
CONNECTED TRANSACTIONS

We entered into a number of agreements with Alibaba Group to document the basis on which our Reorganization was to be effected and to regulate the continuing business relationship between us and Alibaba Group.

CONNECTED TRANSACTIONS PURSUANT TO OUR REORGANIZATION

Deed of Indemnity

In connection with our Reorganization and the Global Offering, Alibaba Group has entered into a deed dated October 19, 2007, or the Deed of Indemnity, in our favor pursuant to which it has agreed to indemnify us against, among other things, any taxation falling on our company: (i) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Global Offering becomes unconditional, and (ii) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional.

However, the above indemnities do not apply to any taxation:

- to the extent that specific provision or reserve has been made for such taxation in our combined financial statements included in Appendix I — “Accountants’ Report”, or to the extent that it relates to taxation incurred or accrued after June 30, 2007 that arises in the ordinary course of our business in this prospectus;
- to the extent such taxation would not have arisen but for an act or omission by us after the date on which the Global Offering becomes unconditional (other than pursuant to a legally binding commitment created on or before the date on which the Global Offering becomes unconditional);
- to the extent such taxation or liability arises or is incurred only as a result of a retrospective change in law or regulations, a retrospective increase in tax rates or a retrospective change in administrative interpretation of law or regulations, coming into force after the date on which the Global Offering becomes unconditional; or
- to the extent that any such liability is disclosed in this prospectus.

Where provision or reserve has been made for taxation in the financial statements included in Appendix I — “Accountants’ Report” which is finally established to be an over-provision or an excessive reserve, Alibaba Group’s taxation liabilities (if any) under the Deed of Indemnity shall be reduced by an amount not exceeding such over-provision or excess reserve.

Under the Deed of Indemnity, Alibaba Group has also undertaken to us that it will indemnify and at all times keep our company fully indemnified on demand from and against:

- all losses, damages, costs and expenses of any nature arising out of or in connection with liabilities not expressly assumed by us upon the transfer of the assets and liabilities of the B2B business from AliPay E-commerce Corp. and Zhejiang Alibaba E-Commerce Co., Ltd. to us pursuant to our Reorganization, which arose before the respective transfer dates as set out in “Our History and Reorganization” on page 57, except to the extent that provision has been made for such liabilities in our combined financial statements included in Appendix I — “Accountants’ Report”;
- all losses, damages, costs, expenses and liabilities of any nature, in excess in aggregate of US\$2 million (RMB15.0 million), arising out of or in connection with legal proceedings arising at any time relating to the conduct of the Yahoo! China business prior to the date on which the Global Offering becomes unconditional; and

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- all losses, damages, costs, expenses and liabilities of whatsoever nature arising out of any disputes as to our right to use and occupy the leased properties we currently occupy as described in “Our Business — Properties” starting on page 95.

The indemnity with respect to legal proceedings relating to the Yahoo! China business has a minimum threshold amount because Alibaba Group considers that litigation is a risk in the ordinary course of business and we should share part of this risk as we also enjoy the benefits of being a member of Alibaba Group.

See “Our History and Reorganization” starting on page 57, “Risk Factors” starting on page 24 and “Our Business — Properties” starting on page 95.

Alibaba Group’s liability under the Deed of Indemnity will terminate after the expiry of five years from the date on which the Global Offering becomes unconditional and Alibaba Group shall not be liable unless it receives written notice from us prior to the expiry of such five-year period giving details of the claim under the Deed of Indemnity, and any such claim shall (if not previously satisfied, settled or withdrawn) be deemed to have been waived or withdrawn at the expiry of a period of six months after the fifth anniversary of the Deed of Indemnity unless proceedings in respect thereof have already been commenced against Alibaba Group.

Non-Competition Undertaking

In connection with the Global Offering, Alibaba Group has given a non-competition undertaking in our favor dated October 19, 2007 to the effect that, for so long as Alibaba Group directly or indirectly holds 30% or more of our voting rights, our Shares remain listed on the Hong Kong Stock Exchange and Alibaba Group remains our single largest shareholder (aggregating for this purpose, Shares held directly or indirectly and by persons acting in concert), Alibaba Group will not engage in, assist or support a third party in the operation of, participate or have any interest in, any Restricted Business. See “Relationship with Alibaba Group — Non-Competition Undertaking from Alibaba Group” starting on page 135.

Trademarks and Domain Names Assignment Agreement

In connection with our Reorganization and the Global Offering, Alibaba Group has entered into an assignment agreement on October 19, 2007 to assign certain trademarks and set out the reversionary rights relating to certain domain names relating to the “Alibaba” brand name to Alibaba Hangzhou as required for Alibaba Hangzhou to maintain its license to operate as a value-added telecommunication service provider. Subject to the reversionary rights which arise only when we undergo a “change in control”, we have complete title to these trademarks and domain names assigned to us. If we undergo a “change in control”, we are required to pay an annual fee of US\$1.0 million (RMB7.5 million) to Alibaba Group for a period of three years following the date of such change in control, which represents a nominal amount paid for the postponement of the reversion to the assignment and for the continued use of the relevant trademarks and domain names. After the three-year period following the date of change in control, we will continue to retain ownership of these trademarks and domain names subject to our payment to Alibaba Group of an amount equivalent to the fair market value of the license of such trademarks and domain names as determined by an internationally recognized brand consultant appointed by mutual agreement between us (as our independent non-executive directors may decide) and Alibaba Group or in the absence of such agreement, an amount equal to the average of the fair market value for the use of such license as determined by (i) an internationally recognized brand consultant appointed by us (as our independent non-executive directors may decide) and (ii) an internationally recognized brand consultant appointed by Alibaba Group. “Change in control” is defined in the agreement as: (i) Alibaba Group ceasing to own more than 50% of the voting power in the Company; (ii) a third party or parties acting in concert obtaining 30% or more of our voting securities; (iii) a third party or parties acting in concert obtaining the right to elect a majority of our board of directors; or (iv) a third party or parties acting in concert obtaining the

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right to exercise a dominant influence over us by giving directions with respect to our operating and financial policies which we are obliged to comply with by virtue of provisions contained in our Memorandum or Articles of Association or any other contract in writing conferring such right. See “Risk Factors — Risks Related to Our Business and Industry — We do not own most of the trademark registrations for the “Alibaba” brand names and rely on licensing arrangements with Alibaba Group for the use of these brand names. Moreover, upon the occurrence of a “change in control” event, we may be obligated to transfer back to Alibaba Group certain trademarks and domain names assigned to Alibaba Hangzhou by Alibaba Group or make substantial payments to Alibaba Group” on page 27.

CONTINUING CONNECTED TRANSACTIONS

Exempt Continuing Connected Transactions

After completion of the Global Offering, the following transactions will be regarded as continuing connected transactions exempt from the reporting, announcement and independent shareholders’ approval requirements under Rule 14A.33 of the Listing Rules.

1. Administrative Services Sharing Framework Agreement

We have entered into an Administrative Services Sharing Framework Agreement dated October 19, 2007 with Alibaba Group to govern our arrangements with respect to our provision of administrative services to Alibaba Group. We have provided and, under the terms of the Administrative Services Sharing Framework Agreement, will continue to provide Alibaba Group with certain administrative services including:

- intranet operation and maintenance;
- software maintenance;
- call center operation and maintenance (excluding all costs associated with sales and service personnel using the call centers);
- sharing of telephone connections;
- information technology procurement services and other information technology related services;
- provision of general treasury functions, accounting, internal audit and compliance services;
- payroll and human resources support;
- staff training and medical clinic services;
- general office maintenance services; and
- mail room services.

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The charges payable by Alibaba Group to us under the Administrative Services Sharing Framework Agreement will be calculated on a cost basis. The cost allocation is done on the following basis:

<u>Services</u>	<u>Basis of cost allocation</u>
Provision of operational, maintenance, communication, administrative and other services and support	Based on the headcount attributable to Alibaba Group, the aggregate hours spent by our staff to provide such service and support to Alibaba Group and/or the amount of related capital expenditure where applicable.
Provision of treasury advisory services	Based on the amount of cash held by the applicable Alibaba Group member which received such services.

On the above basis, the directors consider the fees chargeable to Alibaba Group for such services to be determined on a fair and equitable basis proportional to utilization as a whole.

We currently do not receive any material administrative services from Alibaba Group. If any such services are provided in the future, the Administrative Services Sharing Framework Agreement provides that charges payable by us to Alibaba Group for such services will be on a cost basis and offset against the amounts receivable by us under such agreement.

The sharing of administrative services on a cost basis is an exempt continuing connected transaction under Rule 14A.33(2) of the Listing Rules.

2. *Website Cross-Marketing Services Agreement*

We have entered into a Website Cross-Marketing Services Agreement dated October 19, 2007 with Alibaba Group. Each party has been promoting, and under the terms of the Website Cross-Marketing Services Agreement will continue to promote, its services on the websites of the other party on a barter basis. The barter exchange under the Website Cross-Marketing Services Agreement is based on the fair value of the website inventory exchanged which is in turn based on the number of impressions, position, duration and size of the promotional display. The website inventory each party offers to the other consists only of web page space that has not otherwise been purchased by customers. In general, barter transactions involve excess inventory that is not considered to have a significant value to our company and, as such, their fair value is low compared to website inventory which is located in more prominent positions and which consequently commands premium prices and a higher value. Since the exchange of excess website inventory by our company was done on a barter basis, which is a common practice in the Internet industry, the Website Cross-Marketing Services Agreement was therefore entered into on normal commercial terms.

There were no historical charges paid for such cross-marketing services as sharing of website inventory was in the past conducted on a barter basis. Such exchange was not regarded as a revenue generation transaction under our accounting policy as it involved an exchange or a swap of services which were of a similar nature and value.

The Website Cross-Marketing Services Agreement was entered into on normal commercial terms, and it is anticipated that the annual value of the barter exchange for the foreseeable future will not exceed HK\$2.0 million (RMB1.9 million) and, hence, the highest applicable percentage ratio will be, on an annual basis, less than 0.1%. Accordingly, the Website Cross-Marketing Services Agreement constitutes a *de minimis* continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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3. House Brand Head License and Management Agreement

We have entered into a House Brand Head License and Management Agreement dated October 19, 2007 with Alibaba Group, pursuant to which Alibaba Group has agreed to grant to us, a royalty-free license to use in connection with our B2B business, on an exclusive basis, a number of trademarks, in particular, the “Alibaba” brand names and the Alibaba logo, domain names and Internet keywords that contain the words “Alibaba” or “阿里巴巴” (“Alibaba” in Chinese) in over 40 countries and territories. In addition, we pay a fixed fee of RMB2 million per year to cover a portion of Alibaba Group’s costs of maintaining, enforcing and managing the house brand trademarks and domain names which are licensed to us, including promoting the house brand, supervising the use of the house brand and developing the house brand. See Appendix VII — “Statutory and General Information — Intellectual property rights”. The license has an initial term of ten years, and is renewable for further periods of ten years at our sole discretion, by giving Alibaba Group three months’ prior written notice before the end of the relevant term.

If we undergo a “change in control”, Alibaba Group will continue to grant us the license upon payment of an annual license fee equivalent to 1% of our revenue or US\$5.0 million (RMB37.6 million), whichever is higher, for a period of three years following the date of such change in control. The amount of license fee is nominal to allow for the continued use of the trademarks, domain names and Internet keywords under the license for an interim transitional period after a “change of control”. This annual license fee was fixed by our company and Alibaba Group following a review of a sample of brand-name franchise-type licences, all of which had licensing fees considerably above this level. After the three-year period following the date of change in control, Alibaba Group will continue to grant us the license to use the trademarks and domain names under the House Brand Head License and Management Agreement subject to our payment to Alibaba Group of an amount equivalent to the fair market value of a license for the use of such trademarks, domain names and Internet keywords as determined by an internationally recognized brand consultant appointed by mutual agreement between us (as our independent non-executive directors may decide) and Alibaba Group or in the absence of such agreement, an amount equal to the average of the fair market value for the use of such license as determined by (i) an internationally recognized brand consultant appointed by us (as our independent non-executive directors may decide) and (ii) an internationally recognized brand consultant appointed by Alibaba Group. As long as this House Brand Head License and Management Agreement remains effective, the brand management and payment of brand management fee should remain unchanged. “Change in control” is defined in the agreement as: (i) Alibaba Group ceasing to own more than 50% of the voting power in the Company; (ii) a third party or parties acting in concert obtaining 30% or more of our voting securities; (iii) a third party or parties acting in concert obtaining the right to elect a majority of our board of directors; or (iv) a third party or parties acting in concert obtaining the right to exercise a dominant influence over us by giving directions with respect to our operating and financial policies which we are obliged to comply with by virtue of provisions contained in our Memorandum or Articles of Association or any other contract in writing conferring such right. We may only terminate the House Brand Head License and Management Agreement with the approval of our independent non-executive directors, and all other directors of the Company will abstain from attending and voting at this meeting.

The House Brand Head License and Management Agreement was entered into on normal commercial terms (or better to us) and, since the trademarks, domain names and Internet keywords are licensed to us free of any royalty or other charges, the House Brand Head License and Management Agreement constitutes a *de minimis* continuing connected transaction exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In addition, the fixed fee of RMB2.0 million is determined by management of Alibaba Group and the Company based on the actual historical costs of Alibaba Group for maintaining, enforcing and managing the house brand trademarks and domain names for the year ended December 31, 2006. The historical costs for maintaining, enforcing and managing the house brand trademarks and domain

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names for the year ended December 31, 2006 amounted to approximately RMB3.8 million. Since the house brand is mainly used by our company, the fixed fee payable by our company takes into consideration the volume of marks used by our company and our company's current proportional contribution to the revenue of Alibaba Group as a whole and it represents an amount lower than the actual amount of the costs attributable to our company.

Except as described below, registrations of the "Alibaba" brand names, the Alibaba logo and associated domain names have been retained by Alibaba Group for the purpose of development as a global franchise for the benefit of Alibaba Group (including our company). All of the companies in the Alibaba Group including our company refer to themselves as belonging to the Alibaba Group of companies and two of our existing fellow subsidiaries, Alipay and Alisoft, use derivatives of "Alibaba" or "阿里巴巴" ("Alibaba" in Chinese) in their own names. We believe that Alibaba Group has built significant brand recognition with a set of core values associated with the "Alibaba" brand names, and therefore it is essential that Alibaba Group maintains control over the future development of the "Alibaba" brand names to ensure consistent use of the brand and to maintain these core values in a coordinated manner.

The House Brand Head License and Management Agreement was entered into on normal commercial terms (or better to us) and we anticipate that, in respect of the total amount of fees payable by us to Alibaba Group under such agreement in the foreseeable future, the highest applicable percentage ratio will be, on an annual basis, (i) less than 0.1% or (ii) less than 2.5% with an annual consideration of less than HK\$1.0 million. Accordingly, the House Brand Head License and Management Agreement constitutes a *de minimis* continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. Marketing Services Agreement

We have entered into a Marketing Services Agreement dated October 19, 2007 with Alibaba Group. Alibaba Group currently assists us, and under the terms of the Marketing Services Agreement will continue to assist us, to source for and manage resellers for our products and services. This is a free service which Alibaba Group provides to us, which includes identifying, conducting credit checks, monitoring, and negotiating and renewing contract terms with suitable resellers for the resale of our products and services. This arrangement benefits both Alibaba Group and us by allowing each of us to leverage off a greater transaction volume and negotiate for better contract terms with resellers.

The Marketing Services Agreement was entered into on normal commercial terms (or better to us) and since the service is provided to us for free, the Marketing Services Agreement constitutes a *de minimis* continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

5. Office Sharing Agreement

We have entered into an Office Sharing Agreement dated October 19, 2007 with Alibaba Group. We currently share, and under the terms of the Office Sharing Agreement will continue to share, part of our rental office space with Alibaba Group. The rent payable by Alibaba Group to us for the use of such office space is calculated based on our total cost for renting and maintaining the entire rental office space, allocated according to the headcount attributable to Alibaba Group over the total headcount in such office.

The Office Sharing Agreement was entered into on normal commercial terms and we anticipate that, in respect of the total amount of rent payable by Alibaba Group to us under such agreement, in the foreseeable future, the highest applicable percentage ratio will be, on an annual basis, (i) less than 0.1% or (ii) less than 2.5% with an annual consideration of less than HK\$1.0 million. Accordingly, the Office Sharing Agreement constitutes a *de minimis* continuing connected transaction exempt from the

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reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

American Appraisal, an independent appraiser appointed by us for the purposes of the Global Offering, has reviewed the Office Sharing Agreement and has confirmed that the rental rates payable to us are fair and reasonable so far as we are concerned.

Non-Exempt Continuing Connected Transactions Subject to Reporting and Announcement Requirements

After completion of the Global Offering, the following transactions will be regarded as continuing connected transactions exempt from independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules, but are still subject to the reporting and announcement requirements under the Listing Rules.

1. Technology Services Framework Agreement

We have entered into a Technology Services Framework Agreement dated October 19, 2007 with Alibaba Group. We have provided, and under the terms of the Technology Services Framework Agreement will continue to provide, to Alibaba Group certain technology services, including:

- technology maintenance services for search engine, system security and architecture support;
- provision of a dedicated transmission network system to improve the connectivity between telecommunication providers and website users;
- website monitoring services;
- sub-licensing of third-party software;
- sharing of servers and server racks;
- development and maintenance of data warehouse; and
- quality assurance services and maintenance of quality assurance management systems and project management systems.

Under the Technology Services Framework Agreement, we may undertake research and development services including patent development on behalf of Alibaba Group.

The Technology Services Framework Agreement will expire on December 31, 2009 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice.

Pricing Standards. Under the Technology Services Framework Agreement, fees payable to us for technology services provided are calculated on the basis of our actual costs for providing such services plus a margin of up to 15% by reference to industry practice for comparable transactions. The costs for providing each technology service include operating costs, cost for the aggregate time spent by our staff and any equipment depreciation that we incurred or may incur, in connection with providing such service. If any research and development services are provided by us to Alibaba Group in the future, the Technology Services Framework Agreement provides that the fees payable to us from Alibaba Group will be computed on a cost-plus basis.

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Historical Information. In the three years ended December 31, 2006 and the six months ended June 30, 2007, we had no revenue from technology services made available to Alibaba Group, as Alibaba Group and our company regarded such services as part of the pool of resources which was shared by Alibaba Group and us prior to our Reorganization.

Annual Caps. We expect that the maximum aggregate annual amount payable by Alibaba Group to us under the Technology Services Framework Agreement for the years ending December 31, 2007, 2008 and 2009 will not exceed RMB7.0 million, RMB12.0 million and RMB15.0 million, respectively. These annual caps are determined primarily based on our projection of Alibaba Group's levels of usage of these services and current market prices for similar services provided by third parties. Our projection of Alibaba Group's levels of usage of these services was determined based on the expected growth of our company and Alibaba Group. Our directors (including our independent non-executive directors) have confirmed that the caps which are based on the projection and form part of the terms of the Technology Services Framework Agreement are fair and reasonable.

2. Cooperation Framework Agreement

We have entered into a Cooperation Framework Agreement dated October 19, 2007 with Alibaba Group with respect to the provision of products and services developed by Alibaba Group to us and to users of our marketplaces. These products and services currently include the provision of Alipay's online payment platform to us and to users of our China marketplace, instant messenger development and maintenance services to users of our marketplaces, as well as the sale of keywords on websites operated by Alibaba Group for the promotion of our marketplaces. The Cooperation Framework Agreement will expire on December 31, 2009 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice.

Pricing Standards. Fees payable by us under the Cooperation Framework Agreement will be based on market rates and on normal commercial terms no less favorable than terms offered to us by independent third-party service providers for similar products and services. Market rates are determined based on the rates offered by independent third-party providers for similar products and services.

Historical Information. The fees paid by us for these products and services for the three years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007 were approximately nil, RMB0.2 million, RMB1.6 million and RMB1.4 million, respectively. The amounts paid by us during this period are not reflective of all the transactions covered by this agreement as Alibaba Group and our company regarded the bulk of these products and services as part of the pool of resources which was shared by Alibaba Group and us prior to our Reorganization, and no payments were made by us except for payments related to the purchase of keywords on websites operated by Alibaba Group for the promotion of our marketplaces.

Annual Caps. We expect that the maximum aggregate annual amount payable by us to Alibaba Group under the Cooperation Framework Agreement for the years ending December 31, 2007, 2008 and 2009 will not exceed RMB4.0 million, RMB14.0 million and RMB24.0 million, respectively. These annual caps are determined primarily based on our projection of our levels of usage of these products and services and current market prices for similar products and services which Alibaba Group currently charges to its customers. Our projection of our level of usage of the products and services under the Cooperation Framework Agreement was determined based on the expected growth of our company. The directors (including the independent non-executive directors) have confirmed that the caps which are based on the projection and form part of the terms of the Cooperation Framework Agreement are fair and reasonable.

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Non-Exempt Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirements

After completion of the Global Offering, the following transactions will be regarded as continuing connected transactions subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

1. Cross-Selling Services Framework Agreement

We have entered into a Cross-Selling Services Framework Agreement dated October 19, 2007 with Alibaba Group to govern our existing and future arrangements under which we or Alibaba Group sell the products and services of the other party to our respective customers. We have provided, and under the terms of the Cross-Selling Services Framework Agreement will continue to provide, cross-selling services to Alibaba Group, which include the sale to our users of:

- Alisoft's software products; and
- Alipay's online payment services for the settlement of transactions between users of our marketplaces.

Alibaba Group has sold, and under the terms of the Cross-Selling Services Framework Agreement will continue to sell, our website inventory to customers of Alibaba Group. "Website inventory" refers to parts of the website pages which are reserved for promotional displays.

The Cross-Selling Services Framework Agreement will expire on December 31, 2009 and is automatically renewable for further periods of no more than three years subject to compliance with applicable provisions of the Listing Rules, unless it is terminated earlier by either party giving three months' prior written notice.

Pricing Standards. Under the Cross-Selling Services Framework Agreement payments will be made in the form of commissions or on the basis of revenue sharing arrangements. In particular:

- we will receive a commission fee of between 20% to 80% or pay a revenue share of 20% to 80% of the transaction amount for cross-selling services provided by us to Alibaba Group; and
- we will pay a commission fee of between 15% to 40% or receive a revenue share of 60% to 85% of the transaction amount for cross-selling services provided to us from Alibaba Group.

The commission fees and revenue share payable and receivable by us vary as they relate to the cross-selling of different products and are therefore at different rates.

Commission fees and revenue sharing arrangements for additional cross-selling services are subject to negotiation between the parties, except that commission fees paid to or revenue shared with us shall not be less than the prevailing market rate and commissions or revenue share payable by us shall not exceed the prevailing market rate.

Historical Information. We received a fixed fee of RMB0.8 million in 2006 from Alibaba Group in consideration for allowing Yahoo! China to purchase and resell all of the website inventory on our China marketplace under a previous arrangement which has since expired. Save as provided above, in the three years ended December 31, 2006, there were no commission fees payable by or to us for cross-selling services, as Alibaba Group and our company regarded such services as part of the pool of resources which was shared by Alibaba Group and us prior to our Reorganization. In the six months ended June 30, 2007, Alibaba Group paid us commission fees of approximately RMB1.4 million for providing cross-selling services. Further, we received from Alibaba Group approximately RMB1.8 million for the sales of our website inventory, net of commission fees of approximately RMB0.8 million, for providing cross-selling services to us.

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Annual Caps. The annual caps are determined primarily based on our projection of the levels of cross-selling services to be exchanged between our company and Alibaba Group. We anticipate that we will, in the near future, start to promote more of Alisoft's software products and Alipay's services. In addition, while we have not previously been actively marketing our website inventory to non-B2B members, we intend to do so in the future. As a result, we anticipate that the sales of our website inventory through Yahoo! China under the Cross-Selling Services Framework Agreement for the years ending December 31, 2007, 2008 and 2009 will be significantly higher than the sales in the six months ended June 30, 2007. Based on these principal factors, we expect that the maximum aggregate annual amount payable under the Cross-Selling Services Framework Agreement for the years ending December 31, 2007, 2008 and 2009 will not exceed RMB45.0 million, RMB94.0 million and RMB151.0 million, respectively. These amounts reflect combined payments that may be received or paid by us because for the same type of transaction, such as a provision of services, we may either receive a commission or pay a share of our revenue and likewise for services received.

2. *Technology and Intellectual Property Framework License Agreement*

We have entered into a Technology and Intellectual Property Framework License Agreement dated October 19, 2007 with Alibaba Group whereby:

- we have been granted, to the extent relevant to our B2B business, a renewable license to use all patents, pending patents and related know-how in existence as of the Latest Practicable Date, including a license of any future patents the development of which was undertaken by our company on behalf of Alibaba Group pursuant to the Technology Services Framework Agreement;
- we have the right to be granted, to the extent relevant to our B2B business, a renewable sub-license to use all technology and intellectual property that Alibaba Group has an existing license to use from a third party and which Alibaba Group is permitted to sub-license to us as of the Latest Practicable Date and subject to the other terms of the third-party license to Alibaba Group; and
- we have the right to be granted, to the extent relevant to our B2B business, an option to use all technology and intellectual property that Alibaba Group may license from third parties in the future to the extent Alibaba Group has the right to do so.

The Technology and Intellectual Property Framework License Agreement will expire on December 31, 2009 and is subject to the restrictions in the agreement between Alibaba Group and any third party in respect of the third party's intellectual property including any applicable limitations on the scope of the license, limitations on sub-licensing, termination under certain circumstances (including change of control) and other standard provisions. The license is renewable for further periods of three years at our sole discretion subject to compliance with the applicable provisions of the Listing Rules, by giving Alibaba Group three months' prior written notice before the end of the relevant term.

Pricing Standards. Under the Technology and Intellectual Property Framework License Agreement:

- the fees payable by us for third-party technology and intellectual property sub-licensed to us will be calculated at the same rate and on the same basis as (but in no case at a rate or on a basis less favorable than) that applicable to Alibaba Group in obtaining such license (i.e. not less preferable than on a pass-through basis);
- the fees payable by us for licenses of patents and inventions subject to patent applications and related know-how currently owned by Alibaba Group, provided each such patent (and patent application) is relevant to our business, licensed to us from Alibaba Group are at rates not more than the prevailing market rates for comparable licenses. The license fee payable for patents and inventions subject to patent applications for each year will be agreed between the Company and Alibaba Group at

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the end of each year and assessed as a percentage of revenue during the year. The percentage rate will be adjusted based on the size of the portfolio during the course of the year and the level of usage of the patents by the Company in its business during the year; and

- the fees payable by us for licenses of future patents developed by our company on behalf of Alibaba Group, which will be subsequently licensed by Alibaba Group to us, will be subject to negotiation between the parties and will not exceed the prevailing market rate for comparable licenses.

provided, however, that the aggregate fee payable by us each year will not exceed the annual caps set forth below.

Historical Information. In the year ended December 31, 2006 and the six months ended June 30, 2007, we paid approximately RMB25.8 million and RMB18.1 million respectively in technology and intellectual property licensing fees to Alibaba Group. In the two years ended December 31, 2005, we did not pay any technology and intellectual property licensing fees to Alibaba Group, as Alibaba Group and our company regarded such technology and intellectual property as part of a pool of resources which was shared by Alibaba Group and us prior to our Reorganization.

Annual Caps. The fees we currently pay to sub-license existing third-party technology and intellectual property from Alibaba Group are calculated on the basis of a percentage of our net revenue. We expect that any fees payable under any future sub-license of additional third-party technology will also be based on a percentage of revenue or net revenue (revenue that may be net of business tax, traffic acquisition costs or other specified items) as this is a common practice for intellectual property and technology licensing. Whether the fees are based on revenue or net revenue will depend on the method of calculating the royalty in the license from the third party to Alibaba Group. The fee we pay will be a pass through of this fee (and in no cases higher), subject to the caps set forth below. For this reason, we expect that for existing sub-licenses, the fees we will pay will increase in line with our revenue. In addition, we expect that there is a reasonable possibility that Alibaba Group will obtain licenses to additional third-party technology during the initial term of the agreement or develop additional potential technology related to the B2B business, and as a result our annual cap amounts incorporate this additional potential license fee if we exercise our option to license this technology and intellectual property. Based on these principal factors, we expect that the aggregate fees payable by us under the Technology and Intellectual Property Framework License Agreement will not exceed RMB56.0 million, RMB83.0 million and RMB110.0 million, in the years ending December 31, 2007, 2008 and 2009, respectively.

Structure Contracts

We conduct our B2B business through Alibaba Hangzhou under the Structure Contracts entered into between certain of our subsidiaries and Alibaba Hangzhou. See “Our History and Reorganization — Structure Contracts” starting on page 66.

The Structure Contracts collectively enable us to receive the economic benefits derived by Alibaba Hangzhou through: (i) our right (if and when PRC law releases the restriction on foreign investment in value-added telecommunication services) to acquire Alibaba Hangzhou’s equity interests and/or assets; (ii) the business structure under which the revenue generated by the cooperation between our company and Alibaba Hangzhou is mainly retained by us; and (iii) our right to govern the financial and operating policies as well as, in substance, all of the voting rights of Alibaba Hangzhou.

As Jack Ma, our lead founder, chairman and non-executive director, holds an 80% equity interest in Alibaba Hangzhou, Alibaba Hangzhou is an associate of Mr. Ma under the Listing Rules and therefore a connected person of the Company. Unless an exemption is available under the Listing

CONNECTED TRANSACTIONS

Rules, transactions between our company including Alibaba China, on the one hand, and Alibaba Hangzhou and/or Mr. Ma, on the other hand, such as the Structure Contracts, would be connected transactions and would be subject to the applicable reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

Simon Xie, our executive director, holds a 20% equity interest in Alibaba Hangzhou. As a director of our company, Mr. Xie is a connected person of the Company. Unless an exemption is available under the Listing Rules, transactions between our company and Mr. Xie or his associates on the other hand, would be connected transactions and would be subject to the applicable reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

Neither Mr. Ma nor Mr. Xie obtains or receives any financial or economic benefit under the Structure Contracts despite holding equity interests in Alibaba Hangzhou. As described above, the Structure Contracts ensure that the financial and economic benefits of the arrangement flow to us and not to our connected persons (including Mr. Ma, Mr. Xie and Alibaba Hangzhou). As a result of these arrangements, we are able to ensure that neither Mr. Ma nor Mr. Xie is taking advantage of his position as a director of the Company with regard to Rule 14A.01 of the Listing Rules.

Our directors are of the view that the Structure Contracts are fundamental to our legal structure and business operations, in the ordinary and usual course of our business, on normal commercial terms (or better to us), and are fair and reasonable and in the interests of our shareholders as a whole. Our directors also believe that the nature of our structure whereby the financial results of Alibaba Hangzhou are fully consolidated under our accounting policies within our financial results as if it were our wholly-owned subsidiary and the financial and economic benefits of its business flow to us, places the Structure Contracts in a special position in relation to the connected transaction rules under the Listing Rules.

Based on the foregoing, our directors consider that it would not be appropriate for the Structure Contracts to be subject to, among other things, the announcement and independent shareholders' approval requirements of the Listing Rules. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has agreed to grant, a perpetual waiver pursuant to Rule 14A.42(3) of the Listing Rules for the transactions under the Structure Contracts from strict compliance with the applicable disclosure, reporting and independent shareholders' approval requirements under the Listing Rules.

APPLICATION FOR WAIVERS

Our directors (including our independent non-executive directors) confirm that each of the continuing connected transactions has been and will be entered into in the ordinary and usual course of our business, on normal commercial terms (or better to us), and are fair and reasonable and in the interests of our shareholders as a whole. Our directors also confirm that each of the proposed annual caps set out herein is fair and reasonable. We have applied for and the Hong Kong Stock Exchange has granted us waivers from compliance with the announcement and/or independent shareholders' approval requirements related to the non-exempt continuing connected transactions pursuant to Rule 14A.42(3) of the Listing Rules.

No Waiver Sought for Certain Transactions

The Deed of Indemnity and the Non-Competition Undertaking were entered into for our benefit prior to the Global Offering and are solely for the purpose of the Global Offering. The transactions do not involve any monetary consideration. Accordingly, the transactions are not subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

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In addition, we have not sought a waiver for any of the exempt continuing connected transactions because each of them is automatically exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. See "— Exempt Continuing Connected Transactions" starting on page 155.

Scope of Waiver

1. *Non-Exempt Continuing Connected Transactions*

In relation to the non-exempt continuing connected transactions subject to the reporting and announcement requirements only, we expect that the applicable percentage ratios on an annual basis will be less than 2.5%. The transactions under such agreements are, therefore, exempt from the independent shareholders' approval requirements under the Listing Rules, but would still be subject to the reporting and announcement requirements under the Listing Rules. See "— Non-Exempt Continuing Connected Transactions Subject to Reporting and Announcement Requirements" starting on page 159.

On the other hand, we expect that at least one of the percentage ratios including the revenue ratio, asset ratio or consideration ratio, as the case may be, on an annual basis for each of the non-exempt continuing connected transactions subject to reporting, announcement and independent shareholders' approval requirements will be more than 2.5%. The transactions described thereunder would, therefore, be subject to the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under the Listing Rules. See "— Non-Exempt Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirements" starting on page 161.

We expect these non-exempt connected transactions to be carried out on a continuing and recurring basis and to extend over a period of time. Our directors therefore consider that strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules would be impractical and would add unnecessary administrative costs. Accordingly, we have requested the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has agreed, to grant a waiver to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements under the Listing Rules, in respect of these non-exempt continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

2. *Structure Contracts*

In relation to the Structure Contracts, we have applied for, and the Hong Kong Stock Exchange has granted, a perpetual waiver pursuant to Rule 14A.42(3) of the Listing Rules for the Structure Contracts from strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules, on the conditions set out below.

- *No change without independent non-executive directors' approval.* Except as described below, no changes to the Structure Contracts will be made without the approval of our independent non-executive directors.
- *"Economic benefits" flexibility.* The Structure Contracts continue to enable us to receive the economic benefits derived by Alibaba Hangzhou through: (i) our right (if and when PRC law releases the restriction on foreign investment in value-added telecommunications services) to acquire Alibaba Hangzhou's equity interests and/or assets; (ii) the business structure under which the revenue generated by the cooperation

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between us and Alibaba Hangzhou is mainly retained by us; and (iii) our right to govern the financial and operating policies as well as, in substance, all of the voting rights of Alibaba Hangzhou. See “Our History and Reorganization — Structure Contracts” starting on page 66.

- *Ongoing reporting and approvals.* Pursuant to the terms of the waiver sought from the Hong Kong Stock Exchange, we will disclose details relating to the Structure Contracts on an ongoing basis as follows:
 - The Structure Contracts in place during each financial period will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - Our independent non-executive directors will review the Structure Contracts annually and confirm in our annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structure Contracts, have been operated so that the revenue generated by Alibaba China and Alibaba Hangzhou has been mainly retained by Alibaba China; (ii) no dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests; and (iii) any new contracts entered into, renewed or reproduced between our company and Alibaba Hangzhou during the relevant financial period are fair and reasonable so far as we are concerned and in the interests of our shareholders as a whole.
 - Our auditors will carry out review procedures annually on the transactions carried out pursuant to the Structure Contracts and will provide a letter to our board of directors, with a copy to the Listing Division of the Hong Kong Stock Exchange, at least ten business days before we bulk print our annual report, confirming that the transactions have received the approval of the board of directors, have been entered into in accordance with the relevant Structure Contracts and that no dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests.
 - For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, Alibaba Hangzhou will be treated as our wholly-owned subsidiary, but at the same time, the directors, chief executive or substantial shareholders (as defined in the Listing Rules) of Alibaba Hangzhou and their respective associates will be treated as our “connected persons” (excluding for this purpose Alibaba Hangzhou) and transactions between these connected persons and our company (excluding for this purpose Alibaba Hangzhou) shall comply with Chapter 14A of the Listing Rules. In this connection, each of the shareholders of Alibaba Hangzhou currently holds 10% or more of their respective equity interests in Alibaba Hangzhou, so that they and the respective associates (excluding for this purpose Alibaba Hangzhou) will be subject to the above restrictions.
 - Alibaba Hangzhou will undertake that, for so long as our Shares are listed on the Hong Kong Stock Exchange, Alibaba Hangzhou will provide our management, Alibaba China and our auditors with full access to their relevant records for the purpose of our auditors’ review of the connected transactions.

In addition to the current Structure Contracts, there may be other contracts in the future between our company and Alibaba Hangzhou. Given that the financial results of Alibaba Hangzhou are consolidated into our financial results, and given the relationship between our company and Alibaba

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Hangzhou created by the Structure Contracts, transactions between our company and Alibaba Hangzhou will be exempted from the “continuing connected transactions” provisions of the Listing Rules.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant documents, information and historical figures provided by our company and have participated in due diligence and discussions with our company and its legal advisors. Based on the above, the Joint Sponsors are of the view that the non-exempt continuing connected transactions (including the relevant caps and pricing terms which form part of the terms of such transactions) are in the ordinary and usual course of our business, on normal commercial terms, are fair and reasonable and in the interests of our shareholders as a whole.