 was largely due to an increase in our profit before income taxes, an increase in deferred revenue associated with increased sales of our membership packages and value-added services, an increase in other payables and accruals resulting from higher taxes payable relating to our withholding of individual income taxes of RMB86.5 million payable by employees in connection with exercises of share options, and an increase in amounts due to related companies, which were partially offset by an increase in prepayments, deposits and other receivables relating to an increase in prepaid advertising and promotion expenses. The increase in prepaid advertising and promotion expenses in 2005 related primarily to prepayments made in the fourth quarter of 2005 in connection with advertising and promotion programs for the first half of 2006.

Net Cash Used in Investing Activities

Net cash used in investing activities was RMB459.8 million in the six months ended June 30, 2006 compared to RMB245.4 million in the same period in 2007. The decrease in net cash used in investing activities during this period was primarily due to a lower rate of increase of term deposits with original maturities of over three months. As part of our cash management, we significantly increased our term deposits with original maturities of over three months in the six months ended June 30, 2006, while reducing our cash and cash equivalents. In the same period of 2007, however, the relative proportion of term deposits with original maturities of over three months to cash and cash equivalents remained relatively stable. This decrease in net cash used in investing activities was partially offset by an increase in purchases of property and equipment and prepayments for land use rights, which related primarily to prepayments for the land for our new corporate campus in Hangzhou, China, as well as a deemed net cash outflow relating to the cash and cash equivalents held by certain entities that are no longer a part of our company as a result of our Reorganization.

Net cash used in investing activities was RMB402.2 million in 2005 compared to RMB794.4 million in 2006. The increase in net cash used in investing activities in 2006 was primarily due to an increase in term deposits with original maturities of over three months, which was largely due to an increase in our available cash generated by sales of our membership packages and value-added services. Net cash used in investing activities also increased as a result of purchases of property and equipment, consisting primarily of computer equipment and leasehold improvements relating to our office space, as we continued to expand our business.

Net cash used in investing activities was RMB29.8 million in 2004 compared to RMB402.2 million in 2005. The increase in net cash used in investing activities in 2005 was principally the result of an increase in term deposits with original maturities of over three months, which was mainly due to an increase in our available cash generated by sales of our membership packages and value-added services. Net cash used in investing activities also increased as a result of purchases of property and equipment, consisting primarily of computer equipment, as we continued to expand our business.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities was RMB196.6 million in the six months ended June 30, 2006 and RMB195.9 million in the same period in 2007. In each of these periods, net cash used in financing activities related to dividends paid by subsidiaries of Alibaba Group that now comprise our company. See note 13 to our combined financial statements included in Appendix I — “Accountants’ Report”.

Net cash used in financing activities was RMB196.6 million in 2006, all of which were related to dividends paid by subsidiaries of Alibaba Group that now comprise our company. Net cash provided by financing activities was RMB9.1 million in 2005, which reflected capital injections by Alibaba Group into our subsidiaries in China. Net cash provided by financing activities was RMB87.7 million in 2004, which also reflected capital injections by Alibaba Group into our subsidiaries in China.

Working Capital

We collect substantially all of the cash from sales of our membership packages and value-added services upfront, while the costs and expenses of providing such services are generally incurred over the course of the contracts relating to such services. As a result, we believe our working capital requirements could be substantially funded by cash generated from our operations. Although we had net current liabilities of RMB147.5 million and RMB269.4 million as of December 31, 2006 and June 30, 2007, respectively, our net current liabilities position as of these dates primarily reflected the upfront payments we collected from our paying members for sales of membership packages and value-added services, which are reflected in our combined balance sheet as deferred revenue and customer advances and included as liabilities because we have not yet provided services to earn such revenue. These upfront payments are not refundable once the paying member passes the authentication and verification process and we display the paying member's storefront on our marketplaces. See "— Revenue — Revenue Collection and Recognition" starting on page 105. Accordingly, these liabilities generally do not represent any obligation on our part to pay out cash. Our net current liabilities position as of December 31, 2006 also reflected dividends payable of RMB195.9 million, which were attributable to dividends declared by subsidiaries of Alibaba Group that now comprise our company. Our net current liabilities as of June 30, 2007 were higher than our net current liabilities as of December 31, 2006, principally as a result of an increase in amounts payable to related parties in connection with our Reorganization.

Our directors confirm that our working capital is sufficient for our present requirements, including estimated capital expenditures, that is, for at least 12 months from the date of this prospectus.

CAPITAL EXPENDITURES

Our capital expenditures were RMB32.3 million, RMB73.7 million, RMB96.7 million, RMB55.8 million and RMB82.4 million in 2004, 2005, 2006 and the six months ended June 30, 2006 and 2007, respectively. In each of these periods, our capital expenditures were primarily related to the acquisition of computer equipment relating to the operation of our websites, acquisitions of furniture and office equipment and leasehold improvements. We expect to continue to make significant capital expenditures in the next several years. In particular, we expect to make significant acquisitions of computer equipment to accommodate greater user traffic on our websites and to support our growing sales and customer support operations. We believe that our cash generated from operations will be sufficient to finance our currently anticipated capital expenditures.

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. Our new corporate campus is also expected to serve as the headquarters for other companies of Alibaba Group, which are expected to lease office space in the new corporate campus from us. We plan to begin construction of the campus in the second half of 2007, with expected completion in late 2009 at an estimated construction cost of RMB780.0 million over the construction period.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of June 30, 2007:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(in thousands of RMB)				
Capital commitments	24,541	21,011	2,915	615	—
Operating lease commitments	70,019	36,928	33,091	—	—
Other commitments(1)	8,431	8,397	34	—	—
Total	102,991	66,336	36,040	615	—

Note:

(1) Include sales and marketing expenses that we have contracted to incur.

The contractual obligations as of June 30, 2007 set forth above only include RMB5.3 million of expected construction costs of our new corporate campus in Hangzhou, China. Pursuant to our agreement for the acquisition of the land use rights relating to the corporate campus, we have committed to spend no less than RMB300.0 million in construction costs by June 2009. The total construction cost of our new corporate campus is estimated to be RMB780.0 million.

We expect to finance our contractual obligations by cash generated from our operating activities.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2007, we did not have any material off-balance sheet arrangements.

CONTINGENT LIABILITIES

In the ordinary course of business, we are from time to time involved in legal proceedings and litigation. See “Our Business — Legal Proceedings” on page 97. We did not accrue any loss contingencies in 2004, 2005, 2006 and the six months ended June 30, 2007 as we did not consider an unfavorable outcome in these legal proceedings and litigation to be probable. As of the close of business on August 31, 2007, which is the latest practicable date of this contingent liabilities statement, we did not have any material contingent liabilities or guarantees.

RECENT ACCOUNTING PRONOUNCEMENTS

See note 33 to our combined financial statements included in Appendix I — “Accountants’ Report”.

MARKET RISK DISCLOSURE

We are exposed to various types of market risks in the ordinary course of business, including foreign currency exchange risk and interest rate risk.

Foreign Currency Exchange Risk

Although we operate our business in different countries, substantially all of our revenue-generating transactions are denominated in Renminbi, which is not freely convertible into other foreign currencies. All foreign currency exchange transactions in China must be effected through either the People’s Bank of China, or PBOC, or other institutions authorized by the PBOC to buy and sell foreign currencies. Approval of all foreign currency payments, including remittances of dividends, by the PBOC or other institutions, requires submitting a payment application together with relevant supporting documents.

Following the completion of the Global Offering, we expect a significant portion of our cash and cash equivalents to be denominated in currencies other than Renminbi. As our functional currency is Renminbi, such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of the Renminbi against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of the Renminbi against these foreign currencies may result in significant exchange loss to be recorded in our income statement. Although we may enter into hedging transactions in the future to hedge against this exposure, we have not to date entered into any hedging transactions to reduce our exposure to currency exchange risk. See "Risk Factors — Risks Related to China — Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment" on page 43.

Interest Rate Risk

We have no interest-bearing borrowings. Our exposure to changes in interest rates is mainly attributable to our interest-bearing assets, including term deposits with original maturities of over three months and cash and cash equivalents. See notes 18 and 19 to our combined financial statements included in Appendix I — "Accountants' Report". Our other financial assets and liabilities are not subject to any material interest rate risk.

STATEMENT OF INDEBTEDNESS

At the close of business on August 31, 2007, which is the latest practicable date for the purpose of this indebtedness statement, we did not have any outstanding loan capital issued or agreed to be issued, borrowings or other similar indebtedness, overdrafts, liabilities under acceptances or acceptance credits or hire purchase commitments, debentures, mortgages, charges, banking facilities, guarantees or finance leases, except for a guarantee in the amount of RMB0.3 million relating to rental deposits for certain of our office spaces.

STATEMENT OF NET CURRENT LIABILITIES

As of August 31, 2007, we had net current liabilities of RMB129.1 million. See "— Working Capital" for a discussion of our net current liabilities.

DIVIDENDS AND DIVIDEND POLICY

In 2004 and 2006, we declared dividends of RMB33.1 million and RMB392.5 million, respectively. We did not declare or pay any dividends in 2005. See note 13 to our combined financial statements included in Appendix I — "Accountants' Report".

We currently have no intention of paying any dividends after the completion of the Global Offering. However, the determination to pay dividends will be made at the discretion of our board of directors and will be based on our profits, cash flows, financial condition, capital requirements and other conditions that our board of directors deems relevant. The payment of dividends may be limited by legal restrictions and agreements that we may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2007, we had no distributable reserves.

PROFIT FORECAST

We forecast that, on the bases and assumptions set out in Appendix III — "Profit Forecast" and in the absence of unforeseen circumstances, our profit attributable to equity owners for 2007 will not be less than RMB622.0 million. The profit forecast has been prepared by our directors based on the audited combined results for the six months ended June 30, 2007, as well as unaudited management accounts for the two months ended August 31, 2007 and the forecast results of the consolidated results for the remaining four months ending December 31, 2007.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted net tangible assets as of June 30, 2007 comprises our audited combined net assets as of June 30, 2007, as shown in Appendix I — "Accountants' Report", and the adjustments described below.

	Unadjusted audited combined net tangible assets of our company attributable to the equity owners of our company as of June 30, 2007[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted net tangible assets of our company attributable to the equity owners of our company	Unaudited pro forma adjusted net tangible assets per Share[3][4]	
	(in millions of RMB)			RMB	HK$
Based on an Offer Price of HK$12.00 per Share	39.7	2,539.5	2,579.2	0.51	0.53
Based on an Offer Price of HK$13.50 per Share	39.7	2,861.8	2,901.5	0.57	0.59

Notes:

(1) The unadjusted audited combined net tangible assets attributable to the equity owners of our company as of June 30, 2007 is extracted from Appendix I — "Accountants' Report".

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$12.00 per Share and HK$13.50 per Share after deduction of the underwriting fees (but excluding any incentive fee that may be paid to the Joint Bookrunners) and other related expenses payable by our company. We may pay the Joint Bookrunners a discretionary incentive fee of up to 1.0% of the Offer Price multiplied by the total number of Offer Shares. The pro forma adjusted net tangible assets and the pro forma net tangible asset per Share would be reduced if we decide to pay such incentive fee.

(3) The unaudited pro forma net tangible assets per Share are arrived at after the adjustments referred to in note 2 above and on the basis that 5,052,356,500 Shares were in issue assuming that the Global Offering has been completed on June 30, 2007 but take no account of any Shares which may be issued upon the exercise of the Over-Allotment Option.

(4) The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.9693 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate, or at any other rate or at all.

(5) No adjustment has been made to reflect any trading result or other transaction of our company entered into subsequent to June 30, 2007.

NO MATERIAL ADVERSE CHANGE

There has been no material adverse change in our financial and trading position or prospects since June 30, 2007.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that as of August 31, 2007, we are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.