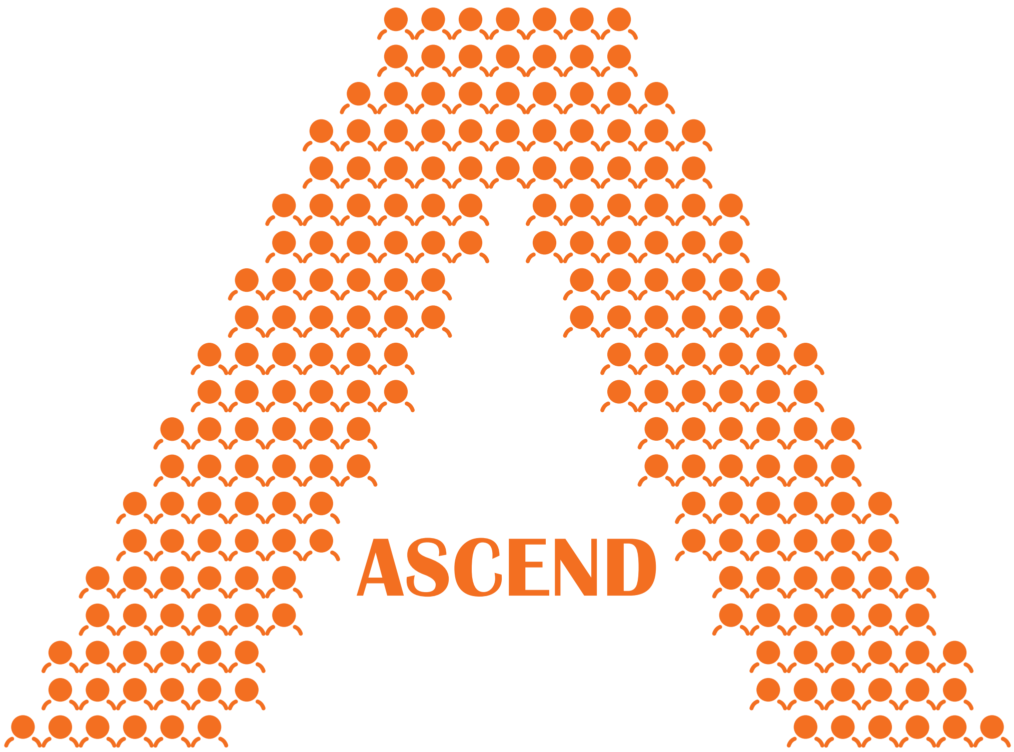
ANNUAL REPORT 2011



Alibaba.com
阿里巴巴

Alibaba.com Limited 阿里巴巴網絡有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code: 1688

ASCEND

ASCEND TO A HIGHER LEVEL

Alibaba.com (HKSE: 1688) (1688.HK) is the global leader in e-commerce for small businesses and the flagship company of Alibaba Group. Founded in 1999 in Hangzhou, China, Alibaba.com makes it easy for millions of buyers and suppliers around the world to do business online mainly through three marketplaces: a global trade platform (www.alibaba.com) for importers and exporters; a Chinese platform (www.1688.com) for domestic trade in China; and a transaction-based wholesale platform on the global site (www.aliexpress.com) geared for smaller buyers seeking fast shipment of small quantities of goods. Together, these marketplaces form a community of more than 76.3 million registered users in more than 240 countries and regions.

As part of its strategy to transition into a holistic platform where small companies can build and manage their online business more easily, Alibaba.com also offers Chinese traders a wide array of business management software, Internet infrastructure services and export-related services directly or through companies it has acquired including HiChina and One-Touch, as well as educational services to incubate enterprise management and e-commerce professionals. Alibaba.com also owns Vendio and Auctiva, leading providers of third-party e-commerce solutions for online merchants. Alibaba.com has offices in more than 70 cities across Greater China, India, Japan, Korea, Europe and the United States.

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Revenue Grew to RMB**6.4 Billion**

Profit Attributable to Equity Owners Reached RMB**1.7 Billion**

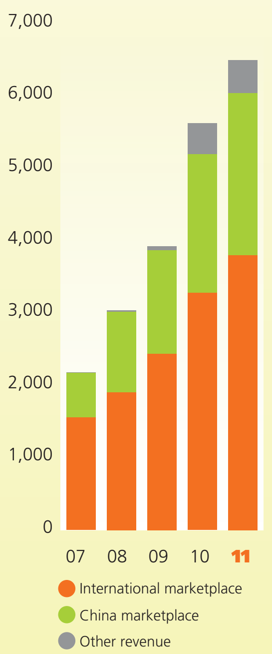
Basic Earnings Per Share Reached HK$**41.0 Cents**

Cash Position at RMB**11.7 Billion**

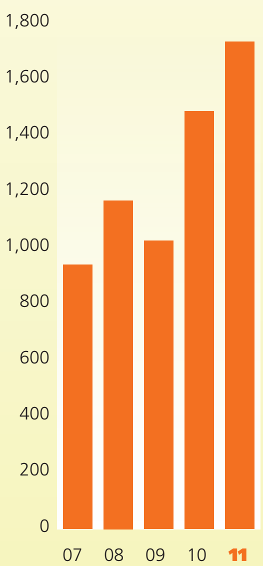
More than **76 Million** Registered Users

More than **10 Million** Storefronts

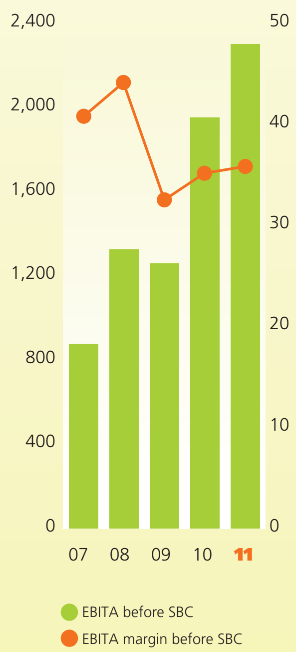
Revenue
(RMB million)



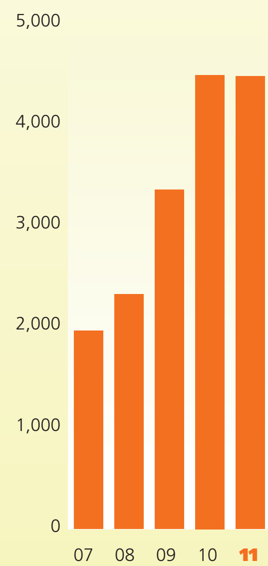
Profit attributable to equity owners
(RMB million)



EBITA before share-based compensation expenses [1]
(RMB million) (%)



Deferred revenue and customer advances
(RMB million)



Note:
[1] EBITA before share-based compensation expenses represents profit before interest, taxes and amortization and share-based compensation expenses for all years. This financial metric is not a measure of financial performance under International Financial Reporting Standards ("IFRS") but is considered by us as an important financial measure.

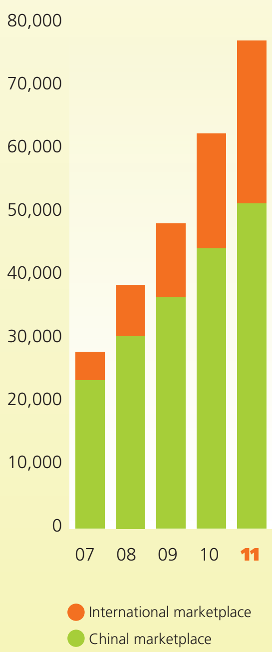
FINANCIAL HIGHLIGHTS

(RMB million)	2010	**2011**	Change
Revenue	5,557.6	6,416.9	+15.5%
Earnings before interest, taxes and amortization ("EBITA")	1,587.3	1,935.4	+21.9%
Profit attributable to equity owners	1,469.5	1,712.7	+16.6%
Share-based compensation expense	341.0	336.1	-1.4%
Deferred revenue and customer advances	4,434.4	4,423.1	-0.3%
Recurring free cash flow	2,840.8	1,981.1	-30.3%
EBITA margin (before share-based compensation expense)	34.7%	35.4%	+0.7% pts
Earnings per share, basic (HK$)	33.4 cents	41.0 cents	+22.8%
Earnings per share, diluted (HK$)	33.2 cents	40.7 cents	+22.6%

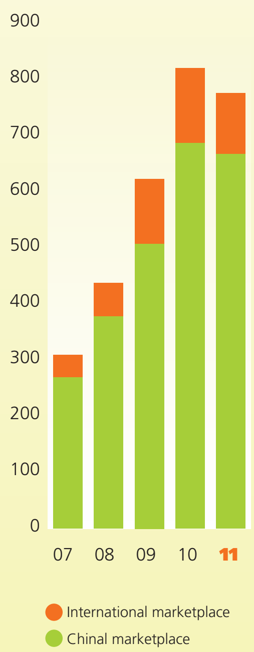
OPERATIONAL HIGHLIGHTS

	2010	**2011**	Change
Registered users	**61,801,281**	**76,332,163**	**+23.5%**
International marketplace	18,024,993	25,517,089	+41.6%
China marketplace	43,776,288	50,815,074	+16.1%
Storefronts	**8,544,544**	**10,023,832**	**+17.3%**
International marketplace	1,696,905	2,235,416	+31.7%
China marketplace	6,847,639	7,788,416	+13.7%
Paying members	**809,362**	**765,363**	**-5.4%**
China Gold Supplier	121,274	99,005	-18.4%
Global Gold Supplier	10,434	7,558	-27.6%
China TrustPass	677,654	658,800	-2.8%

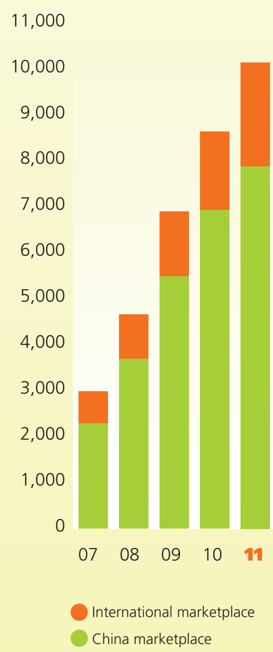
Total registered users
('000)



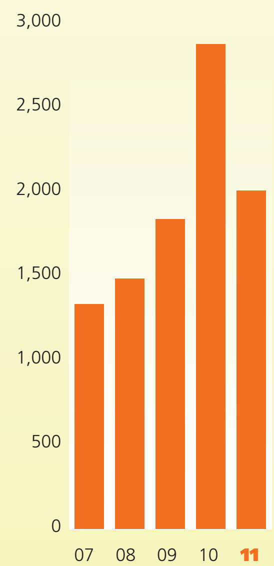
Total paying members
('000)



Total storefronts
('000)



Recurring free cash flow [2]
(RMB million)



[2] Recurring free cash flow represents net cash flow generated from operating activities as presented in our consolidated cash flow statements less purchase of property and equipment, and exclude non-recurring receipts or payments. This financial metric is not a measure of financial performance under IFRS but is considered by us as an important financial measure.

KEY EVENTS 2011

1 2 3 4 5 6 7

January

- Introduced an upgraded China Gold Supplier membership package (CGS 2011 edition) to replace the original Gold Supplier Starter Pack
- Introduced the Factory Audit service to give Gold Supplier members the option of being inspected by a third-party company onsite to verify their trading and production capabilities
- Launched Fulfillment by AliExpress, a logistics and shipping service provided by a third-party partner for buyers using AliExpress
- Beta-launched Liang Wu Xian (Infinite Quality; previously called Wu Ming Liang Pin or White-Label Mall) to offer quality wholesale supplier members direct access to the massive consumer base of Taobao Marketplace

March

- Introduced Ali-ADvance, a pay-for-performance keyword bidding system, on our international marketplace
- Kicked off a one-year program named Emerging Entrepreneur Initiative in California, U.S., through which we educated more than 800 students in higher education with guidance, skills and entrepreneurial know-how to start their own businesses and participate successfully in the knowledge-based, networked economy

- Organized an Alibaba.com-Taobao Net Products Trade Fair in Xiamen, China

April

- Launched AliExpress Premier Channel to allow U.S. retailers to conveniently source top-quality authentic Chinese-designed products

June

- Organized our first offline sourcing event in Mumbai, India, to promote products from our Indian Gold Supplier members

July

- Launched Inspection Service, an online solution designed to match small buyers on our international marketplace with affordable and reliable product inspection services for orders from anywhere in China
- Launched a service to offer AliExpress buyers a cash payment option via Western Union
- Organized an Alibaba.com-Taobao Net Products Trade Fair in Guangzhou, China

September

- Expanded and enhanced the multi-language websites of our international marketplace to cover a total of nine non-English foreign languages, providing more buyers with a convenient channel to navigate our website, look for products and interact with suppliers in their native tongues

- Co-hosted, with Alibaba Group, our annual e-commerce summit AliFest in Hangzhou, China, which comprised the Global Netrepreneur of the Year award ceremony and an Alibaba.com-Taobao Net Products Trade Fair

November

- Launched the Assurance Plus program to make the buyer experience on AliExpress safer and easier, and to raise sellers' trustworthiness

- Organized an Alibaba.com-Taobao Net Products Trade Fair in Shanghai, China, with a focus on imported goods

- Co-hosted a week-long schedule of online and offline events in London, U.K., focused on helping small businesses go global, forming part of the overall Global Entrepreneurship Week initiative designed to encourage and promote an entrepreneurial spirit

8 9 10 11 12 **2011**

August

- Repositioned Liang Wu Xian as a supply chain service for Chinese manufacturers

- Upgraded Customized Sourcing, a service that allows buyers on our international marketplace to efficiently identify the right suppliers for their specific requests, providing buyers with an enhanced channel for sourcing novel, hard-to-find or complex products

- Organized our first offline sourcing event in Hong Kong to promote products from our Hong Kong Gold Supplier members

October

- Introduced Onsite Check, a verification inspection that requires Alibaba.com staff to visit our Gold Supplier members onsite, as an additional measure to confirm their authenticity

- Organized an offline sourcing event in Gurgaon, India, to promote products from our Indian Gold Supplier members

December

- Introduced the third-party onsite inspection program, Onsite Check, on our China marketplace to confirm the authenticity of our China TrustPass members

- Organized an Alibaba.com-Taobao Net Products Trade Fair in Shanghai, China, with a focus on domestic goods

AWARDS AND RECOGNITION

2011

Awardee	Month
Alibaba.com Limited	April
	September
	November
Jack Ma	August

Award	Organization
Industry-leading Enterprise of Hangzhou City	Hangzhou Municipal Government
AliExpress named one of the 2011-2012 Highly Recommended Third-party E-commerce Platforms for External Trade Development	Ministry of Commerce of the People's Republic of China
Best Progress in Financial Disclosure in Greater China Award Best Progress in Financial Disclosure in Asia Pacific Award	IR Global Rankings
Selected as a constituent member of Hang Seng Corporate Sustainability Benchmark Index	Hang Seng Indexes
Ranked among the 2010 Top 100 Wholly Foreign-owned Enterprises of Zhejiang Province	Government of the People's Republic of China
2011 Best Annual Reports Awards: Citation for Corporate Governance Disclosure Award	Hong Kong Management Association
Lifetime Achievement Award for Technology	Asian Strategy & Leadership Institute (Malaysia)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director

MA Yun, Jack

Executive Directors

LU Zhaoxi, Jonathan *(chief executive officer)*
WU Wei, Maggie *(chief financial officer)*
YE Peng

Non-executive Directors

TSAI Chung, Joseph
TSOU Kai-Lien, Rose
OKADA, Satoshi
PENG Yi Jie, Sabrina#

Independent Non-executive Directors

NIU Gen Sheng
KWAUK Teh Ming, Walter
TSUEI, Andrew Tien Yuan
KWAN Ming Sang, Savio

COMPANY SECRETARY

WONG Lai Kin, Elsa

AUTHORIZED REPRESENTATIVES

WU Wei, Maggie
WONG Lai Kin, Elsa
CHOW LOK Mei Ki, Cindy *(alternate to WU Wei, Maggie)*

Peng Yi Jie, Sabrina was re-designated from executive director to non-executive director on March 12, 2012.

BOARD COMMITTEES

Audit Committee

KWAUK Teh Ming, Walter *(chairman)*
TSAI Chung, Joseph
KWAN Ming Sang, Savio

Remuneration Committee

NIU Gen Sheng *(chairman)*
KWAUK Teh Ming, Walter
TSAI Chung, Joseph

Nomination Committee

MA Yun, Jack *(chairman)*
NIU Gen Sheng
KWAN Ming Sang, Savio

Investment Management Committee

TSAI Chung, Joseph *(chairman)*
MA Yun, Jack
WU Wei, Maggie
TSUEI, Andrew Tien Yuan

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Freshfields Bruckhaus Deringer *(as to Hong Kong law)*
Fangda Partners *(as to PRC law)*
Maples and Calder *(as to Cayman Islands law)*

PRINCIPAL BANKERS IN CHINA

(In alphabetical order)
Bank of China Limited
China Merchants Bank
Industrial and Commercial Bank of China Ltd.

PRINCIPAL BANKER IN HONG KONG

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Trident Trust Company (Cayman) Limited
Fourth Floor, One Capital Place
P.O. Box 847GT Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

26/F Tower One, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS FOR MAJOR SUBSIDIARIES IN CHINA

No. 699, Wangshang Road
Binjiang District
Hangzhou 310052
China

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE WEBSITE

http://www.alibaba.com/about

STOCK CODE

Hong Kong Stock Exchange	1688
Bloomberg	1688 HK
Reuters	1688.HK

SUPPLIERS

ENABLING SUPPLIERS TO CAPTURE GLOBAL BUSINESS OPPORTUNITIES

In 2011, we mobilized more resources to develop performance-based and transaction-based services, making it easier for suppliers to sell online and attract higher-quality traffic

BUYERS

PROMOTING A TRUSTWORTHY E-COMMERCE ENVIRONMENT

During the year, we stepped up our efforts to combat fraud, strengthen the authenticity of user information and improve trust and safety measures

CHAIRMAN'S STATEMENT

Dear Alibaba.com shareholders,

I believe you have all heard about the plan of Alibaba Group to privatize Alibaba.com. I would personally, and on behalf of all Aliren, like to express our heartfelt gratitude for the trust and support you have shown since Alibaba.com went public four years ago. Your trust has helped Alibaba.com endure all the ups and downs it has undergone since its listing, thereby energizing Alibaba.com during its nearly 13 years of difficult growth.

2011 proved to be a very tough year for Alibaba.com. On the one hand, China's SMEs were faced with rising raw material, foreign exchange and labor costs as the global and domestic macro economy continued to face severe challenges, while the Euro zone debt crisis and slow economic recovery in the U.S. have led to weak overseas demand. SMEs are struggling to survive both domestic and global challenges. On the other hand, following Alibaba.com's supplier integrity issue uncovered at the beginning of last year, then CEO David Wei and then COO Elvis Lee both took responsibility and resigned. As a result, Alibaba.com lost two core members of the management team who had led company's growth for four years, and this affected our business for a period of time.

With the hard work of the new CEO Jonathan Lu as well as other directors, management and all employees, Alibaba.com refocused on the principle of upholding integrity and enhancing user experience. During the process, we again discussed and reflected on the future development path of Alibaba.com.

Alibaba.com is determined to last for 102 years. Only through ongoing innovation and reform can we be geared for future growth. The e-commerce industry, as it stands today, is the sector that has exhibited the most innovations and most frequent changes in recent years. Over the past decade, Alibaba.com managed to thrive by helping SMEs around the world capture business opportunities and go global. Nevertheless, given the rapid development of Internet technologies and the changing economic situation in recent years, the simple use of the Internet to resolve the unequal access to information can no longer satisfy the e-commerce development needs of SMEs.

In the past year, Alibaba.com made continuous efforts to facilitate a business model upgrade and innovation. For the international marketplace, we focused on ensuring the quality of the platform's information; raising the satisfaction level of users, especially buyers; acquiring companies through which we can help tackle SMEs' problems in foreign trade; and rapidly adjusting and refining our AliExpress business. On the China marketplace, apart from focusing on quality, we facilitated the transformation of the information-based platform into a transaction-based platform, and introduced the Liang Wu Xian (Infinite Quality) platform, which is dedicated to bridging consumers and SMEs as well as providing in-depth supply chain services for merchants. All that we have achieved so far is just the beginning of more innovation and progress to come. In the process of business upgrade, we realized that transforming a mature business model is far more difficult than we ever imagined, and partial, minor adjustments can no longer engender fundamental improvements for Alibaba.com. Judging from the development of our competitors in recent years and our view on market trends in the next two to three years, we firmly believe that only a complete revolution can help us meet the expectation of our customers and ensure the sustainable development of Alibaba.com. Because of this, we made up our minds to carry out a complete transformation and upgrade of our B2B business.

We expect the scale and complexity of the business upgrade to impact significantly Alibaba.com's revenue and affect meaningfully the interest of shareholders in the next few years. But there is indeed an urgent need for comprehensive adjustments in the business of Alibaba.com, and nothing other than upgrades and reforms will allow us to satisfy our customers and adapt to future developments for the longer term. These are the reasons that prompted us to decide to privatize Alibaba.com.

We opt for reforms despite the enormous price, pressure and pain of privatization that we will have to endure. There is no option but change if we hope to deliver on a long-term brighter future for our customers.

To all my shareholder friends, I sincerely apologize and regret that the performance of Alibaba.com's stock price may not have met your and my expectations these past few years. However, we cannot neglect the impact of the financial crisis on our SME customers, and the Alibaba.com team has already done their best to offset those challenges. Today, amidst the adverse impact

WE OPT FOR REFORMS DESPITE THE ENORMOUS PRICE, PRESSURE AND PAIN THAT WE WILL ENDURE BECAUSE WE FIRMLY BELIEVE THAT ONLY A COMPLETE REVOLUTION, WITH OR WITHOUT PRIVATIZATION, CAN HELP US DELIVER ON A LONG-TERM BRIGHTER FUTURE FOR OUR CUSTOMERS AND ENSURE THE SUSTAINABLE DEVELOPMENT OF ALIBABA.COM...

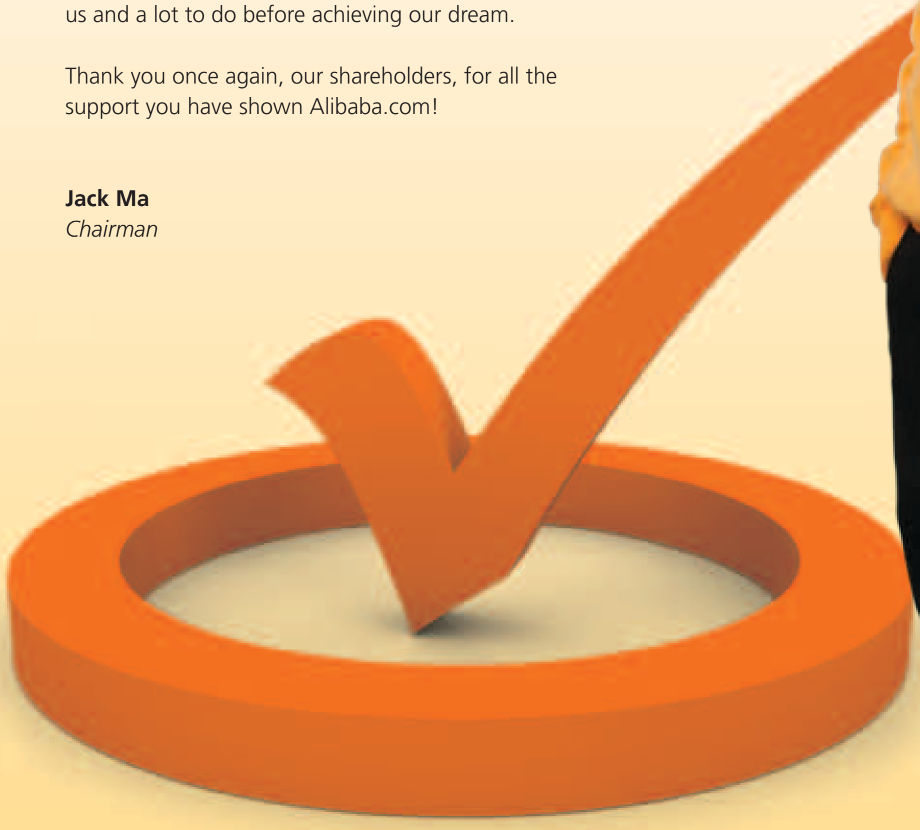
of the future economic situation on the B2B sector, the long duration of our reforms, and the significant uncertainties associated with our business upgrade, we have the responsibility to inform you about our considerations and give everyone an opportunity to review their choice of investments. Regardless of whether you agree with the proposed privatization, we will respect your decision. By genuinely communicating with you about our future, we hope we can live up to your trust and support you have provided us throughout these years.

There is always a price to pay for one to grow, and the same applies to businesses. The many difficulties we encountered in the past have not deterred us from pursuing our dream. Today, we will likewise uphold our mission to "make it easy to do business anywhere" and abide by the Alibaba values, while adjusting ourselves in preparation of the future.

In our lifespan of 102 years, we still have a long way ahead of us and a lot to do before achieving our dream.

Thank you once again, our shareholders, for all the support you have shown Alibaba.com!

Jack Ma
Chairman



PRODUCTS

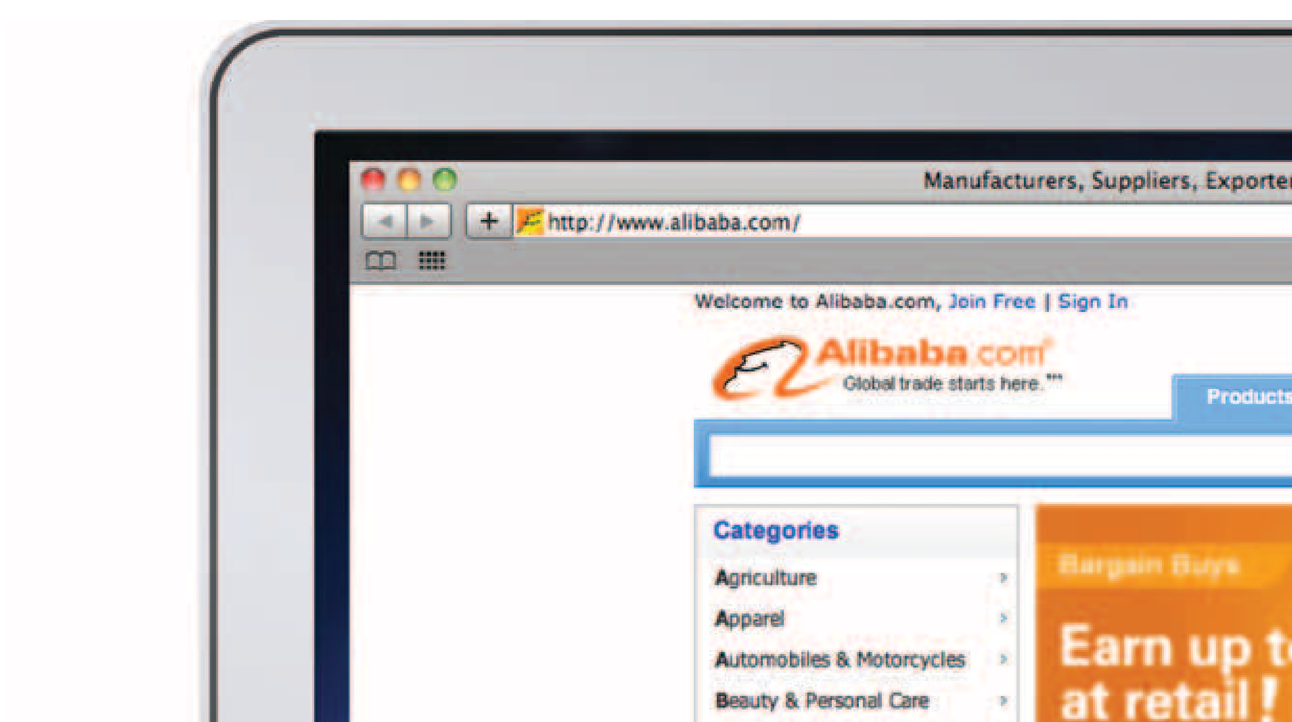
MAKING THE RIGHT PRODUCTS ACCESSIBLE TO BUYERS

We enhanced and expanded our multi-language websites to make our platform accessible to more buyers worldwide and allow them to find what they need more efficiently

SERVICES

CREATING A MORE SATISFYING USER EXPERIENCE

Alibaba.com aspires to not only offer an online meeting place for buyers and suppliers, but also a growing and evolving range of services designed to create a satisfying experience for each and every user



MANAGEMENT DISCUSSION AND ANALYSIS

WE ARE CONFIDENT THAT THE SHIFT AWAY FROM AGGRESSIVE MEMBERSHIP ACQUISITION TO FOCUS ON STRENGTHENING BUYER'S TRUST ON ALIBABA.COM WILL BENEFIT OUR CUSTOMERS AND OUR LONG-TERM BUSINESS GROWTH.

BUSINESS ENVIRONMENT

The global economy was sluggish in 2011 due to lackluster economic conditions in the major developed markets. Downside risks have been increasing as the Euro zone crisis unfolds without solution and the U.S. recovery falters. Cautious sentiment is restraining consumption in developed economies, which is negatively impacting emerging economies and developing nations. China is unlikely to prove immune to the global slowdown. China's economic performance was hurt by a greater-than-expected dampening of export growth, which declined from 31% in 2010 to 20% in 2011. In addition to falling global demand, small businesses struggled with surging production costs, high labor costs and a stronger Chinese currency. A credit squeeze caused by China's tightened monetary policy also added pressures to small businesses. Nevertheless, many small businesses have remained competitive by tapping China's fast-growing domestic market and other regions through geographical expansion, thus diversifying their customer base. More businesses also appear to be leveraging e-commerce to become more flexible, efficient and competitive.

Another phenomenon that we have observed is the increasing demand by small businesses for online sales and marketing services. Small businesses usually prefer variable, performance-based services as they aim to maximize their return on investment for the marketing dollars they spent. This trend supports our view that e-commerce is becoming indispensable for small businesses. Going forward, we will continue to serve our customers by developing additional performance-driven and online transaction-based services.

BUSINESS OVERVIEW

Since early 2011, we have reiterated our focus on our long-term strategies of 1) building a trustworthy e-commerce platform by enhancing user quality and user experience, as well as strengthening the depth and the breadth of user information captured on our platforms; and 2) evolving our business model by developing performance-based and transaction-based services. Although we are faced with a complex economic environment, we remain focused on the execution of our strategies to build a scalable and sustainable business model, driving long-term growth by increasing online activities between buyers and sellers.

We have made significant progress in enhancing user quality in 2011. During the year, we stepped up our efforts to combat fraud, strengthen the authenticity of user information and improve trust and safety measures. Although our efforts resulted in a decrease in paying members, as expected, we saw material improvement in increased traffic and reduced disputes on both our international and China marketplaces. In 2011, we added 14.5 million registered users and more than 1.4 million storefronts in these two marketplaces. As of December 31, 2011, we had a total of 76.3 million registered users, 10.0 million storefronts and 765,363 paying members in both marketplaces. In addition, we mobilized more resources to develop performance-based and transaction-based services in order to expedite our business model upgrade. We also streamlined our service offering and made our value proposition clearer to our users. Although new business lines associated with these initiatives are still in early stage and require continued investment, we are pleased with their growth momentum.

In 2011, we saw solid revenue growth despite a decline in membership base. Our total GAAP revenue grew by 15.5% year-over-year to RMB6.4 billion. Profit attributable to equity owners grew 16.1% year-over-year to RMB1.7 billion. We strongly believe that attracting higher-quality traffic will drive usage of performance-driven value-added services (VAS) and online transactions, resulting in a more balanced revenue mix in the long run.

International marketplace

In 2011, the number of registered users on our international marketplace increased by 41.6% year-over-year, reaching 25.5 million as of December 31, 2011. The number of storefronts grew by 31.7% to 2.2 million. It is encouraging to see that our strategy to improve the quality of suppliers on our platforms is paying off. For example, the number of complaints lodged against our paying members in December was down by about 70% year-over-year compared with December 2010. The increased user base contributed to increasing user traffic and buyer activities. In December, our overseas daily average traffic in terms of unique visitors saw a year-on-year growth of 58%.

International marketplace operational data

	As of December 31				
	2007	2008	2009	2010	**2011**
Registered users	4,405,557	7,914,630	11,578,247	18,024,993	25,517,089
Storefronts	697,563	965,747	1,400,326	1,696,905	2,235,416
Paying members[(1)]	39,536	59,164	113,896	131,708	106,563
China Gold Supplier	27,384	43,028	96,110	121,274	99,005
Global Gold Supplier	12,152	16,136	17,786	10,434	7,558

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

International marketplace – Geographical distribution of registered users (other than China) as of December 31, 2011

Country or region	Number of registered users in country or region	**% of total registered users on our international marketplace**
1. United States	4,251,910	16.7%
2. European Union[(1)]	2,773,748	10.9%
3. India	2,573,350	10.1%
4. United Kingdom	1,306,708	5.1%
5. Australia	754,526	3.0%

(1) Excludes the United Kingdom

MANAGEMENT DISCUSSION AND ANALYSIS

Gold Supplier

In 2011, we intentionally slowed down the pace of membership acquisition while we boosted the quality of suppliers. As of December 31, 2011, we had 99,005 China Gold Supplier members, representing an 18.4% reduction in the membership base from 2010. In the fourth quarter, we continued to see a sequential decline in China Gold Supplier membership. This decline was expected as our strategy shifted away from aggressive customer acquisition. It was also partially due to our ongoing tight quality control of suppliers and the higher membership fee of RMB29,800 which applied to all renewing members beginning in the fourth quarter of 2011. The renewal rate in the fourth quarter was slightly lower compared with previous quarters.

As of December 31, 2011, we had 7,558 Global Gold Supplier members. During the year, we continued to stay focused on a few countries including India, Japan, South Korea and Turkey. In addition, we reviewed our overall strategy and operation for overseas markets as well as the business model so as to prepare ourselves to further tap the extensive supplier base outside the Greater China region in a more cost-effective manner going forward.

From supplier's perspective, we initiated rigorous measures to enhance the level of trust and safety of the Gold Supplier program. In early 2011, we set up a special task force to examine the nature of buyers' complaints and our internal quality systems to address the systemic nature of fraud issues that were reported in February 2011. The following steps were taken, among others: 1) prevented risk-prone suppliers from joining; 2) strengthened predictive methodologies through data monitoring to detect and track high-risk accounts; 3) strengthened enforcement of take-down policies; 4) revamped our internal sales-incentive scheme and the structure of our sales force. In October 2011, we started to roll out the "Onsite Check" program. This physical verification process conducted by Alibaba.com personnel represents a second level of verification that members are in valid existence in addition to the basic third-party authentication and verification that occurs when a supplier joins Alibaba.com or renews as a paying member. This program has received a positive response from our suppliers; some paying members requested onsite inspections before their memberships were due for renewal to highlight their credibility, as the "Onsite Check" logo is clearly shown on product search results and storefronts of verified suppliers. Similarly, a paid service for in-depth verification, Factory Audit, also gained traction.

From buyer's perspective, since the second quarter of 2011, we have been collecting more user feedback, helping us to better monitor customer satisfaction and enhance user experience. To provide more protection for overseas buyers, we beta-launched a platform-wide escrow service and introduced an online service allowing buyers to hire third-party inspectors to ensure orders are filled correctly before being shipped from China. To facilitate online sourcing, we added a multi-lingual system to present product information in several languages, and added multiple-location search that allows buyers to more easily find products and suppliers in targeted locations around the world. All in all, these features helped to attract more buyers and overseas traffic to our international marketplace as indicated by its buoyant growth in registered users and overseas unique visitors.

Our ongoing development of VAS remained on track in 2011. We continued to see growth in VAS revenue contribution and VAS penetration. VAS revenue contributed around 30% of China Gold Supplier revenue in 2011. Among our VAS offerings, marketing-related VAS, including keyword and Product Showcase, were still the major drivers of VAS revenue. While retaining our fixed-fee keyword model, in the first quarter of 2011 we introduced Ali-ADvance, which is a "pay-for-performance" model for keyword search. During the year, the adoption and usage of Ali-ADvance gained steadily.

Going forward, we remain focused on strengthening trust and safety, growing overseas traffic and enhancing the user experience.

AliExpress

Overall, the growth momentum of AliExpress remained strong in 2011. We achieved significant progress in AliExpress on all fronts including supplier base, buyer traffic, user experience and transaction volume. According to Alexa.com, as of the end of December, AliExpress continued to rank highest among all international business online transaction platforms. Although there was a temporary impact on gross merchandise value (GMV) growth in the third quarter due to the August termination of Paypal as a payment option on AliExpress, the impact was much smaller than expected and the friction was removed in the fourth quarter.

During the year, we spent most of our effort on fundamentals: ensuring supplier and product quality, strengthening transaction security, improving logistics and enhancing online payment convenience. We launched a fulfillment service to reduce the cost of international shipment. We also strengthened the trust and safety level of AliExpress by tightening control of counterfeit products and enhanced buyer protection by providing payment protection and a refund program. In addition, we continued to streamline the online payment process. These efforts started to bear fruit as the number of disputes over product quality and supplier quality trended down while the payment success rate was satisfactory in 2011.

In the third quarter, we launched the Assurance Plus program, not only making the buying experience on AliExpress safe and easy but also raising our sellers' trustworthiness. Assurance Plus status is available only to qualified suppliers who are able to meet our requirements for rapid order dispatch, accurate product descriptions and free return shipping in cases where buyers are dissatisfied with product quality. The "Assurance Plus" logo is clearly shown on storefronts of qualified suppliers.

In 2012, we will focus on attracting more quality suppliers, expanding the range of products, streamlining the online payment process and optimizing logistics. For suppliers, we look to shorten the payment collection period in order to reduce their working capital requirements and to encourage the completion of more transactions entirely online.

China marketplace

Anticipating that China's export markets would become increasingly challenging and volatile over time, in recent years, we have allocated more resources to grow our China marketplace. Today our 1688.com platform offers compelling advantages to suppliers and buyers who focus on China's domestic trade, and it is poised to play a major role in China's growing domestic market.

Our China marketplace maintained steady growth in 2011. As of December 31, 2011, we had 50.8 million registered users and 7.8 million storefronts, representing growth of 16.1% and 13.7%, respectively from the previous year. Our small businesses customer base is by far the largest in China, providing a strong foundation for long-term growth as well as a wellspring of market information and buying behavior that we believe are important resources for further development.

China marketplace operational data

	As of December 31				
	2007	2008	2009	2010	**2011**
Registered users	23,194,402	30,160,705	36,154,669	43,776,288	50,815,074
Storefronts	2,259,283	3,648,503	5,419,658	6,847,639	7,788,416
Paying members(1)	266,009	372,867	501,316	677,654	658,800

(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.

China TrustPass

By the end of 2011, we had 658,800 China TrustPass members. The number of members declined from the end of 2010 and also sequentially from the third quarter of 2011. The reduction in members was mainly due to the slower membership acquisition following our decision not to sell the China TrustPass individual edition in the second quarter of 2011. The renewal rate has been steady.

In 2011, most of the improvements we made to the China marketplace were fundamental yet crucial. We focused on areas such as enhancing user quality and authenticity; growing buyer traffic; and improving user experience. To enhance user authenticity on 1688.com and create a more extensive user database, we required all China marketplace users to register in their real names since September 2011. We are also building a dynamic rating and feedback system not only to develop a "trust profile" for users but also to facilitate more online activities between buyers and sellers as the trust issue can be addressed through this proven mechanism. In December 2011, we kick-started a third-party onsite check program. We designed this additional check as a new VAS for Chinese domestic suppliers to further enhance their authenticity on 1688.com. Although it is voluntary, we believe onsite check program will attract reasonable user interest as the business environment becomes more competitive and individual suppliers seek ways to highlight their credibility and quality.

MANAGEMENT DISCUSSION AND ANALYSIS

On the VAS front, growth was gradual and modest over 2011. VAS revenue contributed around 25% of our China TrustPass revenue in 2011. Marketing-related VAS such as Ali-ADvance and Premium Placement continued to be the main sources of our VAS revenue.

1688.com

To enhance user experience, we overhauled the website structure and layout of 1688.com and added more transaction features in order to make it more buyer-oriented and user-friendly. For some sectors like apparel, home decorations and small consumer items, we provided exclusive channels with transaction features. In the third quarter, we added features targeted at bringing large wholesale transactions online. This helped to reinforce 1688.com's positioning as an online wholesale platform for Chinese domestic suppliers and buyers. The GMV of online transactions on 1688.com gathered pace throughout 2011.

We will continue to enhance user experience by improving website navigation, design and search mechanisms as well as customizing the process of placing orders and paying online. In 2012, we will gradually introduce more third-party applications and services to further address our users' needs and increase stickiness of our platform.

Liang Wu Xian

In January 2011, we embarked on a new initiative, Wu Ming Liang Pin which was initially designed as a B2C transaction platform. Since the launch, we reviewed and modified the business model and its value proposition. In August, we renamed the service as Liang Wu Xian, and repositioned it as a supply chain service for Chinese manufacturers that involves four key areas including 1) quality control of manufacturers and products, 2) product quality certification, 3) logistics and inventory management and 4) distribution channels management. Along this supply chain, we partner with independent experts and operators in different areas to leverage their skills and knowledge and aim to create the greatest supply chain efficiency.

The value proposition of Liang Wu Xian has advanced beyond that of a pure transaction platform. Instead, this is an Internet-enabled supply chain service. With our strong capability in e-commerce and understanding of the needs of small businesses we are able to operate the supply chain service in efficient and cost-saving ways. In 2012, we will focus on developing and investing in the aforementioned four areas rather than on monetization. We started trial monetization in 2011 and will explore the monetization model that best fits our service. As more well-established manufacturers turn to the domestic consumer market, they will need assistance in managing regional supply chains. We believe Liang Wu Xian is uniquely positioned to meet the rising demand for supply chain services.

HiChina

In 2011, HiChina's membership and revenue steadily grew year-on-year. HiChina's core businesses such as domain-name services remained strong in 2011. New cloud-related services such as cloud hosting and cloud email also progressed well. The revenue contributions from these cloud-related services increased significantly in 2011.

In September 2011, we announced the proposed spin-off and separate listing of HiChina. Further announcement will be made when we have more information to share.

In 2012, HiChina's focus on driving the growth of core businesses and new cloud-related services will remain unchanged.

Sales and customer service

In 2011, we had about 3,480 China Gold Supplier field sales staff and about 2,160 telephone sales representatives for China TrustPass and Global Gold Supplier. In addition to our sales team, we also had about 840 people in our customer service team, who are dedicated to handling customer inquiries.

Employees

As of December 31, 2011, Alibaba.com had 12,878 employees (13,674 employees as of December 31, 2010), including employees of the companies we acquired. Out of the total, about 2,284 employees were dedicated to product development. Related staff costs, including directors' emoluments, were RMB2,835.0 million (2010: RMB2,371.7 million) for 2011. We review our employees' performance on a quarterly basis and adjust compensation annually based on performance and with reference to market rates.

FINANCIAL REVIEW

Despite the challenges in global economy, we continued to report solid financial performance in 2011. As of December 31, 2011, we had 765,363 paying members in our international and China marketplaces, representing a 5.4% decrease year-on-year. This decrease was due to tightened requirements for membership acquisition and renewal, a proactive measure that we undertook during the year to enhance trust and safety on our platforms. Despite the decrease in the number of paying members, total revenue increased 15.5% from RMB5,557.6 million in 2010 to RMB6,416.9 million in 2011 due to the increase in revenue generated from the sale of value-added services in both marketplaces as well as higher revenue from AliExpress and HiChina. As a result of the increase in revenue, profit attributable to equity owners increased 16.6% from RMB1,469.5 million in 2010 to RMB1,712.7 million in 2011. Basic earnings per share increased 22.8% from 33.4 Hong Kong cents in 2010 to 41.0 Hong Kong cents in 2011.

Financial performance summary

	Year ended December 31 2010 RMB'000	2011 RMB'000	Variance RMB'000	%
Revenue	5,557,586	6,416,894	859,308	+15.5%
Cost of revenue	(931,016)	(1,259,979)	(328,963)	+35.3%
Operating expenses	(3,199,058)	(3,466,572)	(267,514)	+8.4%
Other operating income, net	109,026	126,543	17,517	+16.1%
Profit from operations	1,536,538	1,816,886	280,348	+18.2%
Finance income, net	176,398	319,118	142,720	+80.9%
Share of (losses)/profits of associated companies and jointly controlled entities, net of tax	(6,479)	730	7,209	-111.3%
Income tax charges	(236,445)	(427,896)	(191,451)	+81.0%
Profit for the year	1,470,012	1,708,838	238,826	+16.2%
Profit for the year attributable to equity owners	1,469,464	1,712,673	243,209	+16.6%
Earnings per share, basic (RMB)	29.1 cents	34.0 cents	4.9 cents	+16.8%
Earnings per share, diluted (RMB)	28.9 cents	33.8 cents	4.9 cents	+17.0%
Earnings per share, basic (HK$)	33.4 cents	41.0 cents	7.6 cents	+22.8%
Earnings per share, diluted (HK$)	33.2 cents	40.7 cents	7.5 cents	+22.6%
Other non-GAAP metrics				
Profit attributable to equity owners before share-based compensation expense	1,810,435	2,048,810	238,375	+13.2%
EBITA before share-based compensation expense	1,928,314	2,271,516	343,202	+17.8%
Diluted earnings per share before share-based compensation expense (HK$)	40.9 cents	48.7 cents	7.8 cents	+19.1%

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The following table and chart present, for the years indicated, a breakdown of revenue and its components as a percentage of revenue:

	2010 RMB'000	**2011 RMB'000**	Change RMB'000	% of total revenue
International marketplace				
China Gold Supplier	3,148,498	3,641,321	492,823	56.7% 56.8%
Global Gold Supplier	89,745	111,295	21,550	1.5% 1.7%
Sub-total	3,238,243	3,752,616	514,373	58.2% 58.5%
China marketplace				
China TrustPass	1,812,991	2,013,301	200,310	32.6% 31.3%
Other revenue	80,908	204,100	123,192	1.5% 3.2%
Sub-total	1,893,899	2,217,401	323,502	34.1% 34.5%
Others	425,444	446,877	21,433	7.7% 7.0%
Total	5,557,586	6,416,894	859,308	

2010
2011

We generate revenue primarily by selling membership packages and value-added services to paying members on our international and China marketplaces. In addition, we also generate revenue from fees collected via transaction services as well as from other comprehensive Internet based services such as domain name registration, website hosting and solutions, email hosting and technology related consulting services.

International marketplace

Revenue from our international marketplace primarily consists of:

- Membership fees from the sale of China Gold Supplier and Global Gold Supplier membership packages;
- Revenue from the sale of value-added services, such as keywords, Ali-ADvance and Product Showcase to our paying members;
- Transaction fees earned from buyers and sellers; and
- Revenue from the provision of other comprehensive export-related services, which include sourcing, customs clearance, logistics and cargo insurance to our members.

Revenue from our international marketplace was RMB3,752.6 million in 2011, representing a 15.9% increase from RMB3,238.2 million in 2010, primarily due to the increase in revenue from sales of value-added services like Product Showcase and Ali-ADvance. In addition, revenue from AliExpress also increased significantly because 2011 was the first-full year operation of the platform and the transaction volume also continued to gain traction. Furthermore, contribution from Vendio and Auctiva increased as 2011 was the first full-year consolidation of these two subsidiaries. The total number of paying members declined to 106,563 as of December 31, 2011, compared with 131,708 as of December 31, 2010.

China marketplace

Revenue from our China marketplace primarily consists of:

- Membership fees from the sale of China TrustPass packages;
- Revenue from the sale of value-added services comprising Ali-ADvance and Premium Placement to paying members;
- Online branded advertisements on our China marketplace; and
- Revenue from Liang Wu Xian, a supply chain service for Chinese manufacturers, which provides manufacturing control, product quality certification, logistics and inventory management and distribution channels management services.

Revenue from our China marketplace was RMB2,217.4 million in 2011, representing a 17.1% increase from RMB1,893.9 million in 2010. The growth was largely attributable to the increase in revenue from Ali-ADvance and Premium Placement. The total number of paying members declined to 658,800 as of December 31, 2011, compared to 677,654 as of December 31, 2010.

Other revenue

Other revenue, which mainly represents revenue from HiChina was RMB446.9 million in 2011, represents a 5.0% increase from RMB425.4 million in 2010.

Cost of revenue and gross profit

The following table and chart present, for the years indicated, a breakdown of cost of revenue and its components as a percentage of revenue:

	2010 RMB'000	**2011 RMB'000**	Change RMB'000	% of total revenue (2010 / **2011**)
Staff cost and related expenses	240,435	336,455	96,020	4.3% / 5.2%
Business taxes and related surcharges	259,982	323,648	63,666	4.7% / 5.0%
Bandwidth and depreciation expenses	178,023	222,415	44,392	3.2% / 3.5%
Others	252,576	377,461	124,885	4.6% / 5.9%
Total	931,016	1,259,979	328,963	16.8% / 19.6%

2010
2011

Our cost of revenue increased to RMB1,260.0 million in 2011, representing a 35.3% increase from RMB931.0 million in 2010. Included in the cost of revenue was share-based compensation expense of RMB26.4 million and RMB36.4 million in 2010 and 2011, respectively. Cost of revenue, including staff cost, traffic acquisition cost and business taxes expense increased as our revenue grew. Staff costs increased in 2011 mainly as a result of salary adjustment and various employee subsidy programs that were introduced for our general staff in the PRC. These programs include one-time living allowance and child education subsidy, payable in cash, to help our general staff to combat the high inflationary environment. We also introduced a housing loan program to help qualified staff to buy their first own-use property. In addition, we invested more in traffic acquisition cost as we put more focus on performance-based services like Ali-ADvance.

Gross profit increased to RMB5,156.9 million in 2011, up 11.5% from RMB4,626.6 million in 2010. Gross profit margin declined to 80.4% in 2011, as compared with 83.2% in 2010. The decline was primarily a result of the higher cost of revenue due to higher traffic acquisition costs as a percentage of revenue and the higher revenue contribution by AliExpress, Vendio and Auctiva which have relatively lower gross profit margins.

The following table and chart present, for the years indicated, a breakdown of operating expenses and its components as a percentage of revenue:

	2010 RMB'000	**2011 RMB'000**	Change RMB'000	% of total revenue (2010 / **2011**)
Sales and marketing expenses	2,050,561	2,041,846	(8,715)	36.9% / 31.8%
Product development expenses	580,173	784,667	204,494	10.4% / 12.2%
General and administrative expenses	568,324	640,059	71,735	10.2% / 10.0%
Total	3,199,058	3,466,572	267,514	57.5% / 54.0%

2010
2011

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and marketing expenses

Our sales and marketing expenses were RMB2,041.8 million in 2011, flat from RMB2,050.6 million in 2010. Included in sales and marketing expenses was share-based compensation expense of RMB95.1 million and RMB93.3 million in 2010 and 2011 respectively. Our sales and marketing expenses remained flat in 2011 because of lower marketing costs partially offset by the increase in staff costs. In 2011, we invested more on traffic acquisition cost (included in cost of revenue) to help our performance-based transactions while in 2010 we spent more on advertising and promotion to build the brand awareness of our China marketplace. The increase in staff costs was mainly due to a change in the compensation structure of our sales team which increased the basic salary as well as employee subsidy programs as mentioned under "cost of revenue and gross profit" introduced to general staff during the year. As a result of the foregoing, sales and marketing expenses as a percentage of revenue decreased to 31.8% in 2011, as compared to 36.9% in 2010.

Product development expenses

Our product development expenses were RMB784.7 million in 2011, representing a 35.2% increase from RMB580.2 million in 2010. Included in product development expenses was share-based compensation expense of RMB71.5 million and RMB85.7 million in 2010 and 2011 respectively. Our product development expenses increased mainly because of increased staff costs as we hired more engineers to enhance our platform performance and to develop new initiatives to improve user experience and trust and safety measures. The salary adjustment and the staff subsidy program also contributed to the increase in staff cost. Consequently, product development expenses, as a percentage of revenue, increased to 12.2% in 2011, as compared with 10.4% in 2010.

General and administrative expenses

Our general and administrative expenses were RMB640.1 million in 2011, representing a 12.6% increase from RMB568.3 million in 2010. Included in general and administrative expenses was share-based compensation expense of RMB148.0 million and RMB120.7 million in 2010 and 2011 respectively. Our general and administrative expenses increased year-on-year mainly due to increased staff costs, which was attributable to salary adjustment and the subsidy program introduced during the year. General and administrative expenses as a percentage of revenue remained flat at 10.0% in 2011, compared with 10.2% in 2010.

Finance income, net

Finance income, which consists of interest income and foreign currency exchange differences, was RMB319.1 million in 2011, representing an 80.9% increase from RMB176.4 million in 2010. The increase was principally due to a higher interest income from higher average cash balance and effective interest rate and increased exchange gains during the year.

Income tax charges

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

Under the PRC Enterprise Income Tax Law, the standard corporate income tax rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the PRC Enterprise Income Tax Law provides for, among other things, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises. Alibaba China, our principal operating entity, has been designated as a High and New Technology Enterprise in 2011. As a result, our Group has used 15% to calculate Alibaba China's PRC Enterprise income Tax for 2011.

Pursuant to Caishui [2008] No.1 under the PRC Enterprise Income Tax Law, a duly recognized Key Software Enterprise within China's National Plan can enjoy a preferential PRC Enterprise Income Tax rate of 10%. Alibaba China was recognized in 2010 as a Key Software Enterprise by four ministries including the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce and the State Administration for Taxation. As a result, our Group has used 10% to calculate Alibaba China's PRC Enterprise Income Tax for 2010.

Further, Alibaba China Software Co., Ltd. ("Alibaba Software"), another major PRC operating subsidiary of our Group, was recognized as a Software Enterprise in 2008, entitling it to full exemption from PRC Enterprise Income Tax for the first two years and 50% reduction in subsequent three years, starting from the company's first profit-making year. Since 2008 was its first profit-making year, Alibaba Software was subject to PRC Enterprise Income Tax at 12.5% for 2011 (2010: 12.5%).

Most of our remaining PRC entities are subject to the standard PRC Enterprise Income Tax at 25% for 2011 (2010: 25%).

Income tax charges were RMB427.9 million in 2011, representing an 81.0% increase from RMB236.4 million in 2010. Our effective tax rate was 20.0% in 2011, which was higher than 13.9% in 2010. It is mainly because the relevant authorities have not started accepting applications for Key Software Enterprise status in 2011, and therefore, our Group has used 15% to calculate Alibaba China's PRC Enterprise Income Tax for 2011, comparing with 10% in 2010. In addition, our Group has recorded withholding tax provision on the undistributed earnings retained by PRC subsidiaries in 2011.

Share-based compensation expense

The following table and chart present, for the years indicated, the allocation of share-based compensation expense and such expense as a percentage of revenue:

	2010 RMB'000	**2011 RMB'000**	Change RMB'000	% of total revenue
Cost of revenue	26,365	36,383	10,018	0.5% 0.6%
Sales and marketing expenses	95,096	93,372	(1,724)	1.7% 1.5%
Product development expenses	71,476	85,686	14,210	1.3% 1.3%
General and administrative expenses	148,034	120,696	(27,338)	2.6% 1.8%
Total	340,971	336,137	(4,834)	6.1% 5.2%

2010
2011

We seek to structure our employee compensation packages to allow our employees to share in the success of our business. Therefore, a large number of our employees have been granted share-based awards. Alibaba Group also operates share-based incentive schemes pursuant to which some of our employees and employees of Alibaba Group and its subsidiaries have been granted options to purchase shares of Alibaba Group or our shares (as held by Alibaba Group). In our consolidated financial statements, share-based compensation expense arising from the grant of share-based awards by us and Alibaba Group to our employees is allocated to and included as part of our expenses. In 2011, total share-based compensation expense was RMB336.1 million, a slight decrease of 1.4% compared with RMB341.0 million in 2010. As a result, share-based compensation expense as percentage of revenue also decreased to 5.2% in 2011, compared with 6.1% in 2010.

Earnings before interest, taxes and amortization ("EBITA")

Our earnings before interest, taxes and amortization ("EBITA") (non-GAAP) was RMB1,935.4 million for the year, an increase from RMB1,587.3 million in 2010. Despite a lower gross profit margin, EBITA margin before share-based compensation expense (non-GAAP) slightly increased to 35.4% in 2011 as we enjoyed a higher exchange gain and lower operating expense as a percentage of revenue in 2011.

Profit attributable to equity owners

We recorded a profit attributable to equity owners of RMB1,712.7 million in 2011, representing a 16.6% increase from RMB1,469.5 million in 2010. The increase was a result of the growth in our revenue driven by increased sales of value-added services and contributions from our new businesses.

Earnings per share

Earnings per share, basic and diluted, were 41.0 Hong Kong cents and 40.7 Hong Kong cents, respectively, in 2011, compared with 33.4 Hong Kong cents and 33.2 Hong Kong cents, for basic and diluted, respectively, in 2010. Diluted earnings per share before share-based compensation expense (non-GAAP), was 48.7 Hong Kong cents in 2011, compared with 40.9 Hong Kong cents in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Treasury management

Our Treasury department, which reports to our Chief Financial Officer, monitors our current and expected liquidity requirements in accordance with policies and procedures approved by our Board. We have adopted prudent treasury management objectives, which include maintaining sufficient liquidity to meet our various funding requirements in accordance with our strategic plans while aiming to achieve a better return on our cash and hedging against foreign currency exchange risk. It is not our policy to invest our cash in financial products with significant underlying leverage or derivative exposure.

Foreign currency exchange exposure

Currency risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although we operate businesses in different countries, substantially all of our revenue-generating and expense-related transactions are denominated in Renminbi, which is the functional currency of our key operating subsidiaries. Renminbi is not freely convertible into other foreign currencies. All foreign currency exchange transactions in the PRC must be effected through the State Administration of Foreign Exchange. As of December 31, 2011, 98.2% of our cash and bank balances were denominated in Renminbi.

Interest rate exposure

Our exposure to changes in interest rates is mainly attributable to our interest-bearing assets and liabilities, including all cash and cash equivalents, term deposits with original maturities of over three months and short-term bank borrowings obtained and shown on our consolidated balance sheet.

Credit risk exposure

We consider our credit risk to be minimal as a substantial part of our income is prepaid by a diversified group of customers. The extent of our credit risk exposure is represented by the aggregate of cash and other investments we hold at banks and at other financial institutions. All of our cash and other investments are placed with financial institutions of sound credit quality and most of which bears maximum original maturities of less than 12 months.

Capital structure

We continue to maintain a strong financial position as demonstrated by our solid recurring free cash flow from operations. We have been cautiously managing our cash to maintain a favorable return and to minimize any foreign exchange risk. As of December 31, 2011, we had cash and bank balances of RMB11,651.6 million, which was RMB2,068.1 million or 21.6% higher than that as of December 31, 2010. As of December 31, 2011, 98.2% of our cash and bank balances were in Renminbi (2010: 98.6%). The weighted average annual return on our cash and bank balances was 2.6% in 2011 (2010: 2.0%).

We further strengthened our balance sheet during the year. As of December 31, 2011, our total assets were RMB15,295.5 million (2010: RMB12,705.1 million), which were financed by shareholders' funds of RMB7,520.2 million (2010: RMB5,803.0 million), current liabilities of RMB6,961.1 million (2010: RMB6,384.6 million) and non-current liabilities of RMB814.2 million (2010: RMB517.5 million). Of the total liabilities, RMB1,286.5 million (2010: RMB92.7 million) was funded from short-term bank borrowings. The increase in short-term bank borrowings was mainly used to fund various corporate actions carried out during the year. As of December 31, 2011, 78.3% of our short-term bank borrowings were at floating interest rate at an average annual cost of 0.9%. The remaining short-term bank borrowings which bear interest at fixed rates at 3.38% to 6.57% were added by One-Touch to finance its import and export services.

As of December 31, 2011, our deferred revenue and customer advances amounted to RMB4,423.1 million, which was flat from that as of December 31, 2010. These upfront payments are reflected as liabilities until we provide services to earn the related revenue. Therefore, these liabilities do not represent actual obligations to pay customers but instead they provide an assured base for our future reported revenue.

As of December 31, 2011, our reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to RMB3,132.5 million (2010: RMB3,340.1 million).

Cash flow

Net cash generated from operating activities

Net cash generated from operating activities was RMB2,182.0 million in 2011, representing a 28.2% decrease from RMB3,039.4 million in 2010. The decrease in net cash generated from operating activities was principally because of the decrease in upfront collection of membership fee (reflected in "deferred revenue and customer advances" in our balance sheet) as a result of the slowdown in member acquisition. In addition, payment for income tax also increased along with our revenue growth for the year and there was a one-off tax refund of RMB76.8 million in 2010.

Net cash used in investing activities

Net cash used in investing activities was RMB1,585.5 million in 2011 compared with RMB2,747.0 million in 2010. Net cash used in investing activities during the year primarily represented placement of cash in time deposits with original maturities of over three months of RMB1,721.3 million and capital expenditures of RMB172.1 million.

In 2011, our capital expenditures decreased by 41.6% to RMB172.1 million (2010: RMB294.5 million). The decrease in capital expenditures was primarily due to the increased usage of server capacity held by our sister company AliCloud and therefore we reduced our fixed asset spending on computer hardware.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash generated from financing activities

Net cash used in financing activities was RMB244.3 million in 2011, compared with cash inflow of RMB51.3 million in 2010. The cash outflow in 2011 mainly represented payment of special dividends declared in December 2010 of RMB947.7 million and the payments for repurchase of issued ordinary shares in the latter half of the year as part of our continuing share buy-back program amounting to RMB416.3 million, partially offset by a RMB1,146.6 million drawdown on bank facilities.

Recurring free cash flow

Recurring free cash flow (non-GAAP), which represents net cash flow generated from operating activities as presented in our consolidated cash flow statement less purchase of property and equipment and excludes non-recurring capital expenditure such as payment for the construction of our Binjiang campus and other one-off items, was RMB1,981.1 million in 2011, representing a 30.3% decrease from RMB2,840.8 million in 2010. The decrease in recurring free cash flow was mainly due to the decrease in the cash flow generated from operating activities due to the decrease in paid membership.

DIVIDEND

Our Board did not recommend the payment of a final dividend for the year ended December 31, 2011 (2010: nil).

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011, we did not have any material off-balance sheet arrangements.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As of December 31, 2011, restricted cash amounting to RMB135 million of one of our subsidiaries was pledged to secure its short-term bank borrowings. Except for such charge, none of our assets were pledged and we did not have any material contingent liabilities or guarantees.

MATERIAL ACQUISITIONS AND DISPOSAL OF ASSETS

During 2011, our Group completed the acquisition of a 65% equity interest in One-Touch. One-Touch, a company based in the PRC, is a provider of one-stop import and export services to small and medium enterprises in the PRC. The acquisition was completed in January 2011 and the first installment of the purchase consideration in cash was paid. The remaining consideration balance will be paid in 2014 and the amounts may be adjusted based on the operating and financial performance of One-Touch in 2013.

OUTLOOK

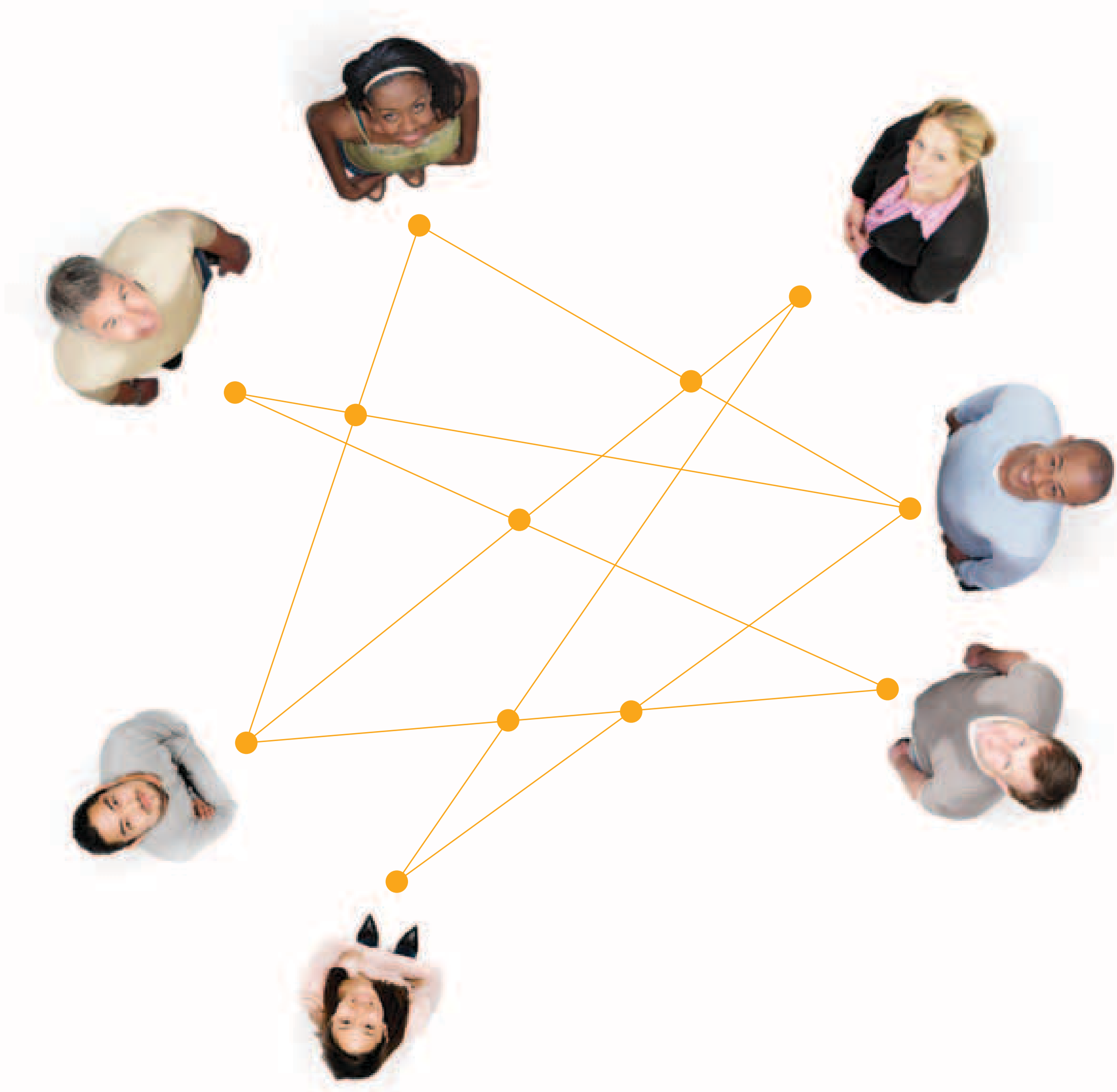
Looking ahead, we remain cautious on the global economic environment. Uncertainties in the global economy are expected to elevate in 2012. The Euro zone's lingering sovereign debt crisis may dent economic growth. A mild recession in Europe and further deleveraging in the U.S. loom large this year and impose further downside risks on China's exports. In China, we expect core inflation pressures will remain subdued while economic growth may slip alongside the slowdown in international trade and the cooling off of the real estate market. Under current complex macro conditions, we believe that challenges to worldwide and domestic China economy will remain.

Despite the challenging background we foresee in 2012, we will continue to implement our strategies we set forth for the company's evolution and investment. We will stay focused on upgrading our business model and building quality and trustworthy e-commerce platforms. In particular, we continue to invest in new businesses such as AliExpress, Liang Wu Xian and performance-based services where we expect to see the upside potential in the future. It is worth reiterating that we will continue to enhance the quality of users and e-commerce platforms. Going forward, we will uphold our high standards for trust and safety and user experience. We have set clear goals and priorities for 2012: 1) true and credible information quality on the platform, 2) better buyer and seller experience, and 3) more transactions online. All these initiatives will contribute to growth in website traffic and online activities. We envisage a more balanced, multi-revenue stream model in the long run. In the near term, we will depend less on membership growth.

We will concentrate on developing the quality of our platforms and new businesses associated with business model upgrades, which will take time and require continuous investment. Although these may adversely affect our membership growth and financial performance and limit earnings visibility in the near term, we are confident that the shift away from aggressive membership acquisition to focus on strengthening buyer's trust on Alibaba.com will benefit our customers and our long-term business growth.

BRIDGING BUYERS AND SUPPLIERS FROM ALL OVER THE WORLD

Thanks to website optimization and enhanced trust and safety measures, we have seen a healthy growth in our global buyer base and overseas traffic in 2011, representing more opportunities for us to connect buyers and suppliers worldwide



INTERACTION

ENCOURAGING COMMUNICATION AMONG USERS

We are building a dynamic rating and feedback system on our China marketplace in a bid to develop a "trust profile" for every user as well as facilitate more online activities between buyers and sellers

DIRECTORS AND SENIOR MANAGEMENT

MA Yun, Jack

LU Zhaoxi, Jonathan

WU Wei, Maggie

CHAIRMAN

MA Yun, Jack, 47, is our chairman and non-executive director. He is the lead founder, chairman and a director of Alibaba Group Holding Limited ("Alibaba Group"), our holding company. Mr. Ma has also been chief executive officer of Alibaba Group since its inception in 1999. He is responsible for the overall strategy and focus of Alibaba Group and our company. He is also a director of a number of our subsidiaries in mainland China. Mr. Ma is a pioneer in the Chinese Internet industry and in 1995 founded China Pages, one of the first Internet-based directories in China. From 1998 to 1999, Mr. Ma headed an information technology company established by the China International Electronic Commerce Center, a department of the Ministry of Foreign Trade and Economic Cooperation. As a respected business leader, Mr. Ma was chosen by the World Economic Forum as a "Young Global Leader" in 2001 and selected by China Central Television and its viewers as one of the "Top 10 Business Leaders of the Year" in 2004. He was named one of the "25 Most Powerful Businesspeople in Asia" by Fortune in 2005, a "Businessperson of the Year" by BusinessWeek in 2007 and one of the 30 "World's Best CEOs" by Barron's in 2008. In 2009, Mr. Ma was recognized as one of the "TIME 100: The World's Most Influential People" by TIME, one of "China's Most Powerful People" by BusinessWeek and one of the "Top 10 Most Respected Entrepreneurs in China" by Forbes Chinese edition. He also received the "2009 CCTV Economic Person of the Year: Business Leaders of the Decade Award" from China Central Television. In 2010, he was named one of "Asia's Heroes of Philanthropy" by Forbes Asia for his contribution to poverty and disaster relief in China, and one of the "Chinese Businesspeople of the Year" by Forbes Chinese edition. In 2011, he received the "Lifetime Achievement Award for Technology" from the Asian Strategy & Leadership Institute. Mr. Ma currently serves on the board of SOFTBANK CORP., a leading digital information company that is publicly traded on the Tokyo Stock Exchange. He is also a director of Huayi Brothers Media Corporation, a company listed on The Shenzhen Stock Exchange. In 2009, he became a trustee of The Nature Conservancy's China (TNC) program and joined the global board of directors of the organization in 2010. Mr. Ma holds a Bachelor's degree in English from Hangzhou Teacher's Institute.

EXECUTIVE DIRECTORS

LU Zhaoxi, Jonathan, 42, is our executive director and has served as our chief executive officer since February 2011. Mr. Lu joined Alibaba Group in 2000. He is also an executive vice president of Alibaba Group and non-executive chairman of Taobao Marketplace, which is wholly-owned by Alibaba Group. From 2000 to 2004, Mr. Lu served in several leadership roles at our company and managed our South China sales region. In September 2004, he led a dedicated team to establish Alipay and served as Alipay's president before moving to Taobao in January 2008. Before joining Alibaba Group, Mr. Lu was co-founder of a network communication company. He holds a Master's degree in Business Administration from China Europe International Business School.

WU Wei, Maggie, 43, is our executive director and has served as our chief financial officer since 2007. She is also a director of a number of our subsidiaries. Prior to joining our company, Ms. Wu was an audit partner at KPMG's Beijing office. In her 15 years with KPMG, Ms. Wu was the lead audit partner on audits for the initial public offerings and annual audits of several Chinese companies listed overseas and provided audit, accountancy and advisory services to many multinational corporations. She is a member of the Association of Chartered Certified Accountants and a member of the Chinese Institute of Certified Public Accountants. Ms. Wu holds a Bachelor's degree in Accounting from Capital University of Economics and Business.

YE Peng

TSAI Chung, Joseph

TSOU Kai-Lien, Rose

OKADA, Satoshi

YE Peng, 51, is our executive director and has been general manager of the China Business Unit of our company since June 2011. He joined Alibaba Group in October 2010 as general manager of Tmall.com (then Taobao Mall), responsible for the overall operations of the B2C online shopping platform. Mr. Ye has years of experience in retail, Internet and management. Before joining Alibaba Group, he was a venture partner of Highland Capital Partners. Prior to that, he was chief operating officer of Baidu, country general manager for China at Apple as well as vice president of APAC at Motorola. Mr. Ye holds a Ph.D. degree in informatics and software engineering from University of Ulster and an EMBA degree from China Europe International Business School.

NON-EXECUTIVE DIRECTORS

TSAI Chung, Joseph, 48, is our non-executive director and a director of a number of our subsidiaries in mainland China. Mr. Tsai is also one of the founders as well as a director and chief financial officer of Alibaba Group. He held the position of chief operating officer of Alibaba Group from 1999 to 2000 before assuming his current role. Mr. Tsai has contributed to many milestones of Alibaba Group. In 1999, he spearheaded the establishment of Alibaba Group's Hong Kong operations. In 2005, he led the negotiations for Alibaba Group's acquisition of China Yahoo! and Yahoo! Inc.'s investment in Alibaba Group. Prior to joining Alibaba Group, Mr. Tsai was vice president at Investor AB from 1995 to 1999, the main investment vehicle of Sweden's Wallenberg family, where he was in charge of Asian venture capital investments. From 1994 to 1995, Mr. Tsai served as vice president and general counsel of Rosecliff, Inc., a New York-based buy-out firm, and from 1990 to 1993, he practiced tax law as an associate with Sullivan & Cromwell LLP in New York. Mr. Tsai is a member of the New York State Bar. He holds a Bachelor's degree in Economics and East Asian Studies from Yale University and a Juris Doctor degree from Yale Law School.

TSOU Kai-Lien, Rose, 46, is our non-executive director. Ms. Tsou currently serves as senior vice president of Yahoo! Asia Pacific region, where she is responsible for operations in Korea, Hong Kong, Taiwan, Australia, New Zealand, India and Southeast Asia as well as facilitating Yahoo!'s relationship with Alibaba Group and joint venture operations in Japan. She joined Yahoo! Taiwan in 2000 and held the position of managing director from 2001 to 2007, during which she led the acquisition of Kimo, a portal site in Taiwan, which made Yahoo! the largest Internet business in Taiwan after the successful integration of the two companies. In 2007, she led another acquisition of Wretch, a leading blog and photo site in Taiwan, further fortifying Yahoo!'s leading position in Taiwan. In 2008, under Ms. Tsou's leadership, Yahoo! Kimo acquired Taiwan e-commerce company Monday, an important strategic milestone to enabling Yahoo! Taiwan's full capabilities in e-commerce from B2C shopping, C2C auction to online store solution. Ms. Tsou has 20 years of experience in management, marketing and mass communication. Prior to joining Yahoo!, she was general manager of MTV Taiwan for two years. Ms. Tsou holds an MBA degree from J.L. Kellogg School of Business, Northwestern University and a Master's degree in Mass Communication from Boston University.

OKADA, Satoshi, 53, is our non-executive director. He is also a director of a number of associated companies of our company. Mr. Okada has served as executive vice president of SOFTBANK Group's e-commerce business planning in Japan since April 2000. Prior to that, he held various management positions within the SOFTBANK Group. He also previously held directorship in Ariba Japan and Deecorp Limited, companies engaging in the businesses of technology and software, respectively. Before joining the SOFTBANK Group, Mr. Okada was chief executive officer and president of NetIQ KK, the Japanese subsidiary of NetIQ Corporation, a provider of e-business infrastructure management software. He oversaw the networking management service business and was responsible for establishing Original Equipment Manufacture (OEM) businesses with major Japanese companies such as NEC, Fujitsu and Hitachi. Mr. Okada is also renowned in the storage management industry for his success in establishing Cheyenne Software KK and Computer Associates Japan as industry leaders in the Japanese market.

DIRECTORS AND SENIOR MANAGEMENT

PENG Yi Jie, Sabrina

NIU Gen Sheng

KWAUK Teh Ming, Walter

TSUEI, Andrew Tien Yuan

PENG Yi Jie, Sabrina, 33, was re-designated as our non-executive director on March 12, 2012. Ms. Peng is currently a vice president of business development of Alibaba Group. She joined our company in 2000 as the architect behind our China TrustPass product. Ms. Peng successfully led a team which marketed the product to hundreds of thousands of SMEs in China. She served as director of customer service in our China marketplace division from 2004 to 2005 and headed our China website operation department from 2006 to 2007. Ms. Peng was our executive director and vice president from October 2007 to March 2012 and was responsible for managing our international business operation. She holds a Bachelor's degree in English for Special Purpose and a Bachelor's degree in International Trade from Xi'an Jiaotong University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

NIU Gen Sheng, 54, is our independent non-executive director. He is a non-executive director of China Mengniu Dairy Company Limited, one of China's leading dairy companies which is listed on The Stock Exchange of Hong Kong Limited. He is also a founding team member of Yili Group, the founder of Inner Mongolia Mengniu Dairy (Group) Co., Ltd. as well as the founder and honorary president of Lao Niu Foundation. In 2007, Mr. Niu was elected as one of "China's Most Influential Business Leaders" for the fifth consecutive year and honored with the "2007 Hong Kong Bauhinia Award." Mr. Niu, who is devoted to charity, was elected one of "China's Top 10 Philanthropists" by the Ministry of Civil Affairs of China in 2007 and ranked third in the "2007 Hurun Top 10 Philanthropists." In 2010, Mr. Niu was further awarded the "Lifetime Philanthropy Award" first established by "China Charity Ranking." He currently serves as deputy chairman of the Second China National Committee of International Dairy Federation. Mr. Niu graduated from Inner Mongolia University with a Bachelor's degree in Administration and Management and obtained a Master's degree in Enterprise Management at Chinese Academy of Social Sciences Graduate School.

KWAUK Teh Ming, Walter, 59, is our independent non-executive director. Mr. Kwauk is currently a vice president of Motorola and its director of corporate strategic finance and tax, Asia Pacific. He joined Motorola in January 2003 after 25 years of professional services with KPMG in Vancouver, Hong Kong, Beijing and Shanghai. Between 1987 and 2002, Mr. Kwauk held a number of senior positions in KPMG, including general manager of KPMG's joint accounting firm, managing partner in KPMG's Shanghai office and partner in KPMG's Hong Kong office. Mr. Kwauk is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor's degree in Science and a Licentiate's degree in Accounting from University of British Columbia.

TSUEI, Andrew Tien Yuan, 51, is our independent non-executive director and also an independent non-executive director of Taobao. He currently serves as chief executive officer of Silverlink International Ltd. Mr. Tsuei was formerly senior vice president of Wal-Mart Stores, Inc. From 2001 to 2007, he was managing director of Wal-Mart's global procurement division, where he established and oversaw the global procurement operations of Wal-Mart, which has a presence in more than 30 countries. Mr. Tsuei has more than 20 years of management experience working across a wide range of industries, including procurement, manufacturing, store retailing and direct marketing. Throughout his career, Mr. Tsuei has held several executive positions, including chairman and chief executive officer of Mecox Lane International Mailorder Co. Ltd., one of China's first direct marketing businesses with an online presence, and chief operating officer of China Everbright Holdings Ltd.

KWAN Ming Sang, Savio

KWAN Ming Sang, Savio, 63, is our independent non-executive director. Mr. Kwan was president and chief operating officer of Alibaba Group from 2001 to 2003 and served as chief people officer of Alibaba Group in 2004. He is currently a partner and chief executive officer of A&K Consulting Co., Limited, a company co-founded by him in 2005 focusing on helping small and medium enterprises and start-ups in China. Mr. Kwan has more than 30 years of global management experience, including 17 years at the medical systems division of General Electric Company, during which he was responsible for sales, marketing, operations, business development and establishment of joint venture companies in Asia. He also served as managing director of the China operations of BTR plc, a United Kingdom-based Fortune 500 company, for four years. Mr. Kwan was a board member of the Asia Pacific advisory board of York International Corporation, a leading global air conditioning system provider and a unit of Johnson Controls, Inc., a company listed on the New York Stock Exchange. He is also a visiting executive professor of Henley Business School of University of Reading in the United Kingdom. Mr. Kwan received a higher national diploma from Cambridgeshire College of Technology in the United Kingdom and holds a Master's degree in Science from Loughborough University of Technology and London Business School in the United Kingdom. In 2011, Mr. Kwan received London Business School's "Alumni Achievement Award."

SENIOR MANAGEMENT

LI Ang, Andy, 44, is our chief technology officer. Mr. Li joined Alibaba Group in November 2004 as senior director of the research center, where he was responsible for directing Alibaba Group and our company's technology development, architecture and platform; website system operations; and back-end business systems. Prior to his current position, Mr. Li was vice president of technology of Alibaba.com. Mr. Li has more than a decade of experience in Internet development and engineering management. Before joining Alibaba Group, he was an independent technology consultant from 1997 and founded Angilon, Inc. (a technology consultancy in Silicon Valley) in 2000 and managed the company for four years. Mr. Li holds a Bachelor's degree in Electrical Engineering from University of Science and Technology of China and a Master's degree in Electrical Engineering from University of Arizona.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to rule 13.51B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, changes in our directors' information since the date of our 2011 interim report are set out below:

Directors' personal details

Name of director/ ex-director	Change
MA Yun, Jack	• Received the "Lifetime Achievement Award for Technology" from the Asian Strategy & Leadership Institute in 2011
KWAN Ming Sang, Savio	• Received the "Alumni Achievement Award" from London Business School in 2011
SHAO Xiaofeng	• Resigned as a non-executive director of our company on August 12, 2011
YE Peng	• Appointed as an executive director of our company on November 24, 2011
Peng Yi Jie, Sabrina	• Re-designated from executive director to non-executive director on March 12, 2012

Directors' emoluments

During the six months period ended December 31, 2011, there has been no change to the basis of determining our directors' emoluments (including basic salary, allowances, discretionary bonus and share-based compensation) and to the level of director's fee for our non-executive directors. Details of our directors' compensation packages are set out in note 10 to our consolidated financial statements on pages 107 to 109 of this Annual Report.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

EMPLOYEE RELATIONS

WE CONTINUED TO FOSTER AN OPEN AND TRANSPARENT ATMOSPHERE WITHIN OUR ORGANIZATION AND PROMOTE THE CULTURE OF "WORK PASSIONATELY, LIVE FULLY."

OUR TEAM

As of December 31, 2011, Alibaba.com had a total of 11,415 employees (or 12,878 employees inclusive of staff at our acquired companies such as HiChina and One-Touch), including more than 400 employees in Hong Kong, Taiwan, Korea, India, the United States and United Kingdom.

REMUNERATION AND BENEFITS

To determine staff remuneration packages, Alibaba.com applies fair and equitable evaluation principles according to job duties, work performance, attitudes, abilities, adherence to our values and our company's financial performance. In 2011, we continued to give regular salary raises to the majority of our employees and distributed bonuses according to their respective contributions to our company. This reward system offers incentives to top performers and also motivates individuals to challenge themselves and aim higher. In 2011, the total expenditure for our employees amounted to about RMB2,835.0 million. During the year, we maintained a salary freeze for senior management at senior director level and above, and continued to link managerial staff performance bonuses to departmental results to strengthen their sense of ownership and urgency.

ORGANIZATION, CULTURE AND STAFF DEVELOPMENT

Alibaba.com was confronted with a number of unprecedented challenges in 2011. In response, we focused more on enhancing staff abilities, in particular, facilitating the growth and development of professional staff. We continued to foster an open and transparent atmosphere within our organization and promote the culture of "Work Passionately, Live Fully."

Because our employees are our greatest asset, staff development and growth is critical to our business upgrade and expansion. To cultivate managers, we continued to run a series of training courses designed for mid-level and front-line managers. These courses, which are infused with Alibaba's unique management philosophy and principles, can inspire managers at all levels with new ideas and equip them with practical management skills. In 2011, we also paid close attention to nurturing our professional staff. By providing customized training programs for core professionals such as R&D personnel and product managers, we helped key personnel develop their abilities and advance in their respective professions.

The culture of "to teach is to learn" that we have been fostering is taking root at Alibaba.com. By providing a self-learning platform on our company's intranet, we encourage all employees to explore topics of interest and benefit from exchanges of professional knowledge and daily-life wisdom. Since the beginning of 2011, we have facilitated more than 900 forums with more than 15,000 participants, which has contributed to an atmosphere of continuous learning. Apart from this, Alibaba.com's orientation sessions for new employees remained our most active training program. These sessions are dedicated to teaching recent hires about our corporate culture. In 2011, our orientation programs helped 1,700 new employees transition more smoothly into our big family.

Alibaba.com actively fosters an open and transparent work environment by providing a variety of interaction channels that promote two-way communication between the company and staff. During the year, we organized more than 50 round-table meetings for managers at different levels to meet and listen to opinions from front-line staff; our regularly published in-house magazine, Aliren, provided all staff with an opportunity to share their own stories and thoughts; Aliway, a message forum on our intranet, continues to develop into an open, transparent platform for all staff to freely engage in a variety of discussions; and, the Global Channel continued to keep overseas staff abreast of company news. We also established the official Alibaba.com microblog to provide timely updates about Alibaba.com's developments and promote our corporate culture.

STAFF ACTIVITIES

Alibaba.com advocates "Work Passionately, Live Fully," encouraging employees to do their best at work while also living a fulfilling life and giving back to society.

In 2011, we organized a range of activities to promote this culture, among them: a staff party to commemorate Alibaba.com's 12th anniversary; recruitment of some of our staff as "Ali-Models," giving them a chance to present products supplied by our customers; and two charitable bazaars to help deaf and mute children realize their dreams. During the year, we also held our annual group wedding ceremony, allowing 350 couples from Alibaba.com to tie the knot in the presence of fellow Aliren, as well as an open day for relatives and friends of employees to visit our corporate campus.

Employee-run recreational groups also hosted a number of activities, including Chinese New Year scroll writing, music concerts and a Christmas carnival. By offering a platform for demonstrating their talents, these events encouraged ordinary people to achieve extraordinary things and helped enhance the staff's sense of achievement and belonging.

In 2012, Alibaba.com will continue to encourage and drive corporate, team and personal development.

SUSTAINABILITY AT ALIBABA.COM

Since Alibaba.com's humble beginnings, we have been highly involved in sustainable corporate responsibility projects as a way to contribute to the world around us. From financial donations for disaster relief efforts, to school programs for disadvantaged children, to encouraging staff to volunteer in their communities, our company believes in committing to social causes at all levels. Through these means, we are able to ensure our efforts contribute to social development and provide sustainable solutions to issues that affect us all.

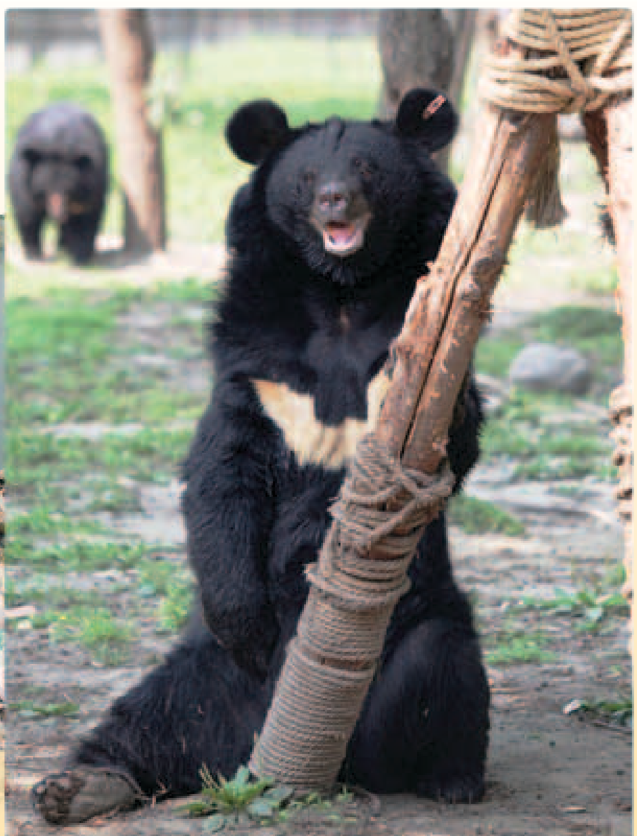
OUR COMMITMENT TO THE ENVIRONMENT

Over the last few years, we, together with our parent company Alibaba Group, have made air and water quality our top priorities as they are essential to our health and well-being. Since 2010, we have earmarked 0.3% of our annual revenue to fund efforts designed to spur environmental awareness and conservation around the world. Alibaba Group's clean water initiative is set to resolve water pollution problems and explore new ways of doing so.

In 2011, Alibaba Group partnered with the Zhejiang government and local environmental groups to build a citizen network to combat water pollution, the Zhejiang "Clean Water Source Action," to drive public participation in environmental protection and assist the government in dealing with pollution.

The Action built a stable water protection team in Zhejiang, and facilitated the creation of 11 citizen environmental networks and formed a team of 10 environmental experts and hundreds of volunteers. It has also launched more than 50 water environment studies, unveiling and resolving approximately 20 pollution cases in the region. The Action also built a dedicated online platform to disclose information and facilitate experience sharing with the public (http://www.qyxd.org/).

On November 1, 2011, Alibaba Group and nine other Chinese companies participated in a signing ceremony to signal their purchase of 148,000 tons of certified forestry carbon credits – the first batch in China. Alibaba Group bought 10,000 tons of the credits in the aim of encouraging more companies and individuals to be responsible for their carbon emissions and join hands to protect the earth.



Our servers emit carbon every day, adding up to tons every year. The above-mentioned program provides us with an accountable channel to pay for the use of our precious resources. Through this "carbon credit trading platform," our company is sharing its social responsibility by helping offset our carbon footprint.

As always, Alibaba.com remained committed in 2011 to animal protection both online and offline. Alibaba.com continues to cooperate with Animals Asia to protect moon bears against bear bile farming as well as ensure protected animals, and their products, remain off our international platform.

SUSTAINABILITY AT ALIBABA.COM

OUR COMMITMENT TO DISASTER RELIEF

Alibaba.com and our parent company Alibaba Group have made it a priority to offer post-disaster support as a strategic offering of means or know-how to help victims sustain their own livelihood, instead of solely making financial contributions.

After the earthquake near Hongshu, Japan, Alibaba.com encouraged our netrepreneur community to donate much needed necessities, such as beds, through our online material donation platform. A total of 82 customers in China participated in the disaster relief program, donating more than 142,000 items, delivered directly to the disaster zone by UPS, our disaster relief partner.

Across the pond, our U.S. team also helped mobilize our online community to help victims of the Japanese earthquake and tsunami. The general public interested in donating items for the relief effort could order them at cost from AliExpress.com, who then provided free shipping to Japan. Cash donations to the One Foundation were also made available from the site.

After the earthquake in Yunnan province, China, in 2011, Alibaba.com made a donation of RMB1 million to the disaster-hit area through China Red Cross.

Alibaba.com also reached out to help the devastating situation in eastern African countries suffering from the most severe drought in the past 60 years through a donation to the China Red Cross. The RMB1 million contribution went towards famine relief for hundreds of families in Somalia which was hardest-hit by the dry weather and famine.

OUR COMMITMENT TO COMMUNITY

China

Since 2010, the Alibaba.com-Taobao Net Products Trade Fair, a series of offline tradeshows targeted at netrepreneurs, has offered free exhibition opportunities to NGOs proactive in their community care activities. As part of our commitment to local communities, approximately 10 organizations received free exhibition opportunities to promote themselves to the public at each fair.

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Alibaba Group encourages employees to start their own social care initiatives. Any employee can choose an area of interest and receive a "community care startup" grant of RMB50,000 per year, after demonstrating their project's strength and sustainability. As of 2011, almost 15 of these employee-led community groups are operating in China and touch the lives of more than 10,000 people. The initiatives include caring for deaf and mute children, elderly citizens who live alone, as well as environmental protection.

In December 2011, Alibaba.com also made a contribution of RMB1 million to the Beijing Leping Welfare Foundation to provide vocational advancement and job training for low-income persons. We believe in this organization as it sustains our belief of furthering qualified applicants for the advancement of NGOs and community services in China.

Hong Kong

2011 marked another year our Hong Kong office contributed to the Caring Company Scheme which is specifically geared to building strategic partnerships among businesses and non-profit organizations to create a more cohesive society. In 2011, our company was again awarded the Caring Company logo to indicate our commitment to corporate social responsibility. In September, Alibaba.com was also selected as a constituent member of the Hang Seng Corporate Sustainability Benchmark Index, which underscores our company's positive impact on the environment and society, among other factors pertinent to sustainable development.

The Ali Community Team (ACT), a group of volunteers from Alibaba's office in Hong Kong, started planning events and initiatives in July 2010 with its mandate to "Love and Pay It Forward." In January 2011, the cold weather gripping Hong Kong propelled ACT to start off the year with a used-clothing donation drive to benefit the Street Sleepers' Shelter Society Trustees Incorporated.

Later in the year, Aliren were invited to attend a charity lunch in Hong Kong to raise awareness of food waste for World Environment Day. We arrived with our own dining utensils and reusable containers for the lunch to discuss how we can change our habits to make the planet a little greener.

Through a partnership with TREATS (a registered charity and an agency member of the Community Chest of Hong Kong and the Hong Kong Council of Social Service), we organized activities in July to promote the understanding, acceptance and equal participation of kids from various backgrounds. In the fall, ACT invited our local Hong Kong staff to participate in Cookery For All with 30 ethnic minority and low-income children to make cookies together and celebrate our diversity.

During the Mid-Autumn Festival, our staff was encouraged to donate their moon cakes, offered by Alibaba.com, to the cage residents of Hong Kong. Approximately 70 people, living alone or with their families in spaces slightly bigger than our work cubicles, received these special treats during a time of great celebration. A dozen of our staff members personally delivered the moon cakes to needy residents who normally struggle to find their daily meals.

ACT's activities came to a close in November with a charity fundraiser for the Hong Kong Society for Rehabilitation. Dozens of our staff helped raise the necessary funds for this organization.

United States

As Alibaba.com's aim is to "make it easy to do business anywhere," our teams in the U.S. reached out to local universities to conduct seminars as part of the "Emerging Entrepreneur Initiative." The exchange of information among young entrepreneurs at six universities in California not only introduced concepts in global trade but also how to take the first steps in building a successful enterprise. The six events collectively reached student and campus community members by involving 41 different speakers, including five different Alibaba.com executives and four of our customers. Through the seminars, we educated 830 students on the various elements of global trading. We feel that building knowledge about entrepreneurship, e-commerce and global trade, the next big ideas by these future entrepreneurs will lead to job creation for California, the U.S. and the world.

LOOKING AHEAD

Our commitment to sustainability will be much more proactive as we continue to focus our efforts in markets around the world. As we embark on strengthening our platform, our business and our people, we will also find insightful ways to integrate our social values with those of our business. Fellow Aliren are happy to help where help is needed, and we will remain committed throughout 2012 to influencing others about our responsibility to community and environmental outreach.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors and management of Alibaba.com Limited ("Alibaba.com" or our "Company", together with our subsidiaries, our "Group") believe that corporate governance is fundamental to corporate success and the enhancement of shareholder value. Key elements of corporate governance include honesty, trust and integrity, openness, transparency, responsibility and accountability, mutual respect and commitment.

We seek to promote a new business paradigm that embodies openness, transparency, sharing and responsibility. Our six core values (namely, Customer First, Teamwork, Embrace Change, Integrity, Passion and Commitment) also embody key elements of corporate governance and form the corporate DNA of Alibaba.com. These values hold no less true, and we apply them with no less determination and care in the context of our corporate governance practices than in our business practices.

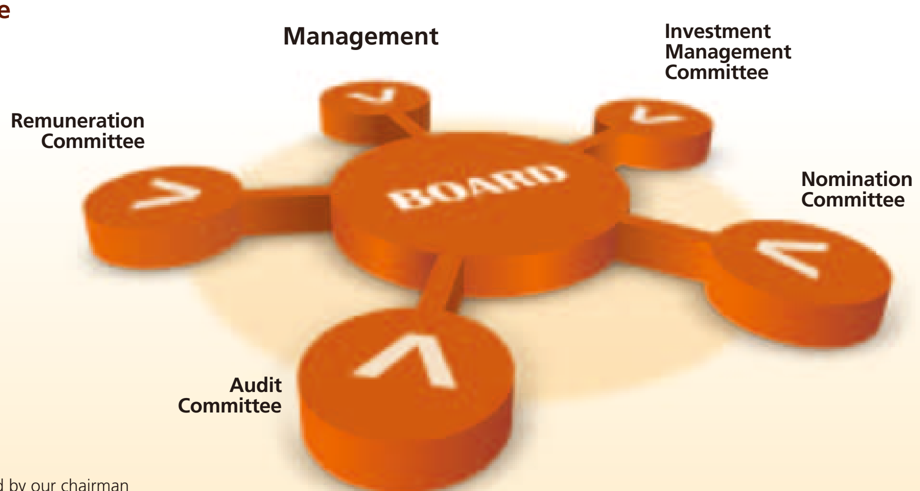
In particular, we view integrity as one of our most important values, and are committed to upholding and continuously promoting integrity of our employees and integrity of our online marketplaces as safe and trusted places for our small business customers. We are also committed to maintaining and upholding good corporate governance in order to protect the interests of our customers, employees and shareholders. Our board of directors sets high standards for our directors, senior management and employees. Any conduct that compromises or attempts to compromise our culture and values will not be acceptable or tolerated. We abide strictly by the laws and regulations of China and the other jurisdictions where we operate, and we observe the guidelines and rules issued by regulatory authorities relevant to our business and our Company, such as those issued by the Ministry of Industry and Information Technology of the People's Republic of China, the Hong Kong Securities and Futures Commission and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

OUR BOARD

Our board is at the core of our corporate governance framework. It is responsible for providing high-level guidance and effective oversight to our management. Our board oversees specific areas affecting the interests of all shareholders including financial reporting and control, equity fund raising, recommendation/declaration of dividend or other distributions, notifiable and connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and capital reorganization or other significant changes in the capital structure of our Company. Our board reviews and approves our Company's strategies and business plans and authorizes management to execute them. Our management reports to our board and is responsible for our day-to-day operations. Our management, led by our chief executive officer and chief financial officer, is responsible for the management and administrative functions and day-to-day operations of our Company. Our board currently has 12 members, four of whom are independent non-executive directors. Biographical details of our directors are set out on pages 32 to 35 of this Annual Report and can be found on our website at http://www.alibaba.com/about.

COMPOSITION OF BOARD AND BOARD COMMITTEES

Overall structure



Note: 1. The board is led by our chairman
2. The board delegates authorities to management
3. The management is led by our chief executive officer and chief financial officer

Composition and attendance

Directors	Attendance during 2011					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment Management Committee	Annual General Meeting
Chairman and non-executive director						
MA Yun, Jack[1]	6/8			2/2	1/1	1/1
Executive directors						
LU Zhaoxi, Jonathan[2]	6/6					1/1
WU Wei, Maggie	6/8				1/1	0/1
YE Peng[3]	1/1					
Non-executive directors						
TSAI Chung, Joseph[4]	8/8	4/4	1/1		1/1	1/1
TSOU Kai-Lien, Rose	5/8					0/1
OKADA, Satoshi	8/8					0/1
PENG Yi Jie, Sabrina[5]	8/8					1/1
Independent non-executive directors						
NIU Gen Sheng[6]	4/8		0/1	0/2		0/1
KWAUK Teh Ming, Walter[7]	8/8	4/4	1/1			1/1
TSUEI, Andrew Tien Yuan	7/8				1/1	1/1
KWAN Ming Sang, Savio	7/8	4/4		2/2		1/1
Ex-directors						
WEI Zhe, David[8]	1/1				1/1	
LEE Shi-Huei, Elvis[8]	1/1					
SHAO Xiaofeng[9]	5/5					0/1

Note:
1. Also chairman of the nomination committee
2. Appointed to the board on March 17, 2011
3. Appointed to the board on November 24, 2011
4. Also chairman of the investment management committee
5. Re-designated from executive director to non-executive director on March 12, 2012
6. Also chairman of the remuneration committee
7. Also chairman of the audit committee
8. Resigned from the board on February 21, 2011
9. Resigned from the board on August 12, 2011

CORPORATE GOVERNANCE FRAMEWORK

Alibaba.com's governance framework is supported by many internal guidelines, policies and procedures that have been carefully developed over the years, including, among others, the following:

- Terms of reference for the board and each board committee
- Guidelines on Dealings in Securities (for both directors and relevant employees)
- Code of Business Conduct
- Corporate Disclosure Guidelines
- Delegation of Management Functions
- Guidelines on Managing Investments
- Cash Management Policy

We review our corporate governance practices regularly and implement changes and new measures as and when appropriate.

CORPORATE GOVERNANCE CODE COMPLIANCE

Throughout 2011, we have applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("Corporate Governance Code") as set out in Appendix 14 of the Listing Rules, and where appropriate, adopted the recommended best practices.

Set out below are some of the key corporate governance principles and practices we have complied with. They include major aspects of the code provisions as well as certain recommended best practices under the Corporate Governance Code.

Key principle/practice	CP/RBP [Note]	How did Alibaba.com apply them?
BOARD OF DIRECTORS		
Key Leadership		
• Clear division of the positions of the chairman and chief executive officer	CP A.2.1 A.2.2 A.2.3 RBP A.2.4 A.2.5	▶ To avoid the over concentration of power in any single individual, the positions of chairman and chief executive officer in Alibaba.com are held by two different individuals who have distinct and separate roles. Our chairman, MA Yun, Jack provides leadership for our board and is responsible for ensuring our board works effectively, discharges its responsibilities and conforms to good corporate governance practices and procedures. As the chairman of our board, he also seeks to ensure, with the support of our executive directors, that all directors are properly briefed on issues arising at our board meetings, and that all directors receive accurate, timely and reliable information. Our chief executive officer (previously WEI Zhe, David and currently LU Zhaoxi, Jonathan), is responsible for providing leadership for the senior management team, for strategic planning of different business functions and for implementing the policies and development strategies approved by our board.
Independence of Directors		
• Meet guidelines on independence in rule 3.13 of the Listing Rules	RBP A.3.2 RBP A.4.5(c)	▶ Our independent non-executive directors represent at least one-third of our board. ▶ Each independent non-executive director has confirmed his independence with the Hong Kong Stock Exchange upon his appointment pursuant to the Listing Rules. ▶ Each independent non-executive director has also made an annual confirmation of independence taking into account the factors for assessing independence and in accordance with the requirements set out in rule 3.13 of the Listing Rules. ▶ Our nomination committee made an annual assessment on the independence of all independent non-executive directors, taking into account, among other things, their annual confirmation of independence declared pursuant to rule 3.13 of the Listing Rules. The committee confirmed that each independent non-executive director was able to meet the requirements under rule 3.13 of the Listing Rules and has continued to be independent. ▶ Our board members are unrelated to each other and to the senior management in all respects, whether financial, business, or family.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
Responsibilities of Directors		
• Induction program for new directors	CP A.5.1	▶ Three new directors, namely LU Zhaoxi, Jonathan, SHAO Xiaofeng and YE Peng joined our board during the year. All of them received the required induction and training after their appointment, which were aimed to ensure their proper understanding of our operations and business, full awareness of their responsibilities under law, the Listing Rules and other applicable legal and regulatory requirements, as well as our business and governance policies.
• Update directors with the latest developments in the regulatory environment and the market	RBP A.5.5	▶ As part of the continuing professional development program, our directors attended two regulatory update sessions conducted by our external legal advisors in August and December 2011. These updates related to the latest amendments to the Listing Rules and disclosure of price-sensitive information.
• Directors' and officers' liability insurance	RBP A.1.9	▶ We have continued to maintain appropriate directors' and officers' liability insurance based on our assessment of the needs and characteristics of our business operations and the assessed exposures.
Appointments and Re-election of Directors		
• Non-executive directors should be appointed for a specific term and be subject to re-election	CP A.4.1	▶ Our non-executive directors were appointed for a specific term of not more than three years, subject to the re-election requirements under our articles of association as described below and the Listing Rules. We set out each non-executive director's term of appointment clearly in his or her appointment letter.
• Every director should be subject to retirement by rotation at least once every three years	CP A.4.2	▶ Article 130 of our articles of association stipulates, among other things, that every director is subject to retirement by rotation at least once every three years. Retiring directors, being eligible, may stand for re-election at the general meeting at which they retire. ▶ In accordance with the provisions of the Corporate Governance Code and our articles of association, four directors, namely, WU Wei, Maggie, PENG Yi Jie, Sabrina, KWAUK Teh Ming, Walter and TSUEI, Andrew Tian Yuan retired from office by rotation in our 2011 annual general meeting. In addition, LU Zhaoxi, Jonathan and SHAO Xiaofeng, being directors appointed by our board to fill the casual vacancy in early 2011, had to stand for re-election in the then next available general meeting of our Company. All of these six directors were re-elected by shareholders in our 2011 annual general meeting. ▶ If Alibaba.com remains listed on the Hong Kong Stock Exchange, four of our directors, namely TSAI Chung, Joseph, OKADA, Satoshi, NIU Gen Sheng and KWAN Ming Sang, Savio will retire from office by rotation in accordance with article 130 of our articles of association in our next annual general meeting which is expected to be held by the end of June 2012. NIU Gen Sheng, who wishes to spend more time on his own personal engagements and other commitments, will not offer himself for re-election. All other retiring directors, being eligible, will offer themselves and stand for re-election at the same meeting. Further, YE Peng, being director appointed by our board to fill the casual vacancy in late 2011, will also offer himself and stand for re-election in accordance with article 114 of our articles of association.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
Meetings		
• Regular meetings		▶ Our board meets regularly according to an annual meeting schedule fixed in consultation with all directors before the start of the year.
• Minimum of four times a year	CP A.1.1 A.1.3	▶ Our board held five pre-scheduled meetings during 2011 (in March, May, August, November and December). In each case, our directors received at least 14 days' written notice of meeting in advance. For other ad hoc board meetings, our directors were given as much notice as was reasonable and practicable in the circumstances. There were three ad hoc board meetings held in 2011.
	CP A.1.2 RBP A.2.4	▶ Our chairman, with the support of our executive directors, leads the process of setting the agenda of board meetings. Board members are always invited to comment on the agenda and may submit proposals for inclusion into the agenda for consideration during board meetings.
	CP A.1.5 A.1.6	▶ Minutes of our board meetings always record in sufficient details the matters considered and decisions reached. They are kept by our company secretary and will be distributed to each director within a reasonable period after each meeting.
	CP A.1.4 A.1.7 A.6.3	▶ Our directors are given full and timely access to relevant information including board papers and related materials. Procedures are in place for all directors to have access to the advice and services of our company secretary. Our directors may also seek independent professional advice at our expense, if necessary, in accordance with pre-approved procedures.
• Active participation by a majority of directors	CP A.1.1	▶ All our regular board meetings were participated by a majority of directors, either in person or through other electronic means of communication. The attendance record of each director is set out on page 43 of this Annual Report.
Board Committees		
• Specific written terms of reference	CP B.1.1 C.3 RBP A.4.4	▶ Our board has established four separate committees to oversee key aspects of our Company's affairs: ✓ Audit committee (established on October 12, 2007) ✓ Remuneration committee (established on October 12, 2007) ✓ Nomination committee (established on October 12, 2007) ✓ Investment management committee (established on March 18, 2008)
	CP B.1.4 C.3.4 D.2.1 RBP A.4.6	▶ Written terms of reference of our audit committee, remuneration committee and nomination committee, covering each committee's respective specific role, authority and functions, are available on our website.
• Provision of board committees with sufficient resources to discharge their duties	CP B.1.5 C.3.6 RBP A.4.7	▶ To discharge its dedicated function, each of our board committees has access to sufficient resources as and when required, including the services of outside advisors such as financial and legal advisors and valuers for obtaining the necessary professional advice at our cost.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP [Note]	How did Alibaba.com apply them?
REMUNERATION OF DIRECTORS		
Remuneration Policy		
• Disclosure of information relating to directors' remuneration policy	RBP B.1.6	▶ The emoluments of our directors are determined with reference to a combination of factors including their skills, knowledge and experience, time commitment, duties and responsibilities required of them and the prevailing market conditions. Our executive directors' compensation includes a large element of performance-based remuneration by reference to our Company's financial and operational results as well as corporate goals, objectives and values. Details of our directors' compensation packages are set out in note 10 to our consolidated financial statements on pages 107 to 109 of this Annual Report.
Remuneration Committee		
• Clear authority and duties	CP B.1.3	**Role and Function:** ▶ To review the remuneration policy of our Company, and to make recommendations to our board on the policy and structure for remuneration of our directors and senior management and on the establishment of formal and transparent procedures for developing a policy on such remuneration; ▶ To determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment); ▶ To make recommendations to our board in regard to the remuneration of non-executive directors, including director's fees and any share-based awards; and ▶ To consider and approve the grant of share-based awards (including share options, restricted share units and restricted shares) to eligible participants pursuant to our share option scheme, restricted share unit scheme and share award scheme.
• A majority of members are independent non-executive directors	CP B.1.1	▶ Our remuneration committee has a total of three members, namely, NIU Gen Sheng, KWAUK Teh Ming, Walter and TSAI Chung, Joseph, with a majority composition of independent non-executive directors including the committee chairman.
• Summary of work performed		▶ Our remuneration committee held one meeting during the year. The attendance of its members is described on page 43 of this Annual Report. ▶ During the meeting held in 2011, our remuneration committee: ✓ Reviewed the remuneration of non-executive directors and made proposal regarding director's fees to our board for shareholder approval at the 2011 annual general meeting; and ✓ Reviewed and approved the remuneration packages (including year-end bonuses and share-based awards) of our executive directors and senior management.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

CORPORATE GOVERNANCE REPORT

Key principle/practice	CP/RBP [Note]	How did Alibaba.com apply them?
NOMINATION OF DIRECTORS		
Nomination Committee		
• Clear authority and duties	RBP A.4.5	**Role and Function:** ▶ To lead the process for board appointments; ▶ To identify and nominate candidates for appointment to our board; ▶ To assess the independence of independent non-executive directors; and ▶ To make recommendations to our board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.
• A majority of members are independent non-executive directors	RBP A.4.4	▶ Our nomination committee has a total of three members, namely, MA Yun, Jack, NIU Gen Sheng and KWAN Ming Sang, Savio, with a majority composition of independent non-executive directors. The committee chairman is MA Yun, Jack, chairman of our board.
• Formal appointment procedure		**Nomination Procedures, Process and Criteria** ▶ The process for board appointments is principally led by our nomination committee: Nomination committee reviews the structure, size and composition (including the skills, knowledge and experience) of our board from time to time ▼ Nomination committee identifies individuals suitably qualified to become board members ▼ Nomination committee selects, and makes recommendations to our board on the selection of persons nominated for directorships and on any proposed changes to our board ▼ **Our board makes formal invitation to nominated candidate for appointment to our board and approves the proposed changes to our board**
• Summary of work performed		▶ Our nomination committee held two meetings during the year. The attendance of its members is described on page 43 of this Annual Report. ▶ Our nomination committee performed the following work during the year: ✓ Recommended to our board for the appointment of LU Zhaoxi, Jonathan and YE Peng as the executive directors; ✓ Nominated retiring directors for re-election by shareholders at the 2011 annual general meeting; ✓ Reviewed and assessed each independent non-executive director's annual confirmation of independence pursuant to rule 3.13 of the Listing Rules; and ✓ Reviewed the time required from non-executive directors and assessed whether the non-executive directors were spending enough time in fulfilling their duties.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
ACCOUNTABILITY AND AUDIT		
Financial reporting		
• Announcement and publication of quarterly financial results	RBP C.1.4	▶ Our Company announces and publishes quarterly financial results after the end of the relevant quarter, which are prepared using the same accounting policies applied to our Company's half-year and annual accounts.
Audit Committee		
• Clear authority and duties	CP C.3.3	**Role and Function:** ▶ Our audit committee is primarily responsible for assisting our board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, and for overseeing the audit process and performing other duties and responsibilities as assigned by our board. It meets regularly to review financial reporting, internal control and risk management matters and to this end has unrestricted access to both our external and internal auditors.
• A majority of members are independent non-executive directors		▶ Our audit committee has a total of three members, namely KWAUK Teh Ming, Walter, TSAI Chung, Joseph and KWAN Ming Sang, Savio with a majority composition of independent non-executive directors including the committee chairman.
• Summary of work performed		▶ Our audit committee held four meetings during the year. The attendance of its members is described on page 43 of this Annual Report. ▶ Our audit committee reviewed, considered and approved the following matters in its meetings held during the year: ✓ Our Company's unaudited quarterly, interim consolidated financial statements and audited annual consolidated financial statements, with a recommendation to the board for approval; ✓ The terms of engagement and remuneration of our Company's external auditors; ✓ All connected transactions/continuing connected transactions of our Company; ✓ The internal investigation of fraudulent Gold Suppliers on our international marketplace; ✓ The effectiveness and adequacy of our internal control system; ✓ The internal control and risk management plan and measures; ✓ The Internal audit plan and measures; and ✓ Other compliance and corporate governance measures and practices.
Directors' Responsibility for the Consolidation of Financial Statements		
• Directors' responsibility for preparing the accounts	CP C.1.2	▶ Our directors acknowledge their responsibility for preparing our consolidated financial statements and of ensuring that the preparation of our consolidated financial statements is in accordance with the statutory requirements and applicable standards. ▶ We maintain a team of suitably qualified accounting professionals (including our prior qualified accountant) to oversee our financial reporting and other accounting related issues in accordance with relevant laws, rules and regulations.
• Auditors' reporting responsibility in the auditors' report	CP C.1.2	▶ The statement of our auditors concerning their reporting responsibilities on our consolidated financial statements is set out in the Independent Auditor's Report on page 81 of this Annual Report.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

CORPORATE GOVERNANCE REPORT

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
INTERNAL CONTROLS		
• Review of effectiveness of the system of internal control	CP C.2	▶ Our internal control system is designed to provide reasonable assurance in safeguarding our assets, preventing and detecting frauds and irregularities, providing reliable financial information as well as ensuring compliance with applicable law and regulations. The system is designed to manage, rather than eliminate, the risk of failure to achieve our business objectives, and it aims to provide a reasonable, as opposed to an absolute, assurance in this respect.
	RBP C.2.4(c)	▶ Our board acknowledges its overall responsibilities to establish, maintain, and review the effectiveness of our internal control system to ensure our shareholders' investment and assets are safeguarded on the one hand, and to enhance operational efficiency and effectiveness, promote corporate governance and ensure proper implementation of risk assessment and risk management measures on the other hand.
	RBP C.2.3(b)	▶ Our management is responsible for designing and implementing the internal control system of Alibaba.com to achieve the abovementioned objectives. Our management delegates to our internal control department responsibility of strengthening our internal control system in respect of financial reporting and regulatory compliance. Our internal control department also helps management to improve our existing business processes to achieve higher operational efficiency and effectiveness. In addition, our management monitors the effectiveness of our internal controls through control self assessment.
• Additional information to assist understanding of the risk management process and system of internal control	RBP C.2.4(b)	▶ We firmly believe that a sound control environment stems from having the right tone at the top together with concerted action from our senior management. Therefore, we adopted a code of business conduct that applies to all our directors, officers and employees. All directors, officers and employees, whether existing or newly joined, are required to read and sign off to confirm their commitment to abide by this code of conduct and behave in accordance with our policies, guidelines and procedures. We have also continued to improve our internal reporting system which encourages our staff to report situations where employees, including directors and senior management, may be in breach of our rules.
• Processes applied for review of internal control system	RBP C.2.3(c)	▶ Under its terms of reference, our audit committee performs review of our internal control system covering financial, operational and compliance controls and risk management procedures. Regular communications are maintained among our board, audit committee, management and internal control department to address various areas of our internal control system. Also, our internal audit team, which reports directly to the audit committee, provides independent assessment as to the existence and effectiveness of our internal control system, mainly through conducting the annual internal audit, validation of our control self assessment results and audit on various operational projects.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
	RBP C.2.4(d)	▶ We have adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – Internal Control Framework as the standard for the internal control assessment with the internal control testing guidelines directed by the Audit Standard No. 5 issued by the Public Company Accounting Oversight Board. Our internal control assessment is conducted by our management who are directly involved in business function, and the independent validation assessment is conducted by our internal audit team. In accordance with the Alibaba.com Control Self-Assessment Guidelines, our management monitors and evaluates the effectiveness of our internal controls through control self assessment. These Guidelines provide appropriate assessment procedures which are in compliance with the relevant requirements.
	RBP C.2.4(a)	▶ With our internal control department's coordination, management conducted internal control documentation update, key control rationalization, self-assessment on all significant cycles and analysis on the impact of deficiencies in internal control. These actions were based on an independent risk assessment provided by our internal audit team which also validate the results on our control self assessment. Half-yearly reports on the results of the assessment will be submitted to our senior management and our audit committee. Our management will rectify any deficiencies found in the assessment. ▶ The control self assessment program has helped enhance our management's awareness and competency in monitoring controls. In 2011, we extended the program to cover additional key operational control points. Since the launch of this program in the beginning of 2009, we have mobilized a total of 211 qualified control assessment personnel internally to form a virtual team for conducting assessment in key business processes. These control assessment personnel came from our operating departments (73%) as well as other supporting departments including the finance and legal departments (27%). ▶ While our established control self assessment program provides assurance on key financial data and operating effectiveness, our internal audit team also performs in-depth operation reviews to identify potential improvements which may provide better customer experiences as well as enhanced management efficiency. In order to provide feasible solutions to management, our internal audit team analyzes the associated risks and resources and communicates the result thoroughly with management. ▶ Following the internal investigation of fraudulent Gold Suppliers on our international marketplace (details as disclosed in our announcement dated February 21, 2011), we took actions to further enhance the level of trust between buyers and suppliers on our platforms. In October 2011, we began to roll out an "on-site inspection" program for China Gold Suppliers on our international marketplace. In addition to having third party service providers conduct basic authentication and verification on suppliers subscribing our paying membership, our personnel will visit these China suppliers and conduct onsite inspection with a view to obtaining a second level of verification that these members are in valid legal existence. As a result of our efforts, the total number of complaints that we received in 2011 on fraud committed by paying members on our international marketplace dropped by about 70% compared with 2010.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP [Note]	How did Alibaba.com apply them?
• Annual review of effectiveness	CP C.2.1 C.2.2	▶ In respect of 2011, our board, through our audit committee as well as by the directors themselves, has reviewed the effectiveness of our Group's internal control system, covering all material financial, operational and compliance controls and risk management functions. In assessing the effectiveness of such internal control system, our board has considered all the relevant control processes and measures that our Group has adopted. Our board is generally satisfied that our Group's internal control system was effective. Our board is also satisfied with the adequacy of resources, qualifications and experience of staff of our accounting and financial reporting function, and their training programs and budget.
• Internal Audit Function	RBP C.2.3(b)	▶ Our internal audit team formulates the annual internal audit plan based on a top-down risk based approach to ensure the projects are aligned with our corporate strategies and objectives. Audit results are reported to our audit committee and senior management. Our internal audit team also performs remediation reviews to ensure outstanding issues are properly addressed. In addition, it maintains regular communications with our external auditors so that both parties are aware of the significant factors that may affect their respective scopes of work. We will continue to have an internal audit team which provides independent assessment on the existence and effectiveness of our internal control system, mainly through conducting annual internal audit and audit on various operational projects.
External Auditors		
• Analysis of auditors' remuneration		▶ PricewaterhouseCoopers was re-appointed as our external auditors at the 2011 annual general meeting until the conclusion of the next annual general meeting. ▶ In order to maintain independence, PricewaterhouseCoopers is primarily responsible for providing audit services in connection with our consolidated financial statements, and only provides non-audit services that do not impair their independence or objectivity. Any non-audit service that exceeds the amount prescribed by our audit committee (currently fixed at RMB400,000) will be subject to prior approval by the chairman of our audit committee. ▶ For the year ended December 31, 2011, the remuneration paid or payable to PricewaterhouseCoopers for audit and non-audit services (together with the comparative figure for 2010) is as follows:

Services rendered	2010 RMB'000	**2011** **RMB'000**
Audit services		
– annual audit	6,020	7,135
– other services	1,780	6,763
Non-audit services		
– taxation	328	–
Total	8,128	13,898

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
Investment Management Committee		
• Not a requirement under the Corporate Governance Code		**Role and Function:** ▶ To review and approve (if appropriate) investment project according to our Guidelines on Managing Investments and the authority and limits delegated by our board; and ▶ To review and make recommendations to our board on suitable investment opportunities and projects.
• Summary of work performed		▶ Our investment management committee has a total of four members, namely TSAI Chung, Joseph (committee chairman), MA Yun, Jack, WU Wei, Maggie and TSUEI, Andrew Tien Yuan. ▶ During the year, the investment management committee held one meeting and the attendance of its members is described on page 43 of this Annual Report. ▶ Our investment management committee reviewed and considered various potential investment opportunities and projects of our Company, including, among others, the acquisition of a 25% equity interest in Sinosoft Technology Group Ltd.
COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS		
• Compliance with the Model Code for Securities Transactions set out in Appendix 10	CP A.5.4	▶ We adopted our own Guidelines on Dealings in Securities on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code for Securities Transactions") as set out in Appendix 10 of the Listing Rules in respect of dealings in the securities of our Company by our directors and relevant employees (which include key management staff and employees working in functional departments/business units who may handle or come into price-sensitive information of our Company from time to time, such as those from the finance department). ▶ According to our specific enquiry, all directors have complied with the required standard set out in the Model Code for Securities Transactions and our Guidelines on Dealings in Securities regarding transactions involving our securities.
COMMUNICATIONS		
• Maintaining on-going and effective communication with shareholders		▶ Our board endeavors to uphold transparent communications with our shareholders for them to make informed decisions about their investments and the exercise of their rights as shareholders, including voting their shares. We establish and maintain different communication channels with our shareholders through the publication of annual and interim reports, announcements as well as news releases to provide extensive information on Alibaba.com's activities, business strategies and developments. The information is also available on our website: http://ir.alibaba.com. ▶ In October 2011, we organized a visit to our corporate campus in Hangzhou for a small group of individual shareholders who had expressed a keen interest to know our Company in greater depth in our 2011 annual general meeting. These shareholders visited not only our corporate campus but also our customers so as to understand more about Alibaba.com's business and services. Further, as we value our shareholders' feedback, we arranged an interactive session for these shareholders to meet, discuss business strategies and exchange views with our management.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

CORPORATE GOVERNANCE REPORT

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
• Use general meetings for communication and encourage shareholders' participation		▶ Our board welcomes the views of shareholders on matters affecting Alibaba.com and encourages them to attend shareholder meetings to communicate any concerns that they might have directly to our directors. We regard shareholder meetings as a valuable forum for our shareholders to raise comments and exchange views with our board. Our directors and senior management always make an effort to be present at shareholder meetings to address queries from our shareholders. ▶ Our 2011 annual general meeting was held at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on May 14, 2011 at 10:00 a.m. The matters resolved thereat are summarized as follows: ✓ Receipt and adoption of the audited financial statements together with the directors' report and the independent auditor's report for the year ended December 31, 2010; ✓ Re-election of LU Zhaoxi, Jonathan, WU Wei, Maggie, SHAO Xiaofeng, PENG Yi Jie, Sabrina, KWAUK Teh Ming, Walter and TSUEI, Andrew Tian Yuan as directors (by way of separate resolutions); ✓ Authorization of the board to fix the remuneration of our directors, subject to a maximum aggregate amount of RMB5,000,000; ✓ Re-appointment of PricewaterhouseCoopers as our auditors and authorization of the board to fix their remuneration; ✓ Approval of the grant of a general mandate to our directors for the issue of new securities not exceeding 10% of the aggregate nominal amount of our issued share capital as at the date of our 2011 annual general meeting; ✓ Approval of the grant of a general mandate to our directors for the repurchase of shares not exceeding 10% of the aggregate nominal amount of our issued share capital as at the date of our 2011 annual general meeting; and ✓ Confirmation of the maximum number of shares for issue under our restricted share unit scheme.
SHAREHOLDERS' RIGHTS		
• Procedure for voting by poll		▶ All resolutions put forward at our annual general meeting were conducted by way of poll in accordance with the requirements of the Listing Rules. Poll results were published and posted on the Hong Kong Stock Exchange's website and our website. ▶ Computershare Hong Kong Investor Services Limited was appointed the scrutineer to monitor and count the votes cast by poll at our 2011 annual general meeting.
INVESTOR RELATIONS		
• Maintaining close communications with investors		▶ Alibaba.com places a great deal of importance on communication with shareholders and investors. We have an investor relations team, which is primarily responsible for day-to-day contact with shareholders, investors and analysts through an array of investor relations programs. ▶ We strive to provide open, ongoing and effective communication with shareholders and investors. We are also dedicated to handling investor enquiries and providing clear and timely information through a number of channels, including one-on-one or small group meetings, teleconference, investor relations website, email and hotline.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
• Dissemination of company information		▸ Alibaba.com discloses useful information in a timely and appropriate manner. To maintain the fairness in information disclosure, we use our investor relations website (http://ir.alibaba.com) to disseminate all relevant information, including financial results announcements, results presentations, webcasts of analyst's conference calls, key financial and operating metrics, new initiatives and business updates. Press release about corporate development and investor relations updates are also distributed through email to recipients who have registered on our corporate website. ▸ The information on our website is designed for investors to have a clear picture on our development and performance. Since 2010, we have provided a set of comprehensive financial and operating information on both annual and quarterly basis which is downloadable in Excel format in order to give extra convenience to investors when reviewing and analyzing the financials. ▸ We report financial results on a quarterly basis, following the recommended best practice under the Corporate Governance Code. We also publish interim and annual reports in both printed and electronic versions. All information is accessible and downloadable on our investor relations website in both Chinese and English versions.
• Communication with investment community		▸ Alibaba.com has active investor relations programs on meeting institutional investors and analysts. In 2011, we continued our efforts to provide effective channels for proactive communication. During the year, we had more than 500 meetings or conference calls with investors and analysts across the globe. Our management also actively participated in communicating with key institutional investors. The purpose of these sessions is to ensure both foreign and domestic investors have clear understanding on our business strategies and developments. In addition to the outbound investor activities such as attending investor conferences and organizing roadshows, we also hosted a number of investor tours to visit our corporate campus in Hangzhou. ▸ To foster mutual understanding between the investment community and Alibaba.com, we seek opportunities to demonstrate our culture and value, business strategies and development through various major company events such as the Annual Netrepreneur Summit in Hangzhou in September 2011 and our Net Products Trade Fairs in different provinces across China. ▸ We value feedback from analysts and investors. In 2011, we conducted a global perception study via phone interviews and online surveys to gather feedback from more than 60 investors and analysts across Asia, the US and Europe. The responses received from the perception study enabled us to better gauge the market's understanding of our strategies and developments. It also helped us formulate our investor relations plan and enhance our investor relations efforts going forward.
OTHER VOLUNTARY DISCLOSURES		
• Handling of price-sensitive information		▸ With respect to the handling and dissemination of price-sensitive information, our directors are aware of, and have duly followed, the obligations under the Listing Rules and the principles set out in the guide on disclosure of price-sensitive information issued by the Hong Kong Stock Exchange. We have also established our own Corporate Disclosure Guidelines, under which senior managers are designated and authorized as spokespersons to respond to enquiries in their relevant areas according to the prescribed policy and procedures. Directors and relevant employees who may have access to price-sensitive information are strictly required to comply with our Guidelines on Dealings in Securities when considering or undertaking any dealing in our securities.

Note: CP denotes a code provision and RBP denotes a recommended best practice.

CORPORATE GOVERNANCE REPORT

Key principle/practice	CP/RBP Note	How did Alibaba.com apply them?
• Compliance with non-competition undertaking by major shareholder		▶ We have received an annual written confirmation from Alibaba Group Holding Limited ("Alibaba Group"), our holding company, in respect of the compliance by Alibaba Group and its subsidiaries (other than our Group) of the provisions of the non-competition undertaking given in favour of our Company on October 19, 2007 ("Non-Competition Undertaking"). Alibaba Group further confirmed that there had not been any circumstances giving rise to a New Opportunity or an Acquisition Option (both as defined in the Non-Competition Undertaking) for our Company to consider during the financial year ended December 31, 2011. ▶ Based on: (1) the assessment of our management, having continuously followed on developments in Alibaba Group's businesses and strategies; (2) the information provided by Alibaba Group from time to time, including any relevant corporate and financial information relating to any Restricted Business (as defined in the Non-Competition Undertaking) it has engaged in, assisted or supported a third party as well as any circumstances that may give rise to any New Opportunity or Acquisition Option; and (3) the annual written confirmation provided by Alibaba Group, our independent non-executive directors have reviewed the compliance of the Non-Competition Undertaking by Alibaba Group and its subsidiaries (other than our Group) during the financial year ended December 31, 2011. Our independent non-executive directors were satisfied that Alibaba Group has duly complied with the provisions of the Non-Competition Undertaking. Since there were no circumstances giving rise to any New Opportunity or Acquisition Option during the aforesaid period, our independent non-executive directors were not required to review any decision taken in relation to any New Opportunity or Acquisition Option which may be offered to us by Alibaba Group pursuant to the Non-Competition Undertaking.

OTHER INITIATIVES

Our board recognizes the importance of using our annual general meeting as a forum to communicate and share the Alibaba.com objectives and developments with our shareholders. Shareholders are encouraged to attend the meeting and raise questions with our board and management and exchange their views candidly in an open and friendly atmosphere. To enhance shareholder understanding of Alibaba.com's business developments, operations, management philosophies and latest initiatives, our chairman and chief executive officer each designated a separate session of sharing during our 2011 annual general meeting in addition to the standard meeting agenda.

We will continue to enhance our corporate website as a channel of communication with our shareholders. Relevant information including press releases, formal announcements and principal corporate governance policies are available on our corporate website: http://www.alibaba.com/about.

By order of the board
Wong Lai Kin, Elsa
Company Secretary

Hong Kong, February 21, 2012

Note: CP denotes a code provision and RBP denotes a recommended best practice.

DIRECTORS' REPORT

Our directors are pleased to present the annual report and the audited consolidated financial statements of Alibaba.com Limited (our "Company") together with its subsidiaries (collectively, our "Group") for the year ended December 31, 2011.

PRINCIPAL ACTIVITIES

Our Company is an investment holding company. Our subsidiaries are principally engaged in the provision of software, technology and other services on our online business-to-business ("B2B") marketplaces with the uniform resource locators www.alibaba.com, www.1688.com and under the trade name "Alibaba". Our Group also renders transaction-based services and other comprehensive Internet-based services such as software applications, domain name registration, website hosting and solutions, email hosting and technology-related consultation services on various market places and platforms. Details of the activities of our subsidiaries are set out in note 17 to our consolidated financial statements on pages 115 to 118 of this Annual Report. There were no significant changes in the nature of our Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

Our results for the year ended December 31, 2011 and the state of our affairs as of that date are set out in our consolidated financial statements on pages 82 to 89 of this Annual Report.

Our directors do not recommend the payment of a final dividend for the year ended December 31, 2011 (2010: Nil).

PROPERTY AND EQUIPMENT

Details of movements in our property and equipment during the year are set out in note 15 to our consolidated financial statements on page 113 of this Annual Report.

BANK BORROWINGS

As of December 31, 2011, total borrowings of our Group amounted to RMB1,286.5 million (2010: RMB92.7 million). Particulars of these borrowings are set out in note 32 to our consolidated financial statements on page 137 of this Annual Report.

RETIREMENT SCHEME

We participate in government and other mandatory pension schemes for our employees in mainland China and overseas. Particulars of these schemes are set out in note 9 to our consolidated financial statements on page 106 of this Annual Report.

CHARITABLE DONATIONS

During the year ended December 31, 2011, we contributed a total of RMB3 million as charitable donations. In addition, we have earmarked 0.3% of our annual revenue to fund our environmental efforts.

SHARE CAPITAL

Details of our share capital during the year are set out in note 24 to our consolidated financial statements on pages 124 to 125 of this Annual Report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of our Company or the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

FINANCIAL SUMMARY

A summary of our results and of the assets and liabilities for the last five financial years, as extracted from our audited consolidated financial statements, is set out on page 148 of this Annual Report. This summary does not form part of our audited consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of movements in the reserves of our Group and our Company during the year are set out in the consolidated statement of changes in equity on pages 86 to 87 of this Annual Report and in note 26 to our consolidated financial statements on page 126 of this Annual Report, respectively.

DISTRIBUTABLE RESERVES

As of December 31, 2011, our reserves available for distribution, calculated in accordance with the Companies Law (2011 Revision) of the Cayman Islands, amounted to RMB3,132.5 million.

DIRECTORS

Our directors during the year and up to the date of this Annual Report were:

Chairman and Non-executive Director

MA Yun, Jack

Executive Directors

LU Zhaoxi, Jonathan	(appointed on March 17, 2011)
WU Wei, Maggie	
YE Peng	(appointed on November 24, 2011)

Non-executive Directors

TSAI Chung, Joseph	
TSOU Kai-Lien, Rose	
OKADA, Satoshi	
PENG Yi Jie, Sabrina	(re-designated from executive director to non-executive director on March 12, 2012)

Independent Non-executive Directors

NIU Gen Sheng
KWAUK Teh Ming, Walter
TSUEI, Andrew Tien Yuan
KWAN Ming Sang, Savio

Ex-directors

WEI Zhe, David	(executive director, resigned on February 21, 2011)
LEE Shi-Huei, Elvis	(executive director, resigned on February 21, 2011)
SHAO Xiaofeng	(appointed as executive director on January 1, 2011, re-designated as non-executive director on June 16, 2011 and resigned on August 12, 2011)

In accordance with article 114 of our articles of association, YE Peng, being appointed by our board as executive director to fill the casual vacancy, will hold office only until our next general meeting, and being eligible, will offer himself for re-election at this meeting.

In accordance with article 130 of our articles of association, TSAI Chung, Joseph, OKADA, Satoshi, NIU Gen Sheng and KWAN Ming Sang, Savio will retire from office by rotation at our next annual general meeting. NIU Gen Sheng, who wishes to spend more time on his own personal engagements and other commitments, will not offer himself for re-election. All other retiring directors as aforesaid, being eligible, will offer themselves for re-election. All remaining directors will continue in office.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of our independent non-executive directors, namely, NIU Gen Sheng, KWAUK Teh Ming, Walter, TSUEI, Andrew Tien Yuan and KWAN Ming Sang, Savio an annual confirmation of their respective independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Our nomination committee has duly reviewed the independence of each of these directors. We consider that our independent non-executive directors have been independent throughout 2011, and they remain so as of the date of this Annual Report.

DIRECTORS' BIOGRAPHIES

Biographical details of our directors are set out on pages 32 to 35 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at our next annual general meeting has an unexpired service contract with our Company which is not determinable by us within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

Our directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by our remuneration committee with reference to a combination of factors including the director's skills, knowledge, experience, time commitment, duties and responsibilities required of him/her, the prevailing market conditions as well as our Group's performance and results.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2011, the interests and short positions of our directors and chief executives in the shares, underlying shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("Securities and Futures Ordinance")), as recorded in the register required to be kept by our Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to our Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code for Securities Transactions"), were as follows:

1. Long positions in ordinary shares of HK$0.0001 each of our Company ("Shares"):

	Number of Shares/underlying Shares held					
Name of director	Personal interests	Family interests	Corporate interests	Total	Note	Approximate percentage of our Company's issued share capital
MA Yun, Jack	15,369,053	–	–	15,369,053		0.31%
LU Zhaoxi, Jonathan	2,600,045	–	159,060	2,759,105	(1)	0.06%
WU Wei, Maggie	848,000	–	6,308,746	7,156,746	(2)	0.14%
YE Peng	300,000	–	–	300,000	(3)	0.01%
TSAI Chung, Joseph	–	120,000	3,000,000	3,120,000	(4)	0.06%
TSOU Kai-Lien, Rose	94,000	–	–	94,000		0.002%
OKADA, Satoshi	130,000	–	–	130,000		0.003%
PENG Yi Jie, Sabrina	4,275,000	–	1,000,000	5,275,000	(5)	0.11%
NIU Gen Sheng	150,000	–	–	150,000	(6)	0.003%
KWAUK Teh Ming, Walter	100,000	–	–	100,000		0.002%
TSUEI, Andrew Tien Yuan	–	–	–	–		–
KWAN Ming Sang, Savio	–	–	6,700,000	6,700,000	(7)	0.13%

DIRECTORS' REPORT

Note:

(1) These securities represent (a) 162,545 Shares held by Mr. Lu; (b) share options in respect of 2,000,000 underlying Shares granted by our Company to Mr. Lu; (c) restricted share units in respect of 437,500 underlying Shares granted by Alibaba Group Holding Limited ("Alibaba Group"), our ultimate holding company, to Mr. Lu; and (d) 159,060 Shares held by Eagletron Management Limited (a company controlled by Mr. Lu).

(2) These securities represent (a) share options in respect of 848,000 underlying Shares granted by our Company to Ms. Wu; (b) 46 Shares held by Sheenson Development Limited (a company ultimately owned by Ms. Wu); and (c) relevant interests in respect of 6,308,700 underlying Shares held by Direct Solutions Management Limited, which were owned by Sheenson Development Limited pursuant to the pre-IPO share incentive scheme of Alibaba Group.

(3) These securities represent 300,000 restricted Shares granted by our Company to Mr. Ye pursuant to our Company's share award scheme.

(4) These securities represent (a) 120,000 Shares held by Clara Wu Ming-Hua (Mr. Tsai's spouse); and (b) 3,000,000 Shares held by Parufam Limited (a company ultimately owned by a trust established by a family member of Mr. Tsai of which Mr. Tsai is a beneficiary).

(5) These securities represent (a) 875,000 Shares held by Ms. Peng; (b) share options in respect of 3,400,000 underlying Shares granted by our Company to Ms. Peng; and (c) relevant interests in respect of 1,000,000 underlying Shares held by Direct Solutions Management Limited, which were owned by Netyan Enterprise Ltd. (a company ultimately owned by Ms. Peng) pursuant to the pre-IPO share incentive scheme of Alibaba Group.

(6) These securities represent (a) 116,666 Shares held by Mr. Niu; and (b) 33,334 restricted Shares granted by our Company to Mr. Niu pursuant to our Company's share award scheme.

(7) These securities represent 6,700,000 Shares held by CSS Development Limited (a company controlled by Mr. Kwan and ultimately owned by a trust established by Mr. Kwan for the benefit of his family).

(8) As of December 31, 2011, the Company had a total of 4,994,169,097 Shares in issue.

2. Long positions in shares and underlying shares of associated corporations:

(a) Alibaba Group

	Number of shares/underlying shares held						Approximate percentage of Alibaba Group's
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**Note**	**issued share capital**
MA Yun, Jack	1,773,177	134,197,496	50,000,000	–	185,970,673	(1)	7.43%
LU Zhaoxi, Jonathan	135,000	–	7,073,449	–	7,208,449	(2)	0.29%
WU Wei, Maggie	62,500	–	–	652,236	714,736	(3)	0.03%
YE Peng	650,000	–	–	–	650,000	(4)	0.03%
TSAI Chung, Joseph	3,442,964	160,000	50,126,932	–	53,729,896	(5)	2.15%
PENG Yi Jie, Sabrina	20,000	–	–	633,967	653,967	(6)	0.03%
TSUEI, Andrew Tien Yuan	728,000	–	–	–	728,000	(7)	0.03%
KWAN Ming Sang, Savio	–	–	9,800,000	–	9,800,000	(8)	0.39%

Note:

(1) These securities represent (a) 1,173,177 issued shares of Alibaba Group directly held by Mr. Ma; (b) 84,000,000 issued shares of Alibaba Group held by JC Properties Limited (a company controlled by Zhang Ying, Mr. Ma's spouse and ultimately owned by a trust established for the benefit of certain family members of Mr. Ma); (c) 48,097,496 issued shares of Alibaba Group held by JSP Investment Limited (a company ultimately owned by a trust established for the benefit of certain family members of Zhang Ying); (d) 600,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Ma; (e) relevant interests in respect of 2,100,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Diamond Key Worldwide Inc. (a company ultimately owned by Zhang Ying), pursuant to the senior management equity incentive scheme of Alibaba Group; and (f) 50,000,000 issued shares of Alibaba Group held by APN Ltd. (a company controlled by Mr. Ma).

(2) These securities represent (a) 75,000 issued shares of Alibaba Group directly held by Mr. Lu; (b) restricted share units in respect of 60,000 underlying shares of Alibaba Group granted by Alibaba Group to Mr. Lu; (c) 4,073,449 issued shares of Alibaba Group held by Eagletron Management Limited; and (d) relevant interests in respect of 3,000,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Eagletron Management Limited, pursuant to the senior management equity incentive scheme of Alibaba Group. Securities as mentioned in (a) to (d) have all been pledged by Mr. Lu to Alibaba Group to secure repayment of a loan granted to him by Alibaba Group for the purpose of exercising certain share options of Alibaba Group.

(3) These securities represent (a) restricted share units in respect of 62,500 underlying shares of Alibaba Group granted by Alibaba Group to Ms. Wu; (b) relevant interests in respect of 400,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by a trust founded by Ms. Wu, pursuant to the senior management equity incentive scheme of Alibaba Group; and (c) 252,236 shares of Alibaba Group held by the trust founded by Ms. Wu.

(4) These securities represent (a) 300,000 issued shares of Alibaba Group directly held by Mr. Ye; and (b) 350,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Ye.

(5) These securities represent (a) 2,642,964 issued shares of Alibaba Group directly held by Mr. Tsai; (b) 160,000 issued shares of Alibaba Group directly held by Clara Wu Ming-Hua; (c) 4,020,980 issued shares of Alibaba Group held by MFG Limited (a company ultimately owned by a trust established by Mr. Tsai for the benefit of his family); (d) 23,905,952 issued shares of Alibaba Group held by Parufam Limited; (e) 21,000,000 issued shares of Alibaba Group held by PMH Holding Limited (a company ultimately owned by a trust established by Mr. Tsai for the benefit of his family); (f) 800,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Tsai; and (g) relevant interests in respect of 1,200,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by Parufam Limited, pursuant to the senior management equity incentive scheme of Alibaba Group.

(6) These securities represent (a) restricted share units in respect of 20,000 underlying shares of Alibaba Group granted by Alibaba Group to Ms. Peng; (b) 333,967 issued shares of Alibaba Group held by a trust founded by Ms. Peng; and (c) relevant interests in respect of 300,000 underlying shares of Alibaba Group held by Alternate Solutions Management Limited, which were owned by the trust founded by Ms. Peng, pursuant to the senior management equity incentive scheme of Alibaba Group. Securities as mentioned in (a) and (b) had all been pledged by Ms. Peng to Alibaba Group to secure repayment of the loan granted to her by Alibaba Group in connection with her exercise of share options of Alibaba Group in 2009.

(7) These securities represent 728,000 outstanding options to purchase shares of Alibaba Group directly issued to Mr. Tsuei.

(8) These securities represent 9,800,000 issued shares of Alibaba Group held by CSS Development Limited.

(9) As of December 31, 2011, Alibaba Group had a total of 2,503,855,908 shares in issue.

DIRECTORS' REPORT

(b) Other associated corporations

Name of company	Name of director	Capacity/ nature of interest	Number of underlying shares held/amount of registered capital in RMB held	Total number of issued shares/registered capital in RMB	Approximate percentage of associated corporation's issued shares/total registered capital
(1) 杭州阿里巴巴廣告有限公司	MA Yun, Jack	Beneficial owner	8,000,000	10,000,000	80%
(2) 北京阿里巴巴信息技術有限公司	MA Yun, Jack	Beneficial owner	8,000,000	10,000,000	80%
(3) 杭州口口相傳網絡技術有限公司	MA Yun, Jack	Beneficial owner	800,000	1,000,000	80%
(4) 阿里雲計算有限公司	MA Yun, Jack	Beneficial owner	40,000,000	50,000,000	80%
(5) 杭州阿里科技有限公司	MA Yun, Jack	Beneficial owner	1,480,000	1,850,000	80%
(6) 杭州阿里創業投資有限公司	MA Yun, Jack	Beneficial owner	208,000,000	260,000,000	80%
(7) 浙江淘寶網絡有限公司	MA Yun, Jack	Beneficial owner	45,000,000	50,000,000	90%
(8) 浙江淘寶商城網絡有限公司	MA Yun, Jack	Beneficial owner	8,000,000	10,000,000	80%
(9) Alibaba.com Japan Co., Ltd.	OKADA, Satoshi	Beneficial owner	1,634 (Note 1)	1,111,111 (Note 2)	0.15%

Note:

(1) These securities represent share options in respect of 1,634 underlying shares of Alibaba.com Japan Co., Ltd. granted by Alibaba.com Japan Co., Ltd. to Mr. Okada.

(2) As of December 31, 2011, Alibaba.com Japan Co., Ltd. had a total of 1,111,111 shares in issue.

Save as disclosed above, as of December 31, 2011, none of our directors or chief executives had registered any interests or short position in the shares, underlying shares or debentures of our Company or any of our associated corporations that was required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions.

3. Directors' right to acquire shares or debentures

Save as disclosed in this Annual Report, at no time during the year was our Company, our holding company or any of our fellow subsidiaries or subsidiaries a party to any arrangement to enable our directors to acquire benefits by means of any acquisition of shares in, or debentures of, our Company or any other body corporate, and none of our directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of our Company or any other body corporate, nor had they exercised any such right.

SHARE-BASED INCENTIVE SCHEMES

1. Restricted share unit scheme

We adopted a restricted share unit scheme ("RSU Scheme") by a resolution of our then sole shareholder and a resolution of our board, both on October 12, 2007. The RSU Scheme was amended by a resolution of our shareholders at our annual general meeting held on May 5, 2008 and further amended by a resolution of our shareholders at our extraordinary general meeting held on December 10, 2010. The purpose of the RSU Scheme is to attract and retain the best available personnel by providing additional incentives to employees, consultants or advisors to our Group, third party suppliers or providers of goods and/or services to any member of our Group, customers of the Group, any third party that promotes the sales and marketing of the goods or services of, or provides any promotional support to, our Group, or any other third party group or class of persons or entities from time to time determined by our directors as having contributed or may contribute by way of joint venture or co-operation to the development and growth of our Group. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.

Pursuant to the listing approval issued by the Hong Kong Stock Exchange on November 5, 2007, the total number of Shares subject to both the Share Option Scheme (as defined below) and the RSU Scheme must not, in aggregate, exceed 135,100,000 Shares, representing approximately 2.67% of the then issued share capital of our Company upon listing.

Pursuant to the resolutions passed by our shareholders at the extraordinary general meeting on December 10, 2010, the combined limit of the RSU Scheme and the Share Option Scheme was refreshed to 156,000,000 Shares, and a new mandate not exceeding 156,000,000 Shares for the RSU Scheme, which remained in effect until our 2011 annual general meeting, was approved by our shareholders.

Pursuant to resolutions passed by shareholders at our annual general meeting on May 14, 2011, the number of Shares still available under the RSU Scheme must not, in aggregate, exceed 131,988,550 Shares, representing approximately 2.61% of the issued share capital of our Company as of the date of the said 2011 annual general meeting and approximately 2.64% of that as of December 31, 2011.

During the year ended December 31, 2011, restricted share units ("RSUs") in respect of a total of 13,592,260 Shares were granted under the RSU Scheme pursuant to the refreshed scheme limit. Accordingly, as of December 31, 2011, the maximum number of Shares available for grant under the RSU Scheme was 118,396,290, representing approximately 2.37% of the issued share capital of our Company as of December 31, 2011.

Subsequent to December 31, 2011 and up to the date of this Annual Report, no RSUs were granted under the RSU Scheme.

Given that there also have not been any options granted under the Share Option Scheme since December 31, 2011, RSUs in respect of a maximum of 118,396,290 underlying Shares are still available for grant under the RSU Scheme, representing approximately 2.37% of the issued share capital of our Company as of the date of this Annual Report.

DIRECTORS' REPORT

Particulars and movements of the RSUs under the RSU Scheme during the year ended December 31, 2011 were as follows:

	Number of RSUs					
Name or category of participant	**Outstanding as of 01/01/2011**	**Granted during the year**	**Vested during the year**	**Cancelled during the year**	**Outstanding as of 31/12/2011**	**Date of grant (DD/MM/YYYY)**
Ex-Director						
SHAO Xiaofeng (Note 1)	1,000,000	–	–	(1,000,000)	–	18/11/2010
Sub-total	1,000,000	–	–	(1,000,000)	–	
Others						
Employees	1,430,485	–	(711,772)	(109,035)	609,678	01/02/2008
	75,819	–	(37,906)	(5,501)	32,412	20/06/2008
	115,000	–	(57,500)	–	57,500	17/12/2008
	3,219,415	–	(1,073,140)	(375,150)	1,771,125	23/01/2009
	3,457,215	–	(1,139,530)	(446,283)	1,871,402	06/02/2009
	1,835,552	–	(675,184)	(281,580)	878,788	01/04/2009
	1,710,494	–	(838,446)	(261,467)	610,581	04/09/2009
	1,695,000	–	(757,500)	(200,000)	737,500	28/12/2009
	13,827,644	–	(3,314,633)	(1,925,037)	8,587,974	31/03/2010
	1,600,924	–	(1,730)	(191,979)	1,407,215	07/07/2010
	1,933,000	–	–	(630,500)	1,302,500	11/10/2010
	5,746,728	–	(1,121,807)	(1,229,331)	3,395,590	18/11/2010
	–	20,511,450	(118,789)	(2,468,208)	17,924,453	11/04/2011
	–	13,592,260	(2,570)	(135,500)	13,454,190	25/11/2011
Sub-total	36,647,276	34,103,710	(9,850,507)	(8,259,571)	52,640,908	
Total	**37,647,276**	**34,103,710**	**(9,850,507)**	**(9,259,571)**	**52,640,908**	

Note:

(1) These RSUs were granted to SHAO Xiaofeng on November 18, 2010 prior to his appointment as a director of our Company on January 1, 2011. Mr. Shao resigned and ceased to be our director on August 12, 2011.

(2) The vesting period of these RSUs commences on a date determined by our board (or its delegated committee) at the time of grant, and generally spreads evenly over a four-year period.

In view of the on-market share repurchases made by our Company in September and October 2011, the grant of 14,077,260 RSUs on October 24, 2011 under the RSU Scheme as announced on the same date was subsequently cancelled, and the cancellation was deemed to take effect immediately after grant.

2. Share option scheme

We also adopted a share option scheme (the "Share Option Scheme") by a resolution of our then sole shareholder and a resolution of our board (both on October 12, 2007), effective on the date of our listing. Pursuant to the resolutions passed by our shareholders at the extraordinary general meeting on December 10, 2010, the Share Option Scheme was amended and the limit of the Share Option Scheme, combined with that of the RSU Scheme, was refreshed to 156,000,000 Shares.

(a) Summary of the principal terms of the Share Option Scheme

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to, through providing an opportunity to acquire equity interests in our Company, attract skilled and experienced personnel, to incentivize them to remain with our Company and live to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion.

(ii) Participants of the Share Option Scheme

Our board may at its discretion grant options to directors (including executive directors, non-executive directors and independent non-executive directors), our employees and any of our advisors or consultants whom our board considers, in its sole discretion, to have contributed or will contribute to the growth and success of our Company.

(iii) Total number of shares available for issue under the Share Option Scheme

(1) The maximum number of Shares that our board shall be entitled to grant options ("Scheme Mandate") shall be calculated in accordance with the following formula:

X = (A+B) – (C+D+E)

Where:

X = the maximum aggregate number of Shares over which our board shall be entitled to grant options;
A = 156,000,000 Shares;
B = the maximum aggregate number of Shares authorized by our shareholders to be issued under other equity incentive plans (if any), other than the Share Option Scheme and the RSU Scheme;
C = the maximum aggregate number of Shares underlying options that have been granted previously under the Share Option Scheme, which in the event that there has been a new approval date on which the Scheme Mandate limit is refreshed, shall only include those Shares underlying options that have been granted since that most recent new approval date;
D = the maximum aggregate number of Shares authorized for issuance assuming the vesting of all RSUs that have been previously granted under the RSU Scheme, which in the event that there has been a new approval date on which the Scheme Mandate limit is refreshed, shall only include those Shares underlying options that have been granted since that most recent new approval date; and
E = the maximum aggregate number of Shares authorized for issuance assuming the exercise of all other rights to acquire Shares that have been granted previously pursuant to other equity incentive plans (if any), other than the Share Option Scheme and the RSU Scheme.

For the purpose of calculating the Scheme Mandate, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted.

(2) Pursuant to the listing approval issued by the Hong Kong Stock Exchange on December 21, 2010, the total number of Shares subject to the Share Option Scheme and the RSU Scheme of our Company must not, in aggregate, exceed 156,000,000 Shares, representing approximately 3.09% of the issued share capital of our Company as of the date of approval of the refreshment by our shareholders at the extraordinary general meeting on December 10, 2010.

During the year ended December 31, 2011, options in respect of a total of 3,500,000 Shares were granted under the Share Option Scheme pursuant to the refreshed scheme limit. Accordingly, as of December 31, 2011, the maximum number of underlying Shares available for grant of options under the Share Option Scheme (taken into account that RSUs in respect of a total of 34,103,710 Shares were granted under the RSUs Scheme) was 118,396,290, representing approximately 2.37% of the then issued share capital of our Company.

Subsequent to December 31, 2011 and as of the date of this Annual Report, no options and RSUs were granted under the Share Option Scheme and the RSU Scheme respectively. Accordingly, options in respect of a maximum of 118,396,290 underlying Shares are still available for grant under the Share Option Scheme, representing approximately 2.37% of the issued share capital of our Company as of the date of this Annual Report.

(iv) Maximum entitlement of each participant

No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to such person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of our Company other than those options granted pursuant to specific approval by our shareholders in general meeting with the proposed participant and his associates abstaining from voting) would exceed 1% of the Shares in issue from time to time.

(v) Period within which the Shares must be taken up under an option

An option may be exercised at any time during the period to be determined and notified by our board at the time of making an offer of the grant of an option which shall not expire later than 10 years from the date of grant. For the options granted by our Company in the past, our board has determined a period of six years for exercise of these options.

(vi) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that our board has the discretion to impose a minimum period at the time of grant of any particular option.

(vii) Amount payable upon acceptance and the period within which the payments or calls must or may be made or loans for such purposes must be repaid

The grantee is not required to pay any amount on his or her acceptance of the offer.

(viii) Basis of determining the exercise price

The exercise price shall be determined by our board in its absolute discretion but in any event shall not be less than the higher of:

(1) the closing price of the Shares as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange on the date on which the option is offered which must be a business day;

(2) the average closing prices of the Shares as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the offer date of the option; and

(3) the nominal value of the Shares.

(ix) Remaining life

Subject to the early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme shall remain valid and effective for 10 years commencing on the date of adoption on October 12, 2007.

(b) *Particulars and movements of share options under the Share Option Scheme during the year were as follows:*

Name or category of participant	Number of share options: Outstanding as at 01/01/2011	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31/12/2011	Date of grant (DD/MM/YYYY)	Exercise period (Note 1) (DD/MM/YYYY)	Exercise price per Share (HK$)	Price immediately preceding the grant date of share options (Note 2) (HK$)	Price immediately preceding the exercise date of share options (Note 3) (HK$)
Directors											
LU Zhaoxi, Jonathan	–	2,000,000	–	–	–	2,000,000	18/03/2011	21/02/2013-18/03/2017	14.26	13.80	N/A
WU Wei, Maggie	74,000	–	–	–	–	74,000	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	74,000	–	–	–	–	74,000	23/01/2009	23/01/2010-23/01/2015	5.71	5.61	N/A
	700,000	–	–	–	–	700,000	31/03/2010	31/01/2011-31/03/2016	16.12	16.20	N/A
PENG Yi Jie, Sabrina	225,000	–	–	–	–	225,000	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	225,000	–	–	–	–	225,000	23/01/2009	23/01/2010-23/01/2015	5.71	5.61	N/A
	2,500,000	–	–	–	–	2,500,000	01/04/2009	01/04/2010–01/04/2015	7.25	7.12	N/A
	450,000	–	–	–	–	450,000	31/03/2010	31/01/2011-31/03/2016	16.12	16.20	N/A
Ex-Directors											
WEI Zhe, David (Note 4)	512,000	–	–	(512,000)	–	–	01/02/2008	01/02/2009–01/02/2014	19.86	18.46	N/A
	1,200,000	–	–	(1,200,000)	–	–	31/03/2010	31/01/2011-31/03/2016	16.12	16.20	N/A
LEE Shi-Huei, Elvis (Note 4)	9,000,000	–	(4,500,000)	(4,500,000)	–	–	01/04/2009	01/04/2010–01/04/2015	7.25	7.12	13.74
	700,000	–	–	(700,000)	–	–	31/03/2010	31/01/2011-31/03/2016	16.12	16.20	N/A
SHAO Xiaofeng (Note 4)	1,000,000	–	–	(1,000,000)	–	–	18/11/2010	01/08/2012-18/11/2016	14.57	13.88	N/A
Sub-total	16,660,000	2,000,000	(4,500,000)	(7,912,000)	–	6,248,000					

DIRECTORS' REPORT

	Number of share options										
Name or category of participant	**Outstanding as at 01/01/2011**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Outstanding as at 31/12/2011**	**Date of grant (DD/MM/YYYY)**	**Exercise period** (Note 1) **(DD/MM/YYYY)**	**Exercise price per Share (HK$)**	**Price immediately preceding the grant date of share options** (Note 2) **(HK$)**	**Price immediately preceding the exercise date of share options** (Note 3) **(HK$)**
Others											
Employees	3,176,500	–	–	(778,000)	–	2,398,500	01/02/2008	12/11/2009–01/02/2014 01/02/2009–01/02/2014	19.86	18.46	N/A
	1,447,000	–	(102,000)	(272,500)	–	1,072,500	20/06/2008	28/01/2010–20/06/2014	12.74	12.00	15.80
	4,554,062	–	(1,352,542)	(488,187)	–	2,713,333	17/12/2008	02/10/2008–17/12/2014 12/11/2009–17/12/2014	5.54	5.50	13.46
	2,586,150	–	(646,750)	(363,850)	–	1,575,550	23/01/2009	23/01/2010-23/01/2015	5.71	5.61	13.69
	8,018,500	–	(1,816,850)	(173,750)	–	6,027,900	01/04/2009	19/12/2010–01/04/2015 06/02/2010–01/04/2015 01/04/2010–01/04/2015	7.25	7.12	13.74
	1,757,000	–	–	(353,500)	–	1,403,500	04/09/2009	16/05/2010–04/09/2015	20.60	19.76	N/A
	1,780,000	–	–	(255,000)	–	1,525,000	28/12/2009	21/08/2010–28/12/2015	17.62	16.88	N/A
	7,803,000	–	(2,500)	(1,992,500)	–	5,808,000	31/03/2010	29/12/2011-31/03/2016 31/01/2011-31/03/2016	16.12	16.20	16.62
	–	1,000,000	–	(1,000,000)	–	–	18/03/2011	01/03/2013-18/03/2017	14.26	13.80	N/A
	–	500,000	–	–	–	500,000	11/04/2011	08/12/2012-11/04/2017	14.22	14.06	N/A
Sub-total	31,122,212	1,500,000	(3,920,642)	(5,677,287)	–	23,024,283					
Total	**47,782,212**	**3,500,000**	**(8,420,642)**	**(13,589,287)**	**–**	**29,272,283**					

Note:

(1) The vesting period of the share options granted commences on a date determined by our board (or its delegated committee) at the time of grant, and generally spreads over a four-year period. Any share options not exercised at the end of the exercise period shall lapse automatically.

(2) Being the closing price of the Shares quoted on the Hong Kong Stock Exchange on the trading day immediately prior to the date of grant of the share options.

(3) Being the weighted average closing price of the Shares quoted on the Hong Kong Stock Exchange immediately before the date on which the options were exercised.

(4) WEI Zhe, David and LEE Shi-Huei, Elvis resigned and ceased to be our directors both on February 21, 2011. SHAO Xiaofeng resigned and ceased to be our director on August 12, 2011.

(5) The weighted average fair value of share options granted under the Share Options Scheme on March 18, 2011 and April 11, 2011 measured as at the date of grant, was approximately HK$5.56 and HK$6.10 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

Type of grant	**Expected volatility (%) All types**	**Expected life (in years) All types**	**Risk-free interest rate (%) All types**	**Expected dividend yield (%) All types**
Date of grant				
(DD/MM/YYYY)				
18/03/2011	51.32	4.38	1.46	–
11/04/2011	50.87	4.38	1.82	–

In total, share-based compensation expense of RMB336.1 million was included in the consolidated statement of comprehensive income for the year ended December 31, 2011 (2010: RMB341.0 million). These expenses included the amortization of the fair value of (i) certain share-based awards in the form of share options, RSUs and restricted shares (where applicable) granted to our directors and employees under our share incentive schemes as well as certain share-based incentive scheme of Alibaba Group, (ii) certain rights to earn shares of HiChina Group Limited ("HiChina") granted to HiChina's management and key employees pursuant to the shareholders' agreement entered into by our Company for the acquisition of HiChina, and (iii) certain options granted to HiChina employees pursuant to its employee option scheme.

3. Share award scheme

The Company has adopted a share award scheme (the "Share Award Scheme") by a resolution of our board on August 10, 2010. The purpose of the Share Award Scheme is to incentivize the directors of our Company and subsidiaries by giving them the opportunity to participate in an equity incentive scheme that is equivalent to the RSU Scheme, which as a result of the Listing Rules restrictions is only open to employees and consultants of our Group and not open to directors of our Company and subsidiaries. Our board considered, in particular, that it is important for our Company to have the flexibility to make share-based incentive awards to directors of our subsidiaries (most of whom are senior managers of our Company who are assigned to be responsible for the performance of these subsidiaries) in the form of Shares as and when appropriate. Over the past few years, our Company has increased the number of directors of our subsidiaries who are not directors of our Company itself, due to our Company's organic expansion as well as its business acquisitions, such as those of HiChina, Vendio Services, Inc., Auctiva Corporation and Shenzhen 1-Touch Enterprise Service Ltd.

The Share Award Scheme is substantially similar to the RSU Scheme, except that (i) it is open to directors of our Company and subsidiaries; and (ii) Shares awarded under the Share Award Scheme will be purchased by a designated trustee from the market, whereas Shares awarded pursuant to the RSU Scheme are newly issued Shares. The Share Award Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.

DIRECTORS' REPORT

Since the adoption of the Share Award Scheme, a total of 2,225,500 restricted Shares were awarded to directors of our Company and its subsidiaries as of December 31, 2011 and the date of this Annual Report, representing approximately 0.04% of the issued share capital of our Company as of December 31, 2011 and the date of this Annual Report.

During the year ended December 31, 2011, restricted Shares in respect of a total of 625,500 Shares were granted under the Share Award Scheme. As of December 31, 2011, restricted Shares in respect of 1,721,334 Shares granted under the Share Award Scheme were unvested, representing approximately 0.03% of the then issued share capital of the Company.

Subsequent to December 31, 2011 and up to the date of this Annual Report, no restricted Shares were granted under the Share Award Scheme.

Further particulars of the Share Option Scheme, RSU Scheme, Share Award Scheme, as well as the share-based incentive schemes and pre-IPO share incentive scheme of Alibaba Group, are set out in note 27 to our consolidated financial statements on pages 127 to 131 of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between our Group and companies in which our directors had beneficial interest are set out in note 35 to the consolidated financial statements on pages 139 to 142 of this Annual Report.

Save as disclosed above and in the section headed "Connected Transactions" on pages 72 to 79 of this Annual Report, no contracts of significance in relation to our business which we, our holding company or any of our subsidiaries or fellow subsidiaries were a party to and in which any of our directors had a material interest (whether directly or indirectly) subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of December 31, 2011, the following are the persons, other than the directors or chief executives of our Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by our Company pursuant to Section 336 of Part XV of the Securities and Futures Ordinance:

Name	Capacity	Long position/ short position	No. and description of Shares or debentures	Note	Total	Approximate percentage of the Company's issued share capital (Note 2)
Alibaba Group	Beneficial owner and interest of controlled corporation	Long position	3,651,530,333 Shares		3,651,530,333 Shares	73.12%
Yahoo! Inc.	Interest of controlled corporation	Long position	3,651,530,333 Shares	(1)	3,651,530,333 Shares	73.12%

Note:

(1) These 3,651,530,333 Shares were beneficially owned by Alibaba Group. As Yahoo! Inc., directly or indirectly through its wholly-owned subsidiaries, owns more than one-third of the shares in Alibaba Group, it was deemed to be interested in all Shares held by Alibaba Group under the Securities and Futures Ordinance.

(2) As of December 31, 2011, our Company had a total of 4,994,169,097 Shares in issue.

Save as disclosed above, as of December 31, 2011, no person, other than our directors whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short positions in the Shares or underlying Shares that were required to be recorded pursuant to Section 336 of Part XV of the Securities and Futures Ordinance.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to our Company and within the knowledge of our directors, our Company has maintained the amount of public float as approved by the Hong Kong Stock Exchange and as permitted under the Listing Rules as of the date of this Annual Report.

CONFIRMATION OF COMPLIANCE WITH NON-COMPETITION UNDERTAKING

We have received an annual written confirmation from Alibaba Group in respect of its compliance of the provisions of the non-competition undertaking given by Alibaba Group and its subsidiaries (other than our Group) in favour of our Company on October 19, 2007 ("Non-Competition Undertaking"). Alibaba Group further confirmed that there had not been any circumstances giving rise to any New Opportunity or an Acquisition Option (both as defined in the Non-Competition Undertaking) for our Company to consider during the financial year ended December 31, 2011.

Our independent non-executive directors have reviewed the compliance by Alibaba Group and its subsidiaries (other than our Group) of the Non-Competition Undertaking during the financial year ended December 31, 2011 and were satisfied that Alibaba Group has duly complied with the Non-Competition Undertaking. Since there were no circumstances giving rise to any New Opportunity or Acquisition Option during the aforesaid period, our independent non-executive directors were not required to review any decision taken in relation to any New Opportunity or Acquisition Option which may be offered by Alibaba Group to our Company pursuant to the Non-Competition Undertaking.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of our directors has confirmed that he or she (as the case may be) is not interested in any business (apart from our business) which competes or is likely to compete, either directly or indirectly, with our business as of the date of this Annual Report. In addition to the Non-Competition Undertaking described above, there are also non-competition undertakings provided by each of the executive directors and non-executive directors in their respective employment contract or appointment letter for our Group's benefit.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of our Company's compliance with the Code on Corporate Governance Practices are set out in the Corporate Governance Report on pages 42 to 56 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of our Company's compliance with the Model Code for Securities Transactions are set out in the Corporate Governance Report on page 53 of this Annual Report.

CONNECTED TRANSACTIONS

During the year ended December 31, 2011, save for the continuing connected transactions as disclosed below, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of rule 14A.45 of the Listing Rules.

Continuing connected transactions

The following transactions constitute continuing connected transactions of our Company and require disclosure in the Annual Report pursuant to rule 14A.46 of the Listing Rules.

1. **Structure contracts**

   We conduct our B2B business in the PRC through 杭州阿里巴巴廣告有限公司 ("Alibaba Hangzhou"), a consolidated affiliate of our Company with 80% of its equity interests held by our chairman, MA Yun, Jack and 20% held by a former director, XIE Shi Huang, Simon. Under our operating structure, our wholly-owned subsidiary, Alibaba (China) Technology Co., Ltd. ("Alibaba China") provides software and technology services to our customers, including, among other things, licensing software that enables our customers to upload their company and product information onto our China marketplace operated by Alibaba Hangzhou. Paying members of our China marketplace pay Alibaba China a fee for these services and substantially all of the revenue from our China marketplace is generated through such fees. Pursuant to a cooperation agreement with Alibaba China and Alibaba.com Hong Kong Limited (another wholly-owned subsidiary of us), Alibaba Hangzhou provides information services to enable our customers to publish such information on our China marketplace website and exchanges contents and information on our China marketplace with those on our international marketplace. Alibaba China pays a cost-plus fee to Alibaba Hangzhou for these services. In turn, Alibaba China provides technical services to Alibaba Hangzhou and is paid a fee for these services.

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

   (a) an option to acquire all the equity interests in and/or the assets of Alibaba Hangzhou, as and when permitted by PRC laws, at a price capped at the amount of the capital contribution to Alibaba Hangzhou by its shareholders (in case of an equity interest acquisition) or the net book value (in the case of an assets acquisition), or such other minimum payment as required by law, whichever is the higher;

   (b) an undertaking from Alibaba Hangzhou not to enter into any material business transaction and an undertaking from its shareholders not to approve any resolution relating to the same, without the prior written consent of Alibaba China;

   (c) the right to exercise the rights of shareholders in Alibaba Hangzhou; and

   (d) a pledge in our favor over the entire equity interests in Alibaba Hangzhou.

   The above arrangements, which we call the "Structure Contracts", collectively permit us to consolidate the financial results of Alibaba Hangzhou in our financial results as if Alibaba Hangzhou were our wholly-owned subsidiary, because these contractual arrangements effectively transfer the economic risks and benefits of Alibaba Hangzhou to us through: (i) our right (if and when PRC law permits) to acquire equity interests and/or assets of Alibaba Hangzhou; (ii) the business structure under which the revenue generated by the cooperation between our Group 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.

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 into 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. At the time of our initial public offering in November 2007, 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 following conditions:

(a) no changes to the Structure Contracts will be made without our independent non-executive directors' approval;
(b) the Structure Contracts continue to enable us to receive the above mentioned economic benefits derived by Alibaba Hangzhou; and
(c) we will disclose certain details relating to the Structure Contracts on an ongoing basis as required by the Hong Kong Stock Exchange.

For the year ended December 31, 2011, our independent non-executive directors have reviewed the Structure Contracts and confirmed that (i) the transactions carried out during this financial period have been entered into in accordance with the relevant provisions of the Structure Contracts 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 Group and Alibaba Hangzhou during this financial period were fair and reasonable as far as we are concerned and were in the interests of our shareholders as a whole.

We have also engaged our auditors to perform certain fact finding procedures on the transactions carried out pursuant to the Structure Contracts on a sample basis in accordance with International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on selected samples based on the agreed upon procedures to our board as follows:

(a) the transactions have received the approval of our board;
(b) the transactions have been entered into in accordance with the relevant Structure Contracts; and
(c) no dividends or other distributions have been made by Alibaba Hangzhou to the holders of its equity interests.

2. New Framework Agreements

At the time of our Company's initial public offering in November 2007, our Company entered into certain framework agreements with Alibaba Group for the provision of certain services to or from Alibaba Group, including the technology services framework agreement, the cooperation framework agreement, the cross-selling services framework agreement and the technology and intellectual property framework license agreement all dated October 19, 2007 (collectively, the "Old Framework Agreements") and for a term expiring on December 31, 2009. The transactions under these Old Framework Agreements constituted non-exempt continuing connected transactions of our Company under the Listing Rules but they had been the subject of waiver granted to our Company by the Hong Kong Stock Exchange, subject to compliance of certain conditions of the relevant waiver as disclosed in our annual reports of previous years.

DIRECTORS' REPORT

As the term of the Old Framework Agreements expired on December 31, 2009, our Company and Alibaba Group conditionally entered into four new framework agreements (collectively, the "New Framework Agreements") on November 10, 2009 to revise and expand the scope of, and adopt new annual caps for, transactions conducted under each of the Old Framework Agreements. Among the New Framework Agreements, the new cooperation framework agreement, the new cross-selling services framework agreement and the new technology and intellectual property framework license agreement were subject to approval of our Company's independent shareholders under the Listing Rules. On December 15, 2009, our Company duly convened an extraordinary general meeting and obtained approval from our shareholders in respect of these three New Framework Agreements. Details of each of the New Framework Agreements, including its major terms, pricing standards and new annual cap amounts applicable for the three years ending December 31, 2010, 2011 and 2012, were set out in the circular issued by our Company on November 27, 2009.

3. New Technology Services Framework Agreement

We entered into a new technology services framework agreement on November 10, 2009 with Alibaba Group (the "New Technology Services Framework Agreement"). Under the terms of the New Technology Services Framework Agreement, either party (including its subsidiaries) may provide to the other party (including its subsidiaries) such technology services for use by the other party in its ordinary course of business.

The following are the technology services that are currently provided by our Group to the Alibaba Group and its subsidiaries (excluding our Group) ("Alibaba Holding Group") under the New Technology Services Framework Agreement:

- Network infrastructure;
- System security and maintenance; and
- Website monitoring services.

It is anticipated that we will continue to provide the above services on a diminishing scale, given the Alibaba Holding Group's developed capability and capacity to provide these services for themselves in the future.

The following are the technology services that are provided by the Alibaba Holding Group to our Group (some of which are the subject of services previously provided by our Group to the Alibaba Holding Group) under the New Technology Services Framework Agreement:

- Network infrastructure;
- Internet data centers;
- Internet-based computing services including, without limitation, e-commerce data mining, high-speed massive e-commerce data processing, data customization and online business applications; and
- Research and development services including, without limitation, patent research and development.

Under the New Technology Services Framework Agreement, the fees payable to a party for any technology services provided under the New Technology Services Framework Agreement will be calculated on the basis of that party's actual costs for providing such technology services plus a margin of up to 15% by reference to industry practice for comparable transactions, which (i) in the case of the provision of services by the Alibaba Holding Group to our Group, shall not in any event exceed the market rates (if available) for similar services; and (ii) in the case of the provision of services by our Group to the Alibaba Holding Group, shall not in any event be below the market rates (if available) for similar services. The costs for providing each technology service shall include operating costs, cost for the aggregate time spent by a party's staff, any equipment depreciation and other overhead costs that it has incurred or may incur, in connection with providing such service.

Unless the parties otherwise agree in writing, payment by either party to the other party for the services provided under the New Technology Services Framework Agreement shall be settled within 30 days upon receipt of invoices from the other party.

The New Technology Services Framework Agreement took effect on January 1, 2010 and continues for a term of not more than three years, expiring on December 31, 2012. It 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 or upon the occurrence of certain events of default.

During the year, the total amount of payments made by our Group to the Alibaba Holding Group under the New Technology Services Framework Agreement was RMB9.2 million, whereas the total amount of payments made by the Alibaba Holding Group to our Group was RMB3.5 million.

4. **New Cooperation Framework Agreement**

We entered into a new cooperation framework agreement on November 10, 2009 with Alibaba Group (the "New Cooperation Framework Agreement"). Under the terms of the New Cooperation Framework Agreement, either party (including its subsidiaries) may provide or make available to the other party (including its subsidiaries) such products and services that it has developed and offered to customers in its ordinary course of business.

The following are the products and services that were expected to be provided by our Group to the Alibaba Holding Group and its customers under the New Cooperation Framework Agreement:

- Internet infrastructure and application services including, without limitation, domain name services, server hosting services and e-commerce consultation services.

The following are the products and services that are currently provided or expected to be provided in the future by the Alibaba Holding Group to users of our Group's marketplaces under the New Cooperation Framework Agreement:

- Web mail services;
- Online advertising services;
- Online payment platform and related services for settlement of fees payable to our Group and for transactions between users of our Group; and
- Instant messaging services (including mobile communication device-based messaging services).

Under the New Cooperation Framework Agreement, the fees payable by our Group to the Alibaba Holding Group for any products or services provided under the New Cooperation Framework Agreement will not exceed market rates. The provision of products or services will be based on normal commercial terms no less favorable than (i) terms offered to our Group by independent third-party service providers for similar products and services or (ii) terms offered by the Alibaba Holding Group to independent third-party customers for similar products and services if no comparable independent third-party service providers for similar products and services can be found.

The fees payable by the Alibaba Holding Group to our Group for any products or services provided under the New Cooperation Framework Agreement will not be lower than market rates. The provision of products and services will be based on normal commercial terms no more favorable than (i) terms offered by our Group to independent third-party customers for similar products and services or (ii) terms offered to the Alibaba Holding Group by independent third-party service providers for similar products and services if our Group has not offered similar products and services to independent third-party customers.

Market rates are determined based on the rates offered by independent third-party providers for similar products and services.

Unless the parties otherwise agree in writing, payment by either party to the other party for the products or services provided under the New Cooperation Framework Agreement shall be settled within 30 days upon receipt of invoices from the other party.

DIRECTORS' REPORT

The New Cooperation Framework Agreement took effect on January 1, 2010 and continues for a term of not more than three years, expiring on December 31, 2012. It 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 or upon the occurrence of certain events of default.

During the year, the total amount of payments made by our Group to the Alibaba Holding Group under the New Cooperation Framework Agreement was RMB30.8 million, whereas the amount of payments made by the Alibaba Holding Group to our Group was nil.

5. New Cross-Selling Services Framework Agreement

We entered into a new cross-selling services framework agreement on November 10, 2009 with Alibaba Group (the "New Cross-Selling Services Framework Agreement"). Under the terms of the New Cross-Selling Services Framework Agreement, the parties (including their respective subsidiaries) may cross-sell the products and services of other party to their respective customers.

The following are the products and services of the Alibaba Holding Group that are currently sold or expected to be sold in future by our Group to users of its marketplaces under the New Cross-Selling Services Framework Agreement:

- The Alibaba Holding Group's network infrastructure and Internet-based computing services.

The following are the products and services of our Group that are currently sold or expected to be sold in the future by the Alibaba Holding Group to its customers under the New Cross-Selling Services Framework Agreement:

- Our Group's online software tools and services (Software as a Service (SaaS)) for users of the Alibaba Holding Group's online platforms;
- Our Group's website and storefront creation services for users of the Alibaba Holding Group's online platforms; and
- Our Group's website inventory.

Under the New Cross-Selling Services Framework Agreement, payments will be made in the form of commissions or on the basis of revenue sharing arrangements. In respect of the cross-selling services identified in the New Cross-Selling Services Framework Agreement:

- Our Group will receive a commission of 20%-80% or pay a revenue share of 20%-80% of the transaction amount for any cross-selling service provided by it to the Alibaba Holding Group; and
- Our Group will pay a commission of 15%-50% or receive a revenue share of 50%-85% of the transaction amount for any cross-selling service received by it from the Alibaba Holding Group.

The commissions and revenue share payable and receivable by our Group may vary with reference to market rates for comparable transactions as they relate to the cross-selling of different products and services. Commissions or revenue share receivable by our Group shall not in any event be less than the prevailing market rate. Commissions or revenue share payable by our Group shall not in any event exceed the prevailing market rate. In addition, for the purpose of calculating any commissions or share of revenue, any direct cost payable by one party to an independent third-party for generating the subject revenue may be taken into account and be deducted from the revenue amounts used for determination of commissions or revenue sharing percentages.

Commission amounts and revenue sharing arrangements for additional cross-selling services are subject to negotiation between the parties, except that commission fees or revenue share receivable by our Group shall not be less than the prevailing market rate (if available), and commission fees or revenue share payable by our Group shall not exceed the prevailing market rate (if available).

Unless the parties otherwise agree in writing, payment by either party to the other party for the services provided under the New Cross-Selling Services Framework Agreement shall be settled within 30 days upon receipt of invoices from the other party.

The New Cross-Selling Services Framework Agreement took effect on January 1, 2010, and continues for a term of not more than three years, expiring on December 31, 2012. It 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 or upon the occurrence of certain events of default.

During the year, the total amount of combined payments that were received by our Group from, or paid by our Group to, the Alibaba Holding Group under the New Cross-Selling Services Framework Agreement was RMB11.1 million.

6. New Technology and Intellectual Property Framework License Agreement

We entered into a new technology and intellectual property framework license agreement on November 10, 2009 with Alibaba Group (the "New Technology and Intellectual Property Framework License Agreement"). Under the terms of the New Technology and Intellectual Property Framework License Agreement:

- Our Group has been granted, to the extent relevant to its B2B business, a renewable license to use all copyright, patents, pending patents, and related know-how owned by the Alibaba Holding Group;
- Our Group has been granted, to the extent relevant to its B2B business, a renewable sub-license to use all technology and intellectual property that the Alibaba Holding Group has an existing license to use from a third party and which the Alibaba Holding Group is permitted to sub-license to our Group, subject to the other terms of the third-party license granted to the Alibaba Holding Group; and
- Our Group has an option to be granted, to the extent relevant to its B2B business, a renewable license to use all technology and intellectual property that the Alibaba Holding Group may license from third parties in the future to the extent the Alibaba Holding Group has the right to do so.

Under the New Technology and Intellectual Property Framework License Agreement:

- The fees payable by our Group for license of all existing and future patents, pending patents, copyright and related know-how owned by the Alibaba Holding Group will be agreed upon between the parties at the end of each year and assessed as a percentage of revenue of our Group during the year, which percentage will be (i) not more than the prevailing market rate for comparable license; and (ii) adjusted based on the size and level of usage of the portfolio of technology by our Group during the year;
- The fees payable by our Group for third-party technology and intellectual property already licensed to the Alibaba Holding Group and sub-licensed to our Group will be calculated at a rate or on a basis no less favorable than that applicable to the Alibaba Holding Group in obtaining such license (i.e. not less preferable than on a pass-through basis); and
- If our Group exercises the option to receive a sub-license to use third-party technology and intellectual property licensed to the Alibaba Holding Group in the future, the parties will agree to an additional sublicensing fee on a case by case basis, provided that the fees payable by our Group will be calculated at a rate or on a basis no less favorable than that applicable to the Alibaba Holding Group in obtaining the relevant license (i.e. not less preferable than on a pass-through basis);

provided, however, that the aggregate fee payable by our Group each year will not exceed the annual caps.

Unless the parties otherwise agree in writing, payment by our Group for the licenses provided under the New Technology and Intellectual Property Framework License Agreement shall be settled within 45 days upon receipt of invoices from the Alibaba Holding Group.

The New Technology and Intellectual Property Framework License Agreement took effect on January 1, 2010, and continues for a term of not more than three years, expiring on December 31, 2012 subject to early termination events (including, without limitation, where the agreement between Alibaba Group and any third party in respect of the third party's intellectual property is terminated or the Company undergoes a change of control) and other standard provisions. The license is renewable for further periods of no more than three years at our Company's sole discretion, by giving Alibaba Group three months' prior written notice before the end of the relevant term, subject to compliance with the application provisions of the Listing Rules and the early termination events.

During the year, the total amount of fees paid by us under the New Technology and Intellectual Property Framework License Agreement was RMB60.2 million.

7. Disclosure of details pursuant to the Listing Rules

The aggregate amount of transactions that took place pursuant to each of the New Framework Agreements, as compared against the applicable annual transaction cap, for the year ended December 31, 2011 is as follows:

	Aggregate amount of transactions that took place RMB (million)	Applicable annual transaction cap amount RMB (million)
(1) New Technology Services Framework Agreement		
• From our Group to the Alibaba Holding Group	3.5	8.0
• From the Alibaba Holding Group to our Group	9.2	27.0
(2) New Cooperation Framework Agreement		
• From our Group to the Alibaba Holding Group	–	8.0
• From the Alibaba Holding Group to our Group	30.8	63.0
(3) New Cross-selling Services Framework Agreement	11.1	65.0
(4) New Technology and Intellectual Property Framework License Agreement	60.2	86.0

The above continuing connected transactions have been reviewed by the independent non-executive directors of our Company. Our independent non-executive directors confirmed that these connected transactions were entered into (i) in our ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favorable to us than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of our Company as a whole.

In accordance with rule 14A.38 of the Listing Rules, our board engaged the auditors of our Company to report on our Group's continuing connected transactions in accordance with International Standard on Assurance Engagement 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter to our board stating that nothing has come to their attention which causes them to believe that:

(a) any of the above continuing connected transactions has not been approved by our board of directors;

(b) for transactions involving the provision of goods or services by the Group, any of the above continuing connected transactions was not, in all material respects, in accordance with the pricing policies of our Group;

(c) with respect to the aggregate amount of each of the continuing connected transactions, any of the above continuing connected transactions has exceeded the maximum aggregate annual value applicable to such continuing connected transaction as disclosed in our Company's previous announcement dated November 10, 2009; and

(d) any of the above continuing connected transactions was not entered into, in all material respects, in accordance with the relevant agreement governing such transaction.

The auditors also reported that, pursuant to rule 14A.38(2) of the Listing Rules, if the continuing connected transactions involve provision of goods or services by a listed issuer, they shall confirm that the continuing connected transactions are in accordance with the pricing policies of the listed issuer. The continuing connected transactions under the Technology Services Framework Agreement and the Cross-selling Services Framework Agreement are rather unique in its service nature, and our Group has not rendered similar services to other independent third parties. In addition, these framework agreements only set out certain pricing ranges rather than quantifying the exact pricing policy because the scope of services and actual circumstances will vary in different scenarios. Accordingly, the auditors considered that they could only confirm that nothing has come to their attention which causes them to believe that:

Technology Services Framework Agreement:

- the pricing was not based on the actual costs for providing the technology services plus a margin of up to 15%, being the ceiling of the stipulated pricing range;

Cross-selling Services Framework Agreement:

- any commission fee received by our Group was not within the stipulated pricing range of 20%-80% of the transaction amount for cross-selling the services.

Save as disclosed above, details of the significant related party transactions undertaken by us during the year in our ordinary course of business are set out in note 35 to our consolidated financial statements on pages 139 to 142 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2011, our Group did not have any single major customer. Our top five customers accounted for less than 5% of our revenue. Our top five service providers accounted for approximately 25% of our purchases, and our largest service provider accounted for approximately 12% of our purchases for the year.

Other than the continuing connected transactions with Alibaba Group as described in pages 72 to 79 of this Annual Report, none of our directors or any of their associates or any of our shareholders (which to the best knowledge of our directors owned more than 5% of our Company's issued share capital) had a material interest in our five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2011, we purchased a total of 67,833,500 Shares at prices ranging from HK$6.45 to HK$8.95 per Share on the Hong Kong Stock Exchange. We made these repurchases with a view to enhancing shareholder value in the long-term.

DIRECTORS' REPORT

Particulars of these repurchases are as follows:

Date (MM/YYYY)	Number of Shares repurchased	Highest price paid per Share (HK$)	Lowest price paid per Share (HK$)	Aggregate consideration paid (excluding expenses) (HK$)
09/2011	23,971,000	7.30	6.45	171,132,665
10/2011	43,862,500	8.95	7.02	336,798,622
Total	**67,833,500**			**507,931,287**

The repurchased Shares were cancelled and, accordingly, our issued share capital was diminished by the nominal value thereof. The premium payable on repurchases was charged against our share premium account.

Save as disclosed above, neither we nor any of our subsidiaries purchased, sold or redeemed any of our listed securities during the year ended December 31, 2011.

AUDITORS

Our financial statements for the year ended December 31, 2011 were audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at our next annual general meeting.

A resolution to re-appoint PricewaterhouseCoopers as our auditors will be submitted for shareholders' approval at our next annual general meeting.

On behalf of the board
MA Yun, Jack
Chairman

Hong Kong, February 21, 2012

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF ALIBABA.COM LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Alibaba.com Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 82 to 147, which comprise the consolidated and company balance sheets as of December 31, 2011 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as of December 31, 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 21, 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	Notes	2010 RMB'000	**2011 RMB'000**
Revenue			
International marketplace	5	3,238,243	3,752,616
China marketplace	5	1,893,899	2,217,401
Others	5	425,444	446,877
Total revenue		5,557,586	6,416,894
Cost of revenue		(931,016)	(1,259,979)
Gross profit		4,626,570	5,156,915
Sales and marketing expenses		(2,050,561)	(2,041,846)
Product development expenses		(580,173)	(784,667)
General and administrative expenses		(568,324)	(640,059)
Other operating income, net	6	109,026	126,543
Profit from operations	7	1,536,538	1,816,886
Finance income, net	8	176,398	319,118
Share of (losses)/profits of associated companies and jointly controlled entities, net of tax	18	(6,479)	730
Profit before income taxes		1,706,457	2,136,734
Income tax charges	12	(236,445)	(427,896)
Profit for the year		1,470,012	1,708,838
Other comprehensive income/(expense)			
Net fair value gains on available-for-sale investments		5,640	2,300
Release of investment revaluation reserve upon disposal of available-for-sale investments		–	(7,500)
Currency translation differences		(21,533)	(33,024)
Total comprehensive income for the year		1,454,119	1,670,614
Profit/(Loss) for the year attributable to			
Equity owners of the Company		1,469,464	1,712,673
Non-controlling interests		548	(3,835)
Profit for the year		1,470,012	1,708,838
Total comprehensive income/(expense) for the year attributable to			
Equity owners of the Company		1,453,571	1,674,449
Non-controlling interests		548	(3,835)
Total comprehensive income for the year		1,454,119	1,670,614
Dividend per share			
Special cash dividend (HK$)	13	22.0 cents	–
Earnings per share, basic (RMB)	14	29.1 cents	34.0 cents
Earnings per share, diluted (RMB)	14	28.9 cents	33.8 cents
Earnings per share, basic (HK$)	14	33.4 cents	41.0 cents
Earnings per share, diluted (HK$)	14	33.2 cents	40.7 cents

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2011

	Notes	2010 RMB'000	**2011 RMB'000**
ASSETS			
Non-current assets			
Lease prepayments		27,328	62,971
Property and equipment	15	781,145	732,759
Goodwill	16	367,787	455,207
Intangible assets	16	231,535	223,948
Interests in associated companies and jointly controlled entities	18	12,723	12,970
Deferred tax assets	31	101,332	150,056
Available-for-sale investments	19	51,340	221,593
Prepayments, deposits and other receivables	20	46,731	90,257
Direct selling costs	21	45,204	104,610
Total non-current assets		1,665,125	2,054,371
Current assets			
Amounts due from related companies	35(c)	39,534	47,156
Prepayments, deposits and other receivables	20	293,749	518,271
Customer accounts		54,162	45,494
Direct selling costs	21	595,718	569,966
Available-for-sale investments	19	305,140	189
Restricted cash and escrow receivables	22	168,179	408,410
Term deposits with original maturities of over three months	23	6,497,368	8,218,563
Cash and cash equivalents	23	3,086,165	3,433,048
Total current assets		11,040,015	13,241,097
Total assets		12,705,140	15,295,468
EQUITY			
Share capital	24	485	481
Reserves	25	5,752,764	7,417,299
Equity attributable to equity owners of the Company		5,753,249	7,417,780
Non-controlling interests		49,816	102,392
Total equity		5,803,065	7,520,172

CONSOLIDATED BALANCE SHEET

As of December 31, 2011

	Notes	2010 RMB'000	**2011 RMB'000**
LIABILITIES			
Non-current liabilities			
Deferred revenue	28	332,945	454,014
Other payables	30	53,666	119,989
Deferred tax liabilities	31	130,855	240,179
Total non-current liabilities		517,466	814,182
Current liabilities			
Deferred revenue and customer advances	28	4,101,442	3,969,117
Trade payables	29	15,981	16,430
Amounts due to customers		220,612	318,319
Amounts due to related companies	35(c)	45,967	68,549
Other payables and accruals	30	859,261	1,046,593
Dividend payable		943,695	–
Current income tax liabilities		104,933	255,617
Short-term bank borrowings	32	92,718	1,286,489
Total current liabilities		6,384,609	6,961,114
Total liabilities		6,902,075	7,775,296
Total equity and liabilities		12,705,140	15,295,468
Net current assets		4,655,406	6,279,983
Total assets less current liabilities		6,320,531	8,334,354

Approved on behalf of the board of directors

LU Zhaoxi, Jonathan
Director

WU Wei, Maggie
Director

Hong Kong, February 21, 2012

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

BALANCE SHEET

As of December 31, 2011

	Notes	2010 RMB'000	**2011 RMB'000**
ASSETS			
Non-current assets			
Interests in subsidiaries	17	1,938,038	2,179,278
Current assets			
Prepayments and other receivables	20	1	636
Amounts due from subsidiaries	17, 35(c)	1,482,730	1,808,737
Amount due from an associated company	35(c)	199	6,852
Dividend receivable		944,210	–
Cash and cash equivalents	23	3,845	247
Total current assets		2,430,985	1,816,472
Total assets		4,369,023	3,995,750
EQUITY			
Share capital	24	485	481
Reserves		3,340,079	3,132,546
Total equity	26	3,340,564	3,133,027
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	17, 35(c)	70,843	847,889
Amount due to the ultimate holding company	35(c)	2,234	6,263
Other payables and accruals	30	11,172	8,571
Dividend payable		944,210	–
Total current liabilities		1,028,459	862,723
Total equity and liabilities		4,369,023	3,995,750
Net current assets		1,402,526	953,749
Total assets less current liabilities		3,340,564	3,133,027

Approved on behalf of the board of directors

LU Zhaoxi, Jonathan
Director

WU Wei, Maggie
Director

Hong Kong, February 21, 2012

The notes on pages 90 to 147 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Attributable to equity owners of the Company											
	Share capital RMB'000 (Note 24)	**Share premium** RMB'000	**Capital reserve** RMB'000 (Note 25(a))	**Capital redemption reserve** RMB'000 (Note 24(b))	**Exchange reserve** RMB'000	**Statutory reserve** RMB'000 (Note 25(b))	**Investment revaluation reserve** RMB'000	**Shares held for share award scheme** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance as of January 1, 2010	485	3,205,821	(216,194)	1	(4,046)	355,803	222	–	1,634,998	4,977,090	41,059	5,018,149
Comprehensive income												
Profit attributable to equity owners of the Company	–	–	–	–	–	–	–	–	1,469,464	1,469,464	548	1,470,012
Other comprehensive income/(expense)												
Net fair value gains on available-for-sale investments	–	–	–	–	–	–	5,640	–	–	5,640	–	5,640
Currency translation differences	–	–	–	–	(21,533)	–	–	–	–	(21,533)	–	(21,533)
Total comprehensive income/(expense)	–	–	–	–	(21,533)	–	5,640	–	1,469,464	1,453,571	548	1,454,119
Transactions with equity owners												
Repurchase of issued ordinary shares (Note 24(b))	–	(20,455)	–	–	–	–	–	–	–	(20,455)	–	(20,455)
Issue of ordinary shares under share-based incentive schemes	–	10,328	–	–	–	–	–	–	–	10,328	–	10,328
Value of employee services under share-based incentive schemes	–	319,191	–	–	–	–	–	–	–	319,191	–	319,191
Special cash dividend (Note 13)	–	–	–	–	–	–	–	–	(950,538)	(950,538)	–	(950,538)
Purchase of shares held for Share Award Scheme (Note 24(c))	–	–	–	–	–	–	–	(32,254)	–	(32,254)	–	(32,254)
Total transactions with equity owners	–	309,064	–	–	–	–	–	(32,254)	(950,538)	(673,728)	–	(673,728)
Transactions with non-controlling interests												
Value of employee services under share-based incentive schemes of a subsidiary	–	–	–	–	–	–	–	–	–	–	4,525	4,525
Transfer of partial interest in a subsidiary arising from exercise or vesting of share-based compensation	–	–	(3,684)	–	–	–	–	–	–	(3,684)	3,684	–
Total transactions with non-controlling interests	–	–	(3,684)	–	–	–	–	–	–	(3,684)	8,209	4,525
Appropriation to statutory reserve	–	–	–	–	–	169,823	–	–	(169,823)	–	–	–
Balance as of December 31, 2010	485	3,514,885	(219,878)	1	(25,579)	525,626	5,862	(32,254)	1,984,101	5,753,249	49,816	5,803,065

	Attributable to equity owners of the Company											
	Share capital RMB'000 (Note 24)	Share premium RMB'000	Capital reserve RMB'000 (Note 25(a))	Capital redemption reserve RMB'000 (Note 24(b))	Exchange reserve RMB'000	Statutory reserve RMB'000 (Note 25(b))	Investment revaluation reserve RMB'000	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as of January 1, 2011	485	3,514,885	(219,878)	1	(25,579)	525,626	5,862	(32,254)	1,984,101	5,753,249	49,816	5,803,065
Comprehensive income												
Profit attributable to equity owners of the Company	–	–	–	–	–	–	–	–	1,712,673	1,712,673	(3,835)	1,708,838
Other comprehensive income/(expense)												
Net fair value gains on available-for-sale investments	–	–	–	–	–	–	2,300	–	–	2,300	–	2,300
Release of investment revaluation reserve upon disposal of available-for-sale investments	–	–	–	–	–	–	(7,500)	–	–	(7,500)	–	(7,500)
Currency translation differences	–	–	–	–	(33,024)	–	–	–	–	(33,024)	–	(33,024)
Total comprehensive income/(expense)	–	–	–	–	(33,024)	–	(5,200)	–	1,712,673	1,674,449	(3,835)	1,670,614
Transactions with equity owners												
Repurchase of issued ordinary shares (Note 24(b))	(6)	(416,318)	–	6	–	–	–	–	(6)	(416,324)	–	(416,324)
Issue of ordinary shares under share-based incentive schemes	2	48,918	–	–	–	–	–	–	–	48,920	–	48,920
Deemed disposal of partial interest in a subsidiary arising from exercise of share based awards	–	–	(6,972)	–	–	–	–	–	–	(6,972)	13,395	6,423
Value of employee services under share-based incentive schemes	–	320,762	–	–	–	–	–	–	–	320,762	–	320,762
Vesting of shares under Share Award Scheme (Note 24(c))	–	(5,782)	–	–	–	–	–	5,782	–	–	–	–
Purchase of shares held for Share Award Scheme (Note 24(c))	–	–	–	–	–	–	–	(1,372)	–	(1,372)	–	(1,372)
Acquisition of a 65% equity interest in One-Touch (Notes 1 and 36)	–	–	–	–	–	–	–	–	–	–	14,576	14,576
Total transactions with equity owners	(4)	(52,420)	(6,972)	6	–	–	–	4,410	(6)	(54,986)	27,971	(27,015)
Transactions with non-controlling interests												
Value of employee services under share-based incentive schemes of a subsidiary	–	–	–	–	–	–	–	–	–	–	25,644	25,644
Put liability forfeited in relation to equity interests of HiChina	–	–	45,068	–	–	–	–	–	–	45,068	–	45,068
Non-controlling interests arising from capital injection in One-Touch	–	–	–	–	–	–	–	–	–	–	12,250	12,250
Dividend declared by a subsidiary	–	–	–	–	–	–	–	–	–	–	(9,454)	(9,454)
Total transactions with non-controlling interests	–	–	45,068	–	–	–	–	–	–	45,068	28,440	73,508
Appropriation to statutory reserve	–	–	–	–	–	164,998	–	–	(164,998)	–	–	–
Balance as of December 31, 2011	481	3,462,465	(181,782)	7	(58,603)	690,624	662	(27,844)	3,531,770	7,417,780	102,392	7,520,172

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2011

	2010 RMB'000	**2011** **RMB'000**
Cash flows from operating activities		
Profit before income taxes	1,706,457	2,136,734
Adjustments for:		
Share-based compensation expense (Note 27(c))	340,971	336,137
Depreciation expense of property and equipment (Note 15)	187,190	195,421
Amortization of intangible assets (Note 16)	39,133	57,271
Impairment of intangible assets (Note 16)	–	2,796
Losses on disposals of property and equipment, net (Note 7)	514	2,610
Amortization of lease prepayments (Note 7)	587	1,025
Share of losses/(profits) of associated companies and jointly controlled entities, net of tax (Note 18)	6,479	(730)
Gain on disposal of an associated company (Note 6)	–	(5,601)
Reversal of contingent consideration in relation to an acquisition (Note 6)	–	(10,822)
Exchange gains, net (Note 8)	(18,112)	(55,632)
Interest income, net (Note 8)	(158,286)	(263,486)
Increase in other payables and accruals	127,110	191,038
Increase in amounts due to customers	166,451	106,375
Increase in amounts due to related companies	24,436	28,420
(Decrease)/Increase in trade payables	(7,926)	449
Increase in amounts due from related companies	(1,609)	(7,622)
Increase/(Decrease) in deferred revenue and customer advances	960,621	(11,256)
Increase in direct selling costs	(80,339)	(33,654)
Increase in restricted cash and escrow receivables	(168,179)	(105,015)
Decrease/(Increase) in prepayments, deposits and other receivables	10,677	(160,821)
Net cash provided by operating activities	3,136,175	2,403,637
Income tax paid	(96,782)	(221,648)
Net cash generated from operating activities	3,039,393	2,181,989

	2010 RMB'000	**2011** **RMB'000**
Cash flows from investing activities		
Proceeds from maturing of term deposits with original maturities of over three months	4,374,328	6,565,121
Proceeds from disposals of available-for-sale investments (Note 19)	1,431,000	1,372,000
Interest received	131,187	204,354
Proceeds from disposals of associated companies	–	6,770
Proceeds from disposals of property and equipment	534	2,670
Acquisition of subsidiaries, net of cash acquired	(261,156)	2,283
Investment in a jointly controlled entity	(14,700)	–
Payment for intangible assets	(6,390)	(11,890)
Employee housing loan granted	–	(37,440)
Purchase of property and equipment and lease prepayments	(288,089)	(160,180)
Payment for available-for-sale investments (Note 19)	(1,709,565)	(1,242,693)
Placing of term deposits with original maturities of over three months	(6,404,124)	(8,286,463)
Net cash used in investing activities	(2,746,975)	(1,585,468)
Cash flows from financing activities		
Proceeds from borrowings	93,644	1,426,043
Issue of ordinary shares under share-based incentive schemes	10,328	55,341
Payments for purchase of issued ordinary shares for the Share Award Scheme	(32,254)	(1,372)
Interest paid for bank borrowings	–	(5,291)
Increase in cash pledged for bank borrowings	–	(75,536)
Repayments of borrowings	–	(279,414)
Payments for repurchase of issued ordinary shares	(20,455)	(416,324)
Dividends paid	–	(947,727)
Net cash generated from/(used in) financing activities	51,263	(244,280)
Net increase in cash and cash equivalents	343,681	352,241
Cash and cash equivalents at beginning of year	2,748,690	3,086,165
Effect of exchange rate for the year	(6,206)	(5,358)
Cash and cash equivalents at end of year (Note 23)	3,086,165	3,433,048

	2010 RMB'000	**2011** **RMB'000**
Analysis of cash and bank balances		
Cash and cash equivalents	3,086,165	3,433,048
Term deposits with original maturities of over three months	6,497,368	8,218,563
Total	9,583,533	11,651,611

The notes on pages 90 to 147 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

1 GENERAL INFORMATION

Alibaba.com Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and reissued) of the Cayman Islands. The Company is an investment holding company and is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As of the date of this report, the ultimate holding company of the Company is Alibaba Group Holding Limited, a company incorporated in the Cayman Islands.

The Company and its subsidiaries (the "Group") maintain a number of business lines to provide software, technology and other related services primarily on the online business-to-business ("B2B") marketplaces with the uniform resource locators www.alibaba.com, www.1688.com and under the trade name "Alibaba" (the "B2B services"). The Group also renders transaction-based services and other comprehensive Internet based services such as software applications, domain name registration, website hosting and solutions, email hosting and technology-related consulting services on various marketplaces and platforms.

During 2011, the Group completed the acquisition of a 65% equity interest in Shenzhen 1-Touch Enterprise Service Ltd. ("One-Touch"). One-Touch, a company based in the People's Republic of China ("PRC"), is a provider of one-stop import and export services to small and medium enterprises in the PRC. The acquisition was completed in January 2011 and the first installment of the purchase consideration in cash was paid. The remaining consideration balance will be paid in 2014 and the amounts may be adjusted based on the operating and financial performance of One-Touch in 2013.

The aforesaid transaction was accounted for using the acquisition accounting method and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets of One-Touch.

The acquisition of equity interests in One-Touch will further enhance the Group's value as the leading e-commerce supply chain provider by offering comprehensive export-related services, which include, among others, customs clearance, logistics, cargo insurance etc. to members of the Group.

The consolidated financial statements of the Group have been approved for issue by the board of directors on February 21, 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group's consolidated financial statements are disclosed in Note 3. Actual results may differ from these estimates.

The Group has adopted the following new/revised IFRS standards and interpretations for accounting periods commencing January 1, 2011:

		Effective for annual periods beginning on or after
Amendment to IAS 1	Presentation of Financial Statements	January 1, 2011
Amendment to IAS 24	Related Party Disclosures	January 1, 2011
Amendment to IAS 34	Interim Financial Reporting	January 1, 2011
Amendment to IFRS 7	Financial Instruments: Disclosure	January 1, 2011
Amendment to IFRIC 13	Customer Loyalty Programmes	January 1, 2011

The adoption of the above new/revised IFRS standards and interpretations do not have any material impact on the Group's consolidated financial statements and has not led to any changes in the Group's accounting policies.

The following new standards, interpretations and amendments to the existing standards have been published but have not come into effect for the financial year beginning January 1, 2011:

		Effective for annual periods beginning on or after
IFRS 7 (Amendment)	Disclosure – Transfers of Financial Assets	July 1, 2011
Amendment to IAS 12	Deferred tax: Recovery of Underlying Assets	January 1, 2012
IAS 1 (Amendment)	Presentation of Financial Statements	July 1, 2012
IAS 19 (Amendment)	Employee Benefits	January 1, 2013
IAS 27 (Amendment)	Separate Financial Statements	January 1, 2013
IAS 28 (Amendment)	Investments in Associates and Joint Venture	January 1, 2013
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurements	January 1, 2013
IFRS 9	Financial Instruments	January 1, 2015

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The Group has not early adopted any of the above new standards, interpretations and amendments to the existing standards in 2011. Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will result.

2.2 Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and of its subsidiaries made up to December 31 and include the Group's interests in associated companies and jointly controlled entities. Results of the subsidiaries, associated companies and the jointly controlled entities acquired or disposed of during the year are dealt with in the consolidated statement of comprehensive income from the effective dates of acquisition and up to the effective dates of disposal respectively.

Inter-company transactions, balances and unrealized gains on transactions between the consolidated entities are eliminated on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries, associated companies and the jointly controlled entities are adjusted where necessary to ensure consistency with the policies adopted by the Group.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisitions of subsidiaries of the Group, except for those acquisitions which are considered as a business combination under common control in a manner similar to pooling-of-interests and with reference to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations".

(i) Acquisition method of accounting

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

(i) Acquisition method of accounting (Continued)

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(ii) Business combinations under common control

Under business combinations under common control, the consolidated financial statements incorporate the financial statement of the combining entities in which the common control combination occurs as if they had been consolidated from the date when the combining entities first came under the control of the controlling party. The net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. All differences between the fair value of consideration paid and the amounts at which the assets and liabilities are recorded are recognized directly in equity as part of the capital reserve. The comparative amounts in the consolidated financial statements are presented as if the entities had been consolidated at the earliest balance sheet date presented or when they first came under common control, whichever is the later.

To comply with laws and regulations of the PRC that restrict foreign ownership of companies that operate Internet information services and other restricted businesses, the Group operates its websites and engages in those restricted businesses in the PRC through PRC domestic companies whose equity interests are held by a director, a former director of the Company and certain employees of the Group. The paid-in capital of these entities was funded by the Group through loans extended to these shareholders of the PRC domestic companies. In addition, these domestic companies have entered into certain business cooperation and technical service agreements with the Group, which make it obligatory for the Group to absorb a substantial majority of the risk of losses from their activities and entitle the Group to receive a substantial majority of their residual returns.

Further, the Group has entered into certain agreements with the shareholders of these domestic companies, including loan agreements for them to contribute paid-in capital to the domestic companies, option agreements for the Group to acquire the equity in the PRC domestic companies subject to compliance with PRC laws, pledge agreements over the equity interests of these PRC domestic companies held by them, and proxy agreements irrevocably authorizing individuals designated by the Group to exercise equity owner's rights over these PRC domestic companies, whichever is applicable. Based on these contractual agreements, the Group believes that, notwithstanding the lack of equity ownership, the contractual arrangements described above give the Group control over the PRC domestic companies in substance. Accordingly, the financial position and operating results of these entities are included in the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) *Associated companies and jointly controlled entities*

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which two or more parties undertake an economic activity under joint control. Interests in associated companies and jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associated companies' and jointly controlled entities' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company or jointly controlled entities equals or exceeds its interest in these entities, including any other unsecured receivables, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of them.

Impairment testing of the investments in subsidiaries, associates or jointly controlled entities is required when the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker has been identified to be the executive management committee that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation and functional currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized within "finance income, net" in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets are included in other comprehensive income/(expense).

(c) *Group companies*

The results and financial positions of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate on the day of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates or the rates on the day of the transaction if the average exchange rate is not a reasonable approximation; and

(iii) all resulting exchange differences are recognized in other comprehensive income/(expense).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

2.5 Lease prepayment

Lease prepayment represents payments of land use rights to the local Bureau of Land and Resources. Land use right is carried at cost less accumulated amortization and impairment losses. Amortization is provided to write off the cost of lease prepayment on a straight-line basis over the period of the right which is 50 years.

2.6 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the year in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs, less residual value, over their estimated useful lives, as follows:

	Years
Buildings	20 – 50
Leasehold and building improvements	2 – 20 (shorter of remaining lease period or estimated useful life)
Furniture and office equipment	3
Computer equipment	3 – 5

An asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction-in-progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction-in-progress is transferred to property and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in "other operating income, net" in the consolidated statement of comprehensive income.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition. Goodwill is tested for impairment annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. An impairment loss is recognized for the amount by which the carrying amount of goodwill exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses on goodwill are not reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) Computer software and technology

Computer software and technology primarily comprise computer software that are acquired in business combinations and are recognized at fair value on the acquisition date. Amortization is calculated using the straight-line method over their estimated economic lives of two to ten years.

(b) Trademarks and domain names

Trademarks and domain names acquired in business combinations are recognized at fair value on the acquisition date. Trademarks and domain names have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and domain names over their estimated useful lives of ten to fifteen years.

(c) Customer relationships

Customer relationships acquired in business combinations are recognized at fair value on the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated life of the customer relationships of three to seven years.

(d) Non-compete agreement

Non-compete agreement acquired in business combinations are recognized at fair value on the acquisition date. The contractual non-compete agreement has a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated life of the non-compete agreement of three to seven years.

2.9 Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These investments are initially recognized in the balance sheet at fair value plus transaction costs and measured on each subsequent reporting date at fair value. Changes in fair value are recognized in other comprehensive income in the investment revaluation reserve except for impairment losses which are charged to the consolidated statement of comprehensive income. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the consolidated statement of comprehensive income. Dividends from available-for-sale investments are recognized when the right to receive payment is established. When available-for-sale investments are sold, the cumulative fair value gains or losses previously recognized in the investment revaluation reserve is removed from equity and recognized in the consolidated statement of comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized within "finance income, net" in the consolidated statement of comprehensive income and other changes in carrying amount are recognized in other comprehensive income/(expense).

Investments in equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are measured at cost less provision for impairment in value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Available-for-sale investments (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that available-for-sale investment previously recognized in the consolidated statement of comprehensive income, is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the consolidated statement of comprehensive income.

2.10 Other receivables

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables, recognized in the consolidated statement of comprehensive income, is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the other receivables' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the other receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive income. When an amount of other receivables is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited to "other operating income, net" in the consolidated statement of comprehensive income.

2.11 Direct selling costs

Direct selling costs represent certain costs that the Group is obliged to pay upon the receipt of service fees from the paying members or other customers. These costs primarily comprise sales commissions and domain name acquisition costs. The membership and domain name registration service fees are initially deferred and recognized in the consolidated statement of comprehensive income in the period in which the services are rendered. As such, the related costs are also initially deferred and recognized in the consolidated statement of comprehensive income in the same period as the related service fees are recognized.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in share premium as a deduction, net of tax, from the proceeds. Costs directly attributable to the repurchase of issued ordinary shares are shown in share premium as a deduction and the nominal value of the shares repurchased is transferred from the retained earnings to the capital redemption reserve.

2.14 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the corresponding tax expense is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted on the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred income tax is provided on temporary differences arising on undistributed income of subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Provisions

Provisions are recognized when it is probable that an outflow of resources will be required to settle a present obligation as a result of past events and the amount can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Staff costs

(a) *Short-term employee benefits*

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(b) *Pension obligations*

The Group participates in various defined contribution pension schemes. The schemes are generally funded through monthly payments to publicly or privately administered pension insurance plans or government authorities on a mandatory, contractual or voluntary basis. The contributions are expensed as incurred. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Assets of these defined contribution plans are separated from those of the Group.

(c) *Share-based compensation*

The Company operates a share option scheme ("Share Option Scheme"), a restricted share unit scheme ("RSU Scheme") and a share award scheme ("Share Award Scheme") where directors and employees of the Group are granted share options, restricted share units ("RSUs") or restricted shares to acquire ordinary shares of the Company. In connection with the acquisition of China Civilink (Cayman) ("HiChina"), the Company also grants certain options to key employees of HiChina to put or acquire the ordinary shares in HiChina to or from the Company.

The ultimate holding company also operates various share-based incentive schemes, where certain directors and employees of the Group are granted share options, RSUs or other rights to acquire ordinary shares of the ultimate holding company or the Company's ordinary shares held by the ultimate holding company. The resulting share-based compensation expense is allocated to the Group accordingly.

In respect of Share Award Scheme, Alibaba.com Equity Incentive Trust (the "Equity Incentive Trust") purchases shares of the Company from the open market. The consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" in the consolidated statement of changes in equity and deducted from total equity. When the Equity Incentive Trust transfers the Company's shares to the grantees upon vesting, the related costs of the awarded shares are credited to "Shares held for Share Award Scheme" with a corresponding adjustment to the share premium.

The fair value of the employee services received in exchange for the grant of these share-based awards is recognized as staff costs in the consolidated statement of comprehensive income with a corresponding increase in the share premium under equity of the Company or its subsidiaries. The fair value of the options granted is measured at grant date using the Black-Scholes valuation model ("Black-Scholes Model") whereas the fair value of RSUs, restricted shares granted is measured at grant date based on the fair value of the ordinary shares of the Company, HiChina or the ultimate holding company, as appropriate, taking into account the terms and conditions upon which these share-based awards were granted. The fair values of the share-based awards are amortized over the respective vesting periods during which the employees become unconditionally entitled to. On each balance sheet date, the Group revises its estimates of the number of these share-based awards that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the consolidated statement of comprehensive income over the remaining vesting period. On vesting date, the amount recognized as employee benefit expense is adjusted to reflect the actual number of these share-based awards that become vested.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

The Group principally derives its revenue from the provision of membership package and related fees. Revenue recognition policies for each type of service are analyzed as follows:

(a) *Membership package and related fees*

The Group's online B2B marketplaces facilitate e-commerce between suppliers and buyers. The Group earns its revenues from service fees received from suppliers ("paying members") while buyers may use the marketplaces to conduct business at no charge. Service fees are received by the Group in respect of the sale of membership packages which provide priority placement of paying members' storefronts and listings in the industry directory and search results on the Group's marketplaces. Additional revenue is generated from service fees from paying members in respect of the sale of value-added services.

Service fees are paid in advance in respect of the above services for a specific contracted service period. All service fees are initially deferred when received and revenue is recognized ratably over the term of the respective service contracts as the services are rendered.

Value-added services are normally purchased by paying members within the service period of their membership packages. In the event the fair value of the respective membership package and the value-added services cannot be objectively measured, the aggregate service fees are recognized as revenue ratably over the term of the membership package. In the event the fair value of the value-added services can be objectively measured, service fees from such value-added services are recognized as revenue ratably over the contracted service period of the value-added services.

(b) *Search revenue*

The Group receives service fees from suppliers to enable them to display their online premium placements, storefront/website links or related information on the search results pages of the Group's marketplaces after a buyer inputs a particular key word or phrase into the search box of such marketplaces. Revenue is recognized when a buyer clicks on the suppliers' online premium placements, storefront/website links or related information, where the positioning of such information and the price for such positioning are determined through a bidding system.

(c) *Transaction fees*

In connection with the transaction services, the Group earns revenues from the suppliers or buyers when completing transactions on the Group's marketplaces. Revenues related to transaction fees are recognized in the consolidated statement of comprehensive income at the time when the underlying transaction is completed.

(d) *Domain name registration and other service fees*

Payments for registration of domain names, web hosting and application/e-commerce hosting services are collected upfront, and services are activated immediately upon payment. Revenue from these services are recognized ratably over the term of the contracted services. In cases where customers transfer their domain name registration to other registrars prior to the end of the usage period, all deferred revenue from the services are recognized as revenue immediately upon transfer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition (Continued)

(e) *Display advertising revenue*

The Group derives display advertising revenue from online advertising on the Group's platforms. Revenue from advertising contracts is generally recognized ratably over the period in which the advertisement is displayed and only if collection of the resulting receivable is probable. Advertising arrangements involving multiple deliverables are broken down into single-element arrangements based on their relative fair value for revenue recognition purposes. If the fair value associated with the element as identified cannot be determined, revenue recognition is deferred until all elements and their respective obligations have been satisfied.

(f) *Barter transactions*

When services are exchanged or swapped for services which are of a similar nature and value, the exchange is not regarded as a revenue-generating transaction.

When services are rendered in exchange for dissimilar services, the exchange is regarded as a revenue-generating transaction. The revenue is measured at the fair value of the services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the services received cannot be measured reliably, the revenue is measured at the fair value of the services provided in a barter transaction, by reference to non-barter transaction involving similar services, adjusted by the amount of any cash or cash equivalents transferred.

(g) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income is classified as "finance income, net" in the consolidated statement of comprehensive income.

The Group is subject to business tax and related surcharges on the revenue earned for services provided in the PRC. The applicable rate of business tax is 5%. In the consolidated statement of comprehensive income, business tax and related surcharges for revenue earned by the Group are included in cost of revenue.

2.19 Borrowing costs

All borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption values is recognized in the income statement over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Government grants are recognized as income, on a systematic basis, over the periods to match the incurrence of related costs which the grants are intended to compensate. Where a government grant becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs, it is recognized as income in the period in which it becomes receivable. Government grants are recognized in "other operating income, net" in the consolidated statement of comprehensive income.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Dividend distribution

Dividend distribution to the shareholders or equity owners of the Group is recognized as a liability in the Group's financial statements in the year in which the dividends are approved by the shareholders or equity owners of the Company or Group's subsidiaries.

2.23 Customer accounts and amounts due to customers

The Group maintains a business integrity insurance fund for members on the China marketplace. Under this fund, buyers can claim compensation for losses, up to certain maximum protection amount, arising from fraudulent acts by the China TrustPass members of the Group who join the plan. In addition, certain China TrustPass members who join the business integrity insurance fund may voluntarily increase the protection amount by transferring funds to the Group. The funds received from these members are held in the consolidated balance sheet under "customer accounts" with a corresponding current liability in "amounts due to customers".

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Recognition of share-based compensation expense

The Group's employees have participated in various share-based incentive schemes of the Company and the ultimate holding company. Management of the Group have used the Black-Scholes Model to determine the total fair value of the options granted, which is based on fair value and various attributes of the underlying shares of the Company, HiChina and the ultimate holding company, depending on the type of the share-based awards. Significant estimates and assumptions are required to be made in determining the parameters for applying the Black-Scholes 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 share options. The total fair value of RSUs, restricted shares granted is measured on the grant date based on the fair value of the underlying shares of the Company, HiChina and the ultimate holding company. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes an expense for those options, RSUs, restricted shares expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the options, RSUs and restricted shares and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expense.

The fair value of options, RSUs and restricted shares at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

Based on the fair value of the share-based awards granted by the Company and the ultimate holding company to the Group's employees, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expense recognized by the Group in respect of their services rendered for the year ended December 31, 2011 was RMB336,137,000 (2010: RMB340,971,000) (Note 27(c)).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Recognition of income taxes

The Group is mainly subject to income tax in the PRC. There are transactions (including entitlement to preferential tax treatment and deductibility of expenses) where the ultimate tax determination is uncertain until the final tax position is confirmed by relevant tax authorities. In addition, the Group recognizes 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 income tax is 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 will be available in the future against which the temporary differences, the 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 at the balance sheet date and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Where the actual or expected tax positions in future are different from the original estimate, such difference will impact the recognition of deferred income tax and income tax charge in the period in which such estimate has been changed.

(c) Depreciation and amortization

The costs of property and equipment and intangible assets are charged ratably as depreciation and amortization expenses, respectively, over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation and amortization rates. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in estimated useful lives and therefore depreciation and amortization expenses in future periods.

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The Group tested the recoverable amount of goodwill based on value-in-use and fair value less cost-to-sell calculations and determined that there was no impairment as of December 31, 2011. These calculations primarily use cash flow projections based on financial forecasts prepared by management and an estimated terminal value. The expected growth in revenues and gross margin, timing of future capital expenditures, selection of discount rates and terminal growth rate were based on actual and prior year performance and market development expectations. The periods of the financial forecasts range from 5 to 10 years. The Group considers that cash flow forecast that is beyond 5 years is justifiable given the industry nature and the projection of growth rate beyond 5 years is based on the growth rate assumed in year 5. For the purpose of the impairment test, the Group adopted a discount rate of 16% to 30% and a terminal growth rate of 2.5% to 4% to extrapolate cash flows beyond the financial forecasts. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment tests.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

4 SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions, assess performance and allocate resources. In the respective periods presented, the Group had one single reportable operating segment, namely the provision of the B2B services. Although the B2B services consist of the operations of the international marketplace and the China marketplace, the chief operating decision-maker considers that these underlying marketplaces are subject to similar risks and returns. Therefore, it has only relied on the reported revenue associated from these underlying marketplaces in making financial decisions and allocating resources. Significant costs incurred associated with the revenue generated are not separately identified by marketplaces for the review of the chief operating decision-maker.

The Group mainly operates its businesses in the PRC. In 2011, majority of the revenue from external customers was contributed from the PRC (2010: same).

As of December 31, 2011, majority of the non-current assets other than financial instruments and deferred tax assets were located in the PRC (2010: same).

For the year ended December 31, 2011, there was no revenue derived from a single external customer amounting to 10% or more of the Group's total revenue (2010: same).

5 REVENUE

	2010 RMB'000	**2011** **RMB'000**
International marketplace		
China Gold Supplier	3,148,498	3,641,321
Global Gold Supplier	89,745	111,295
	3,238,243	3,752,616
China marketplace		
China TrustPass	1,812,991	2,013,301
Other revenue(i)	80,908	204,100
	1,893,899	2,217,401
Others(ii)	425,444	446,877
Total	5,557,586	6,416,894

(i) Other revenue earned with respect to the China marketplace mainly represents advertising fees paid by third-party advertisers and service fees charged to the Group's suppliers for supply chain management services provided by the Group.

(ii) Other revenue mainly represents revenue earned from the sale of Internet infrastructure and application services and certain software products.

6 OTHER OPERATING INCOME, NET

	2010 RMB'000	**2011** **RMB'000**
Government grants[(i)]	84,011	79,617
Reimbursements from fellow subsidiaries[(ii)]	11,509	8,402
Gain on disposal of an associated company[(iii)]	–	5,601
Reversal of contingent consideration in relation to an acquisition (Note 37 (f))	–	10,822
Others	13,506	22,101
Total	109,026	126,543

(i) Government grants mainly represent amounts received from government authorities by Alibaba (China) Technology Co., Ltd. ("Alibaba China"), a wholly-owned subsidiary of the Company, in relation to technology developments in the PRC.

(ii) These represent amounts received from fellow subsidiaries for the provision of administrative and technology services. The reimbursement charges are calculated based on actual costs incurred, with or without a margin.

(iii) In February 2011, the Group disposed its interests in an associated company, Spigot, Inc. and recognized a gain of RMB5,601,000.

7 PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

	2010 RMB'000	**2011** **RMB'000**
Staff costs (Note 9)	2,371,719	2,834,995
Depreciation expense of property and equipment (Note 15)	187,190	195,421
Operating lease rentals	69,790	86,449
Amortization of intangible assets (Note 16)	39,133	57,271
Auditors' remuneration	6,020	7,135
Amortization of lease prepayments	587	1,025
Impairment of intangible assets (Note 16)	–	2,796
Losses on disposals of property and equipment, net	514	2,610

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

8 FINANCE INCOME, NET

	2010 RMB'000	**2011 RMB'000**
Interest income, net	158,286	263,486
Exchange gains, net	18,112	55,632
Total	176,398	319,118

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2010 RMB'000	**2011 RMB'000**
Salaries, bonuses and sales commission	1,610,431	1,934,370
Contributions to defined contribution plans[(i)]	313,328	408,276
Discretionary employee benefits	106,989	156,212
Share-based compensation expense (Note 27(c))	340,971	336,137
Total	2,371,719	2,834,995

	2010	**2011**
Number of employees	13,674	12,878

(i) All local employees of the subsidiaries in the PRC participate in mandatory employee social security plans pursuant to the regulations enacted in the PRC, which cover pension, medical and other welfare benefits. The plans are organized and administered by various government authorities. Except for welfare benefits provided by these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the Group in the PRC are principally determined based on a percentage of the monthly compensation of employees, subject to certain ceilings, and are paid to the respective labour and social welfare authorities.

The Group also contributes to retirement plans for its employees outside the PRC at different percentages of the monthly compensation of employees in compliance with requirements of the respective governments.

The contributions to the above plans are expensed as incurred. Assets of the plans are held and managed by privately administered pension insurance plans or government authorities and are separate from those of the Group.

10 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments – paid and payable by the Company to directors of the Company are as follows:

	2010 RMB'000	**2011** **RMB'000**
Fees	1,657	1,577
Salaries, bonus, allowances and benefits in kind	8,734	11,495
Contributions to defined contribution plans	187	147
	10,578	13,219
Share-based compensation expense[(i)]	91,740	61,031
Total	102,318	74,250

(i) Share-based compensation expense represents amortization of fair value of: (a) the share options, RSUs or other rights granted under the share-based incentive schemes of the ultimate holding company; and (b) the share options, RSUs and restricted shares granted by the Company. The fair values of these abovementioned share-based compensations were allocated/charged to the consolidated statement of comprehensive income of the Group, disregarding whether or not these share-based awards have been exercised or vested.

	2010	**2011**
Number of directors		
– with emoluments	12	14
– without emoluments	1	1
Total	13	15

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

10 DIRECTORS' EMOLUMENTS (Continued)

The remuneration of the Company's directors is set out below:

For the year ended December 31, 2010

Name of directors	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind[(i)] RMB'000	Contributions to defined contribution plans RMB'000	Subtotal RMB'000	Share-based compensation expense[(ii)] RMB'000	Total RMB'000
Executive directors						
WEI Zhe, David	–	1,980	55	2,035	34,264	36,299
WU Wei, Maggie	–	2,745	62	2,807	11,569	14,376
LEE Shi-Huei, Elvis	–	1,220	–	1,220	15,204	16,424
DENG Kangming	–	900	31	931	10,250	11,181
PENG Yi Jie, Sabrina	–	1,889	39	1,928	8,514	10,442
Non-executive directors						
MA Yun, Jack	–	–	–	–	7,191	7,191
TSAI Chung, Joseph	–	–	–	–	4,369	4,369
TSOU Kai-Lien, Rose	–	–	–	–	–	–
OKADA, Satoshi	261	–	–	261	169	430
Independent non-executive directors						
TSUEI, Andrew Tien Yuan	349	–	–	349	–	349
NIU Gen Sheng	349	–	–	349	41	390
KWUAK Teh Ming, Walter	349	–	–	349	–	349
KWAN Ming Sang, Savio	349	–	–	349	169	518
Total	1,657	8,734	187	10,578	91,740	102,318

(i) Bonuses in respect of 2010 were paid in 2011.

(ii) This represents amortization of the fair value of share options, RSUs, restricted shares under the Share Award Scheme or other rights measured on the grant dates charged to the consolidated statement of comprehensive income, regardless of whether or not these share-based awards have been exercised or vested. In 2010, share-based compensation expense also included a one-off expense arising from the subscription of certain rights under the senior management equity incentive scheme of the ultimate holding company by certain directors of the Company (Note 27(b)).

10 DIRECTORS' EMOLUMENTS (Continued)

The remuneration of the Company's directors is set out below:

For the year ended December 31, 2011

Name of directors	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind[i] RMB'000	Contributions to defined contribution plans RMB'000	Subtotal RMB'000	Share-based compensation expense[ii] RMB'000	Total RMB'000
Executive directors						
LU Zhaoxi, Jonathan [iii]	–	4,166	7	4,173	43,401	47,574
WU Wei, Maggie	–	3,424	66	3,490	2,800	6,290
PENG Yi Jie, Sabrina	–	1,552	43	1,595	4,303	5,898
YE Peng [iv]	–	1,224	–	1,224	1,976	3,200
WEI Zhe, David [v]	–	332	10	342	–	342
LEE Shi-Huei, Elvis [v]	–	197	–	197	–	197
Non-executive directors						
MA Yun, Jack	–	–	–	–	285	285
TSAI Chung, Joseph	–	–	–	–	190	190
TSOU Kai-Lien, Rose	–	–	–	–	–	–
OKADA, Satoshi	249	–	–	249	1,010	1,259
SHAO Xiaofeng [vi]	–	600	21	621	5,673	6,294
Independent non-executive directors						
NIU Gen Sheng	332	–	–	332	383	715
KWUAK Teh Ming, Walter	332	–	–	332	–	332
TSUEI, Andrew Tien Yuan	332	–	–	332	–	332
KWAN Ming Sang, Savio	332	–	–	332	1,010	1,342
Total	1,577	11,495	147	13,219	61,031	74,250

(i) Bonuses in respect of 2011 will be paid in 2012.

(ii) This represents amortization of the fair value of share options, restricted shares under the Share Award Scheme or other rights measured at the grant dates charged to the consolidated statement of comprehensive income, regardless of whether or not these share-based awards have been exercised or vested.

(iii) The director was appointed on March 17, 2011 and the amount shown above included remuneration he received during the year as employee of the Group and prior to his directorship with the Company.

(iv) The director was appointed on November 24, 2011 and the amount shown above included remuneration he received during the year as employee of the Group and prior to his directorship with the Company.

(v) These directors resigned on February 21, 2011 and the amounts shown above represented remuneration they received up to the date of resignation.

(vi) The director was appointed as an executive director on January 1, 2011, re-designated as a non-executive director on June 16, 2011 and resigned on August 12, 2011. The amount shown above represented remuneration he received up to the date of resignation.

None of the directors received any emoluments from the Group as an inducement to join or leave the Group or compensation for loss of office (2010: nil). None of the directors waived or has agreed to waive any emoluments during the year (2010: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Group during the year ended December 31, 2011 include four (2010: five) directors whose details have been reflected in the analysis in note 10. The emoluments payable to the remaining individual in 2011 are as follows:

	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	2,155
Share-based compensation expense	6,527
Total	8,682

12 INCOME TAX CHARGES

	2010 RMB'000	2011 RMB'000
Current tax charge	206,014	374,655
Deferred tax charge (Note 31)	26,986	55,564
Under/(Over) provision in previous years	3,445	(2,323)
Total	236,445	427,896

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

Under the PRC Enterprise Income Tax Law, the standard corporate income tax rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the PRC Enterprise Income Tax Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises. Alibaba China, the principal operating entity of the Group, has been designated as a High and New Technology Enterprise in 2011. As a result, the Group has used 15% to calculate Alibaba China's PRC Enterprise Income Tax for 2011.

Pursuant to Caishui [2008] No.1 under the PRC Enterprise Income Tax Law, a duly recognized Key Software Enterprise within China's National Plan can enjoy a preferential PRC Enterprise Income Tax rate of 10%. Alibaba China was recognized in 2010 as a Key Software Enterprise by four ministries including National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce and the State Administration for Taxation and as a result, Alibaba China was subject to PRC Enterprise Income Tax at 10% for the full year of 2010. The relevant authorities have not started accepting applications for Key Software Enterprise status in 2011. Should Alibaba China obtain the Key Software Enterprise status in 2012, the resulting adjustment for 2011 income tax expense to reflect the change of tax rate from 15% to 10% will be included in 2012 financial results.

Further, Alibaba China Software Co., Ltd. ("Alibaba Software"), another major PRC operating subsidiary of the Group, was recognized as a Software Enterprise in 2008, entitling it to full exemption from PRC Enterprise Income Tax for the first two years and 50% reduction in subsequent three years, starting from the company's first profit-making year. Since 2008 was its first profit-making year, Alibaba Software was subject to PRC Enterprise Income Tax at 12.5% for 2011 (2010: 12.5%).

12 INCOME TAX CHARGES (Continued)

Most of the remaining PRC entities of the Group are subject to PRC Enterprise Income Tax at 25% for 2011 (2010: 25%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax will be levied on dividends declared by the companies established in the PRC to their foreign investors. A lower withholding tax rate of 5% is applicable if direct foreign investors with at least 25% equity interest in the PRC companies are incorporated in Hong Kong and meets the conditions or requirements pursuant to the tax arrangement between mainland China and Hong Kong. Since Alibaba China's only equity holder is a Hong Kong incorporated company, the Group has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed.

The tax on the Group's profit before income tax differed from the theoretical amount that would arise using the PRC Enterprise Income Tax statutory rate of 25% (2010: 25%) is as follows:

	2010 RMB'000	**2011** **RMB'000**
Profit before income taxes	1,706,457	2,136,734
Tax calculated at a tax rate of 25% (2010: 25%)	426,614	534,183
Effect of different tax rates available to different companies of the Group	(277,035)	(251,190)
Effects of tax holiday on assessable profits of subsidiaries incorporated in the PRC	–	(9,060)
Tax incentives for research and development expenses available for a subsidiary incorporated in the PRC (i)	(15,751)	(34,871)
Income not taxable for tax purposes	(1,341)	(8,810)
Expenses not deductible for tax purposes (ii)	46,647	70,298
Withholding tax on the earnings remitted and anticipated to be remitted	66,073	121,321
Utilization of previously unrecognized tax assets	(26,043)	(2,890)
Unrecognized tax losses	17,281	8,915
Income tax charges	236,445	427,896

(i) The Group obtained a tax incentive relating to the research and development expenses of one of its major operating subsidiaries in the PRC in 2011. Under this tax incentive, the Group may claim an additional tax deduction amounting to 50% of the research and development expenses incurred in a year. The amount which exceeds that year's taxable profit can be carried forward for utilization up to the five years following.

(ii) Expenses not deductible for tax purposes primarily represent share-based compensation expense.

13 DIVIDEND PER SHARE

On December 10, 2010, the Company declared a special cash dividend of 22 Hong Kong cents per ordinary share, or HK$1,110,000,000 (equivalent to RMB950,538,000) in aggregate. An amount of RMB518,000 which represents dividends attributable to the ordinary shares held by the Share Award Scheme was offset against the retained earnings in the consolidated statement of changes in equity. The special cash dividend declared in 2010 was paid in January 2011.

The directors did not recommend the payment of a final dividend for the year ended December 31, 2011 (2010: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

14 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity owners of the Company for the year by the weighted average number of ordinary shares in issue during the year.

	2010	2011
Profit attributable to equity owners of the Company (RMB'000)	1,469,464	1,712,673
Weighted average number of ordinary shares in issue (thousand shares)	5,043,800	5,040,224
Earnings per share, basic (RMB)	29.1 cents	34.0 cents
Earnings per share, basic (HK$) (i)	33.4 cents	41.0 cents

Diluted earnings per share is computed by dividing the profit attributable to equity owners for the year by the weighted average number of ordinary shares and potential ordinary shares outstanding during the year. Potential ordinary shares, composed of incremental ordinary shares issuable upon the exercise of share options and RSUs in all periods, are included in the computation of diluted earnings per share to the extent such shares are dilutive. Diluted earnings per share also takes into consideration the effect of diluted securities issued by subsidiaries.

	2010	2011
Profit attributable to equity owners of the Company (RMB'000)	1,469,464	1,712,673
Weighted average number of ordinary shares in issue (thousand shares)	5,043,800	5,040,224
Adjustments for share options and RSUs (thousand shares)	35,020	32,039
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	5,078,820	5,072,263
Earnings per share, diluted (RMB)	28.9 cents	33.8 cents
Earnings per share, diluted (HK$) (i)	33.2 cents	40.7 cents

(i) The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.8300 to HK$1.0000 (2010: RMB0.8714 to HK$1.0000). No representation is made that the Renminbi amounts have been, could have been or could be converted into Hong Kong dollars or vice versa, at that rate, or at any rates or at all.

15 PROPERTY AND EQUIPMENT

	Building RMB'000	Leasehold and building improvements RMB'000	Furniture and office equipment RMB'000	Computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended December 31, 2010						
As of January 1, 2010	320,592	150,213	60,655	247,104	4,558	783,122
Additions	–	20,992	15,440	122,731	23,421	182,584
Acquisitions	–	33	787	3,878	–	4,698
Disposals	–	(263)	(290)	(775)	–	(1,328)
Depreciation (Note 7)	(6,738)	(22,175)	(26,895)	(131,382)	–	(187,190)
Exchange differences	–	(17)	(65)	(659)	–	(741)
Closing net book amount	313,854	148,783	49,632	240,897	27,979	781,145
As of December 31, 2010						
Cost	322,838	188,917	110,078	586,320	27,979	1,236,132
Accumulated depreciation	(8,984)	(40,134)	(60,446)	(345,423)	–	(454,987)
Closing net book amount	313,854	148,783	49,632	240,897	27,979	781,145
Year ended December 31, 2011						
As of January 1, 2011	313,854	148,783	49,632	240,897	27,979	781,145
Additions	–	7,698	8,795	71,494	65,752	153,739
Acquisition	–	369	273	–	–	642
Disposals	(2,555)	(1,475)	(1,056)	(462)	–	(5,548)
Transfer from construction in progress	–	13,949	4,805	287	(19,041)	–
Depreciation (Note 7)	(6,613)	(29,419)	(29,910)	(129,479)	–	(195,421)
Exchange differences	–	(144)	(206)	(1,448)	–	(1,798)
Closing net book amount	304,686	139,761	32,333	181,289	74,690	732,759
As of December 31, 2011						
Cost	320,282	198,942	120,312	635,819	74,690	1,350,045
Accumulated depreciation	(15,596)	(59,181)	(87,979)	(454,530)	–	(617,286)
Closing net book amount	304,686	139,761	32,333	181,289	74,690	732,759

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For the year ended December 31, 2011

16 GOODWILL AND INTANGIBLE ASSETS

	Computer software and technology RMB'000	Trademarks/ Domain names RMB'000	Customer relationships RMB'000	Non-compete agreement RMB'000	Total intangible assets RMB'000	Goodwill RMB'000	Total RMB'000
Year ended December 31, 2010							
As of January 1, 2010	56,255	40,969	68,282	–	165,506	202,631	368,137
Additions	6,390	–	–	–	6,390	–	6,390
Acquisitions	64,242	9,283	27,587	–	101,112	169,163	270,275
Amortization charge (Note 7)	(19,199)	(3,834)	(16,100)	–	(39,133)	–	(39,133)
Exchange differences	(1,529)	(211)	(600)	–	(2,340)	(4,007)	(6,347)
Closing net book amount	106,159	46,207	79,169	–	231,535	367,787	599,322
As of December 31, 2010							
Cost	146,964	50,036	95,236	–	292,236	367,787	660,023
Accumulated amortization	(40,805)	(3,829)	(16,067)	–	(60,701)	–	(60,701)
Closing net book amount	106,159	46,207	79,169	–	231,535	367,787	599,322
Year ended December 31, 2011							
As of January 1, 2011	106,159	46,207	79,169	–	231,535	367,787	599,322
Additions	11,890	–	–	–	11,890	–	11,890
Acquisition (Note 36)	8,500	4,500	11,900	20,000	44,900	95,444	140,344
Impairment charge (Note 7)	(2,796)	–	–	–	(2,796)	–	(2,796)
Amortization charge (Note 7)	(27,528)	(4,749)	(20,994)	(4,000)	(57,271)	–	(57,271)
Exchange differences	(2,841)	(398)	(1,071)	–	(4,310)	(8,024)	(12,334)
Closing net book amount	93,384	45,560	69,004	16,000	223,948	455,207	679,155
As of December 31, 2011							
Cost	173,157	54,095	105,825	20,000	353,077	455,207	808,284
Accumulated amortization	(79,773)	(8,535)	(36,821)	(4,000)	(129,129)	–	(129,129)
Closing net book amount	93,384	45,560	69,004	16,000	223,948	455,207	679,155

16 GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization expense by function is analyzed as follows:

	2010 RMB'000	**2011** **RMB'000**
Cost of revenue	236	1,093
Sales and marketing expenses	19,971	30,429
Product development expenses	18,620	24,370
General and administrative expenses	306	1,379
Total	39,133	57,271

The carrying amount of goodwill primarily arises from the acquisitions of HiChina of RMB202,631,000 in 2009, Vendio Services, Inc ("Vendio") and Auctiva Corporation ("Auctiva") of RMB169,163,000 in 2010 and One-Touch of RMB95,444,000 in 2011. In accordance with the Group's accounting policy on asset impairment (Note 2.7), the carrying values of goodwill were tested for impairment as of December 31, 2010 and December 31, 2011. Note 3(d) contains information about the estimates, assumptions and judgements relating to goodwill impairment tests. The results of the tests undertaken as of December 31, 2010 and December 31, 2011 indicated no impairment charge was necessary.

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) SUBSIDIARIES

	Company	
	2010 RMB'000	**2011** **RMB'000**
Non-current portion		
Deemed capital contributions arising from share-based compensation	372,881	614,121
Amounts due from subsidiaries	1,565,157	1,565,157
Total	1,938,038	2,179,278
Current portion		
Amounts due from subsidiaries	1,482,730	1,808,737
Amounts due to subsidiaries	(70,843)	(847,889)
Total	1,411,887	960,848

The amounts due from subsidiaries included under non-current portion are unsecured, interest-free and not repayable in foreseeable future. The amounts due from/(to) subsidiaries included under current portion are unsecured, interest-free and repayable on demand.

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For the year ended December 31, 2011

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) SUBSIDIARIES (Continued)

Details of the principal subsidiaries as of December 31, 2011 are set out below:

Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/ registered capital	Effective interest held
Directly held:				
Alibaba.com Investment Holding Limited	British Virgin Islands ("BVI") September 20, 2006 Limited liability company	Investment holding	US$1	100%
Indirectly held:				
Acknow Web Solutions (Beijing) Limited # 融慧信通國際信息技術（北京）有限公司	PRC December 28, 2006 Limited liability company	Research and development of computer software, Internet technology and data processing	US$150,000	79.42%
Alibaba China Software Co., Ltd. # 阿里巴巴（中國）軟件有限公司	PRC August 23, 2004 Limited liability company	Provision of software and technology services	US$105,000,000	100%
Alibaba (Chengdu) Education & Software Co., Ltd. # 阿里巴巴（成都）教育軟件有限公司	PRC December 28, 2009 Limited liability company	Provision of education and software services	RMB10,000,000	100%
Alibaba (China) Education & Technology Co., Ltd. # 阿里巴巴（中國）教育科技有限公司	PRC September 21, 2009 Limited liability company	Provision of education and technology services	US$15,000,000	100%
Alibaba (China) Technology Co., Ltd. # 阿里巴巴（中國）網絡技術有限公司	PRC September 9, 1999 Limited liability company	Provision of software and technology services	US$223,900,000	100%
Alibaba.com China Limited	Hong Kong October 5, 2006 Limited liability company	Investment holding and provision of management, business consultation, finance & legal advisory services	HK$1	100%
Alibaba.com (Equity Incentive) Limited	BVI July 1, 2003 Limited liability company	Setting up and maintenance of the Equity Incentive Trust for Share Award Scheme	US$2	100%
Alibaba.com (Europe) Limited	United Kingdom October 13, 2008 Limited liability company	Marketing and administrative services	GBP1	100%

17 INTERESTS IN AND AMOUNT DUE FROM/(TO) SUBSIDIARIES (Continued)

Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/ registered capital	Effective interest held
Alibaba.com Hong Kong Limited	Hong Kong September 29, 1999 Limited liability company	Provision of Internet content, software and technology services, marketing and other group administrative services	HK$3,900,002	100%
Alibaba.com, Inc.	Delaware, United States of America February 25, 2000 Limited liability company	Marketing and administrative services	US$2	100%
Alibaba.com LLC	California, United States of America December 2, 2009 Limited liability company	Server operation and maintenance	US$10,000	100%
Alibaba.com Singapore E-Commerce Private Limited	Singapore November 5, 2007 Limited liability company	Investment holding and marketing and sale of Internet content services	S$1	100%
Alibaba (Guangzhou) Technology Co., Ltd. # 阿里巴巴（廣州）網絡技術有限公司	PRC July 8, 2008 Limited liability company	Provision of software and technology services	US$20,000,000	100%
Alipay Singapore E-Commerce Private Limited	Singapore January 5, 2010 Limited liability company	Provision of escrow services to B2B International marketplace	S$1	100%
Auctiva Corporation	Delaware, United States of America August 11, 1999 Limited liability company	Provision of software and e-commerce solution	US$0.1	100%
Beijing HiChina Zhicheng Technology Co., Ltd. # 北京萬網志成科技有限公司	PRC December 3, 2004 Limited liability company	Provision of Internet content and advertising services	RMB16,520,000	79.42%
Alibaba.com India E-Commerce Private Limited	India April 20, 2010 Limited liability company	Marketing and sale of Internet services	INR6,321,980	100%

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17 INTERESTS IN AND AMOUNT DUE FROM/(TO) SUBSIDIARIES (Continued)

Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/ registered capital	Effective interest held
Evergreen (Tianjin) Investment Fund Partnership # 常青藤(天津)股權投資基金合伙企業	PRC September 13, 2010 Limited partnership	Administration and consultancy for equity investment funds	RMB500,000,000	100%
Hangzhou Alibaba Advertising Co., Ltd. # 杭州阿里巴巴廣告有限公司	PRC December 7, 2006 Limited liability company	Provision of Internet content and advertising services	RMB10,000,000	100%
Hangzhou Baotong Network Co., Ltd. # 杭州寶通網絡工程有限公司	PRC October 22, 2004 Limited liability company	Provision of software and technology services	RMB16,000,000	100%
Orange Power (Tianjin) Investment Fund Management Co., Ltd. # 橙力量(天津)股權投資基金管理有限公司	PRC September 3, 2010 Limited liability company	Administration and consultancy for equity investment funds	RMB1,000,000	100%
Vendio Services, Inc.	Delaware, United States of America January 5, 1999 Limited liability company	Provision of software and e-commerce solution	US$1	100%
Shenzhen 1-Touch Enterprise Service Ltd. # 深圳市一達通企業服務有限公司	PRC December 5, 2001 Limited liability company	Provision of export related services	RMB21,782,977	65%

The English names of these subsidiaries represent management's translation of the Chinese names only, as no official English names have been registered by these PRC companies.

In connection with the Share Award Scheme mentioned in Note 2.17(c), the Company has set up a special purpose entity and the particulars are as follows:

Special purpose entity	Principal activities
Starluck Assets Limited	Administering and holding the Company's shares acquired for the Share Award Scheme for the benefit of directors of the Group

As the Group has the power to govern the financial and operating policies of the Equity Incentive Trust and can derive benefits from the contributions of the employees who have been awarded with the shares through their continued employment with the Group, the directors of the Company consider that it is appropriate to consolidate the Equity Incentive Trust in accordance with the requirements of IFRS.

18 INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

	2010 RMB'000	**2011 RMB'000**
As of January 1	3,802	12,723
Additions	15,417	–
Arising from the acquisition of One-Touch	–	490
Share of (losses)/profits, net of tax	(6,479)	730
Disposals	–	(973)
Exchange differences	(17)	–
As of December 31	12,723	12,970

As of December 31, 2011, there were no capital commitments or contingent liabilities relating to the Group's interests in the associated companies and jointly controlled entities.

Details of principal associated companies and jointly controlled entities as of December 31, 2011 are set out below:

Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/ registered capital	Effective interest held
Directly held:				
Alibaba.com Japan Co., Ltd.	Japan November 30, 2007 Limited liability company	Provision of Internet content and advertising services	JPY 1,221,840,434	31.77%
Zhejiang Global E–Businessmen Co., Ltd. # 浙江天下網商網絡傳媒有限公司	PRC July 2, 2010 Limited liability company	Provision of advertising services	RMB30,000,000	49%
Indirectly held:				
Zhejiang Ayeda Network Technology Company Limited # 浙江阿曄達網絡技術有限公司	PRC May 23, 2008 Limited liability company	Provision of software and technology services	RMB25,000,000	31.77%
Ahead Concord (Shanghai) Trading Co., Ltd. # 翹致（上海）貿易有限公司	PRC March 11, 2010 Limited liability company	Provision of wholesale, imports and exports and commission agency services	RMB8,000,000	31.77%
Zhangjiagang Free Trade Zone Online Soho Foreign Trade Market Co. Ltd. # 張家港保税區在綫個人外貿市場有限公司	PRC November 18, 2010 Limited liability company	Provision of import and export services	RMB10,000,000	31.85%

The English names of these associated companies and jointly controlled entities represent management's translation of their Chinese names only, as no official English names have been registered by these PRC companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

18 INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (Continued)

The investments in associated companies and jointly controlled entities are being accounted for using the equity method. The total investment, including net tangible assets and identifiable intangible assets, is classified as part of the "interests in associated companies and jointly controlled entities" in the consolidated balance sheet.

The Group records its share of the results, net of tax, of associated companies and jointly controlled entities, one quarter in arrears. In accordance with prescribed accounting rules, the share of losses of associated companies and jointly controlled entities has been limited to original investment costs.

19 AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB'000	**2011** **RMB'000**
As of January 1	72,386	356,480
Additions	1,709,565	1,242,693
Disposals	(1,431,000)	(1,379,500)
Net gains transferred to equity	5,640	2,300
Exchange differences	(111)	(191)
As of December 31	356,480	221,782
Less: Current portion	(305,140)	(189)
Non-current portion	51,340	221,593

Available-for-sale investments include the following:

	2010 RMB'000	**2011** **RMB'000**
Unlisted securities:		
Debt securities in the PRC, at fair value	325,862	20,851
Equity securities in Cayman Islands, at cost	–	169,527
Equity securities in the PRC, at cost	27,000	27,000
Equity securities in Japan, at cost	2,099	1,997
Equity securities in Hong Kong, at cost	1,519	2,407
	356,480	221,782
Less: Current portion	(305,140)	(189)
Non-current portion	51,340	221,593

19 AVAILABLE-FOR-SALE INVESTMENTS (Continued)

The available-for-sale investments are denominated in the following currencies:

	2010 RMB'000	**2011** **RMB'000**
Renminbi	352,862	217,378
Japanese Yen	2,099	1,997
Hong Kong Dollars	1,519	2,407
Total	356,480	221,782

Although the Group has over 20% equity interest in Sinosoft Technology Group Ltd. ("Sinosoft"), the Group has not accounted Sinosoft as an associated company but an available-for-sale investment at cost on the basis that the Group is not in a position to exercise any significant influence over its operations.

None of the available-for-sale investments were impaired as of December 31, 2011 (2010: nil).

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2010 RMB'000	**2011** **RMB'000**
Non-current portion		
Rental and other deposits	46,731	60,305
Employee housing loan	–	29,952
	46,731	90,257
Current portion		
Interest income receivables	114,237	179,860
Employee housing loan	–	7,488
Prepaid rentals, rental and other deposits	14,815	16,234
Prepaid expenses	34,891	35,222
Other tax receivables[i]	6,503	218,244
Other receivables	123,303	61,223
	293,749	518,271
Total	340,480	608,528

(i) Other tax receivables mainly represent value-added tax receivables from relevant PRC tax authorities arising from the export-related services provided by One-Touch.

NOTES TO THE FINANCIAL STATEMENTS

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20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

	Company	
	2010 RMB'000	**2011** **RMB'000**
Prepayments and other receivables	1	636

21 DIRECT SELLING COSTS

The Group is obligated to pay certain costs upon the receipt of such service fees from paying members or other customers, which primarily comprise sales commissions and domain name acquisition costs. The membership and domain name registration service fees are initially deferred and recognized in the consolidated statement of comprehensive income in the period in which the services are rendered (Note 28). As such, the related costs are also initially deferred and recognized in the consolidated statement of comprehensive income in the same period as the related service fees are recognized.

22 RESTRICTED CASH AND ESCROW RECEIVABLES

	2010 RMB'000	**2011** **RMB'000**
Restricted cash:		
– Arising from online transaction services and others [(i)]	164,645	261,412
– Pledged for short-term bank borrowings (Note 32)	–	135,216
Escrow receivables from external payment networks [(ii)]	3,534	11,782
Total	168,179	408,410

(i) The amount mainly represents customer funds held on escrow by the Group's online transaction services with a corresponding liability recorded under "amounts due to customers".

(ii) The amount represents funds held by external payment networks in relation to the online transaction services with a corresponding liability recorded under "amounts due to customers". Such amount is transferred to restricted cash arising from online transaction services upon receipt.

23 CASH AND BANK BALANCES

	Group 2010 RMB'000	Group **2011 RMB'000**
Cash at banks and on hand	1,446,233	2,169,455
Term deposits and short-term highly liquid investments with original maturities of three months or less	1,639,932	1,263,593
Cash and cash equivalents	3,086,165	3,433,048
Term deposits with original maturities of over three months	6,497,368	8,218,563
Total	9,583,533	11,651,611

	Company 2010 RMB'000	Company **2011 RMB'000**
Cash and cash equivalents	3,845	247

As of December 31, 2011, 98.2% (2010: 98.6%) of the cash and bank balances of the Group were denominated in Renminbi.

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC Government.

The effective interest rate of the cash and bank balances is 2.6% (2010: 2.0%).

The carrying values of the term deposits with original maturities of over three months approximate their fair values as of December 31, 2011 (2010: same).

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24 SHARE CAPITAL

	Notes	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares RMB'000
Authorized				
Ordinary share of HK$0.0001 each		8,000,000,000	HK$800,000	770
Issued and fully paid				
As of January 1, 2010		5,039,701,540	HK$503,970	485
Issuance of ordinary shares under share-based incentive schemes		5,829,908	HK$583	–
Repurchase of issued ordinary shares	(a)	(1,800,000)	(HK$180)	–
As of December 31, 2010		5,043,731,448	HK$504,373	485
As of January 1, 2011		5,043,731,448	HK$504,373	485
Issuance of ordinary shares under share-based incentive schemes		18,271,149	HK$1,827	2
Repurchase of issued ordinary shares	(b)	(67,833,500)	(HK$6,783)	(6)
As of December 31, 2011		4,994,169,097	HK$499,417	481

(a) In 2010, the Company repurchased 1,800,000 issued ordinary shares on the Stock Exchange. These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK$23,735,000 (equivalent to RMB20,455,000) was deducted from the shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK$180 has been transferred from retained earnings to capital redemption reserve.

Month of repurchase	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate price paid HK$'000	Equivalent aggregate price paid RMB'000
November 2010	1,500,000	13.20	12.88	19,693	16,986
December 2010	300,000	13.50	13.30	4,042	3,469
	1,800,000			23,735	20,455

24 SHARE CAPITAL (Continued)

(b) In 2011, the Company repurchased 67,833,500 issued ordinary shares on the Stock Exchange. These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK$509,463,000 (equivalent to RMB416,324,000) was deducted from the shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK$6,783 has been transferred from retained earnings to capital redemption reserve.

Month of repurchase	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate price paid HK$'000	Equivalent aggregate price paid RMB'000
September 2011	23,971,000	7.30	6.45	171,489	140,001
October 2011	43,862,500	8.95	7.02	337,974	276,323
	67,833,500			509,463	416,324

(c) In 2011, the Group acquired 230,000 (2010: 2,750,000) ordinary shares of the Company through the Equity Incentive Trust in the open market for the purpose of the Share Award Scheme (Note 27(a)) with a consideration of HK$1,675,000 (equivalent to RMB1,372,000) (2010: HK$37,511,000 (equivalent to RMB32,254,000)).

25 RESERVES

(a) Capital reserve

Capital reserve mainly arises from (i) the difference between the aggregate of the consideration for business combination under common control and the aggregate of the historical costs of the assets and liabilities of the entities being acquired. Deemed distributions to equity owners represent the amounts paid by the Group in exchange for the interests in the entities being acquired; and (ii) put liability in relation to the acquisition of certain equity interest in HiChina.

(b) Statutory reserve

In accordance with the relevant regulations and their articles of association, the Company's subsidiaries incorporated in the PRC are required to allocate at least 10% of their after-tax profit according to PRC accounting standards and regulations to the general statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors of the subsidiaries. These reserves can only be used for specific purposes and are not distributable or transferable in the form of loans, advances, or cash dividends.

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26 EQUITY – COMPANY

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
As of January 1, 2010	485	2,885,808	1	304,642	3,190,936
Profit for the year	–	–	–	878,214	878,214
Total recognized income for the year	–	–	–	878,214	878,214
Repurchase of issued ordinary shares (Note 24(a))	–	(20,455)	–	–	(20,455)
Issue of ordinary shares under share-based incentive schemes	–	10,328	–	–	10,328
Special cash dividend (Note 13)	–	–	–	(951,056)	(951,056)
Value of employee services under share-based incentive schemes	–	232,597	–	–	232,597
As of December 31, 2010	485	3,108,278	1	231,800	3,340,564
As of January 1, 2011	485	3,108,278	1	231,800	3,340,564
Loss for the year	–	–	–	(78,475)	(78,475)
Total recognized expense for the year	–	–	–	(78,475)	(78,475)
Repurchase of issued ordinary shares (Note 24(b))	(6)	(416,318)	6	(6)	(416,324)
Vesting of shares under Share Award Scheme	–	(5,782)	–	–	(5,782)
Issue of ordinary shares under share-based incentive schemes	1	48,822	–	–	48,823
Value of employee services under share-based incentive schemes	1	244,220	–	–	244,221
As of December 31, 2011	481	2,979,220	7	153,319	3,133,027

The loss attributable to equity owners of the Company was dealt with in the financial statements of the Company to the extent of RMB78,475,000 (2010: profit RMB878,214,000).

27 SHARE-BASED COMPENSATION

The Group and the ultimate holding company operate certain share-based incentive schemes to incentivize the Group's directors, employees, consultants and other eligible persons. Depending on the nature or purpose of the grant, the vesting schedule of share options, RSUs and restricted shares granted by the Group and the ultimate holding company could be different, but in general the awards are all subject to a four-year vesting schedule. The exercise period of share options granted by the Group or the ultimate holding company is six years from the date of grant.

(a) Share-based incentive schemes operated by the Group

In 2007, the Company adopted the Share Option Scheme and the RSU Scheme pursuant to which a total of 135,100,000 unissued ordinary shares of the Company were reserved and made available for grant of share options or RSUs. In 2010, the Company refreshed the combined scheme limit of the RSU Scheme and the Share Option Scheme to 156,000,000 ordinary shares. This pool of shares, reserved for future grant of share options or RSUs, represented 3.12% (2010: 3.09%) of the issued share capital of the Company as of December 31, 2011.

In 2010, the Company adopted the Share Award Scheme which is substantially similar to the RSU Scheme except that (i) it is also open to directors of the Company and its subsidiaries; and (ii) shares awarded under the Share Award Scheme are purchased from the open market whereas shares awarded pursuant to the RSU Scheme are from newly issued ordinary shares of the Company. Pursuant to the Share Award Scheme, the Group has established the Equity Incentive Trust. The trustee will exercise its power to purchase ordinary shares of the Company on the market and transfer them to the participants in accordance with the vesting condition of Share Award Scheme. Participants are not entitled to dividends on any awarded shares that are not yet vested and transferred to them.

Share options granted under the Share Option Scheme

Movements in the number of share options outstanding and their related weighted average exercise prices attributable to the directors and employees of the Group as grantees of the Share Option Scheme of the Company are as follows:

	2010		**2011**	
	Weighted average exercise price(i) HK$	Number of underlying shares(ii) ('000)	**Weighted average exercise price(i) HK$**	**Number of underlying shares(ii) ('000)**
Outstanding as of January 1	9.76	42,951	11.26	47,782
Granted	16.00	13,246	14.25	3,500
Exercised	7.20	(1,640)	6.93	(8,421)
Cancelled	12.00	(6,775)	12.58	(13,589)
Outstanding as of December 31	11.26	47,782	12.25	29,272
Vested and exercisable as of December 31	9.98	11,214	12.16	12,459

(i) Exercise price is expressed in the currency in which the ordinary shares of the Company are denominated.

(ii) Number of underlying shares represents the number of ordinary shares that are issuable by the Company upon exercise of the relevant options.

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For the year ended December 31, 2011

27 SHARE-BASED COMPENSATION (Continued)

(a) Share-based incentive schemes operated by the Group (Continued)

Share options granted under the Share Option Scheme (Continued)

The aforesaid share options outstanding as of December 31 have the following remaining contractual lives and exercise prices:

	2010		2011	
Exercise price [(i)]	Number of underlying shares[(ii)] ('000)	Weighted average remaining contractual life (years)	**Number of underlying shares[(ii)] ('000)**	**Weighted average remaining contractual life (years)**
HK$5.54 – HK$7.25	26,958	4.1	13,116	3.1
HK$12.74 – HK$14.57	2,447	4.4	3,572	4.3
HK$16.12 – HK$17.62	12,633	5.1	8,483	4.2
HK$19.86 – HK$20.60	5,744	3.4	4,101	2.6
	47,782	4.3	29,272	3.5

(i) Exercise price is expressed in the currency in which the ordinary shares of the Company are denominated.

(ii) Number of underlying shares represents the number of ordinary shares that are issuable by the Company upon exercise of the relevant options.

The significant inputs into the Black-Scholes Model in determining the fair value of the share options granted by the Company under Share Option Scheme during the years presented are as follows:

	2010	**2011**
Risk-free annual interest rate	1.14% to 1.73%	1.46% to 1.82%
Dividend yield	0%	0%
Expected life (years)	4.25 to 4.38	4.38
Expected volatility [(i)]	53.6% to 54.5%	50.9% to 51.3%
Weighted average fair value of each share option	HK$6.76	HK$5.63

(i) Expected volatility is assumed based on the historical volatility of the Company as well as its comparable companies in the period that has the same length of the expected life.

27 SHARE-BASED COMPENSATION (Continued)

(a) Share-based incentive schemes operated by the Group (Continued)

RSUs granted under the RSU Scheme

Movements in the number of RSUs outstanding and the respective weighted average grant date fair value attributable to the employees of the Group as grantees of the RSU Scheme of the Company are as follows:

	2010 Weighted average grant date fair value(i) HK$	2010 Number of underlying shares ('000)	**2011 Weighted average grant date fair value(i) HK$**	**2011 Number of underlying shares ('000)**
Outstanding as of January 1	10.70	19,892	13.58	37,647
Granted	15.13	25,936	11.72	34,104
Vested	9.38	(4,190)	13.40	(9,850)
Cancelled	13.72	(3,991)	13.82	(9,260)
Outstanding as of December 31	13.58	37,647	12.37	52,641

(i) Grant date fair value represents the fair value of the ordinary shares of the Company at the time of grant.

Restricted shares granted under the Share Award Scheme

Movements in the number of shares held for the Share Award Scheme are as follows:

	2010 Shares held for the Share Award Scheme ('000)	2010 Awarded shares ('000)	**2011 Shares held for the Share Award Scheme ('000)**	**2011 Awarded shares ('000)**
Outstanding as of January 1	–	–	1,150	1,600
Purchased (Note 24(c))	2,750	–	230	–
Granted(i)	(1,600)	1,600	(625)	625
Vested	–	–	–	(504)
Outstanding as of December 31	1,150	1,600	755	1,721

(i) The weighted average fair value of the awarded shares, calculated based on the market prices of the Company's ordinary shares at the grant date, was HK$11.21 (2010: HK$14.10).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

27 SHARE-BASED COMPENSATION (Continued)

(a) Share-based incentive schemes operated by the Group (Continued)

Put options, earn-in arrangement and restricted shares of HiChina

Upon the acquisition of HiChina in 2009, the Group granted put options, which are exercisable on certain specified dates over a three-year period from 2011 to 2013, to certain key employees of HiChina. On the condition that HiChina meets certain post-completion performance milestones, these employees may require the Group to further acquire up to a 14.67% equity interest in HiChina from them for a maximum consideration of RMB104.5 million (US$15.3 million). The first and second tranches of the put options were forfeited as the performance conditions were not met and the share-based compensation expense previously recognized has been reversed in the consolidated statement of comprehensive income.

In addition, the Group has also agreed, among other things, that it might transfer certain earn-in shares of HiChina to certain key employees, subject to these employees achieving certain post-completion performance milestones to be set annually based on the ongoing business strategies and objectives of HiChina over each of the five years starting 2010. In June, 2011, certain restricted shares of HiChina were granted to employees for replacing the unrealized earn-in shares from 2011 to 2014 in accordance with the acquisition agreements.

Share-based compensation expense for schemes operated by the Group

In 2011, the Group recognized share-based compensation expense of RMB262,995,000 (2010: RMB246,532,000) in connection with all the share-based incentive schemes operated by the Group.

(b) Share-based incentive schemes operated by the ultimate holding company

Senior Management Equity Incentive Scheme

In 2010, the ultimate holding company adopted the senior management equity incentive scheme, pursuant to which selected senior management of the ultimate holding company (including certain directors and senior management of the Group) were invited to subscribe for rights to acquire ordinary shares of the ultimate holding company. These rights, subject to non-compete provision but without any vesting conditions upon employment or other services, are exercisable after the dates specified in the relevant agreements. As certain participants of the scheme are employees of the Group, deemed share-based compensation expense from accounting perspectives, measured by the difference between the fair value of the rights and the related subscription price, of RMB18,403,000 was recognized by the Group in 2011 (2010: RMB56,956,000).

The fair value of the rights to acquire ordinary shares of the ultimate holding company was determined based on the Black-Scholes Model. The significant inputs into the Black-Scholes Model in determining the grant date fair value were as follows:

	2010	**2011**
Risk-free annual interest rate	1.32%-1.42%	1.97%
Dividend yield	0%	0%
Expected life (years)	5.00	5.00
Expected volatility(i)	55.0%	48.0%
Weighted average fair value of each right	US$2.32	US$2.85

(i) Expected volatility is assumed based on the historical volatility of the share price of the comparable companies of the ultimate holding company in a period that has the same length of expected life.

27 SHARE-BASED COMPENSATION (Continued)

(b) Share-based incentive schemes operated by the ultimate holding company (Continued)

Restricted Share Subscription Scheme

In 2011, the ultimate holding company adopted a restricted share subscription scheme, pursuant to which selected employees and consultants of the ultimate holding company (including certain directors and employees of the Group) were invited to subscribe for restricted shares of the ultimate holding company. Such restricted shares are subject to a repurchase provision which is exercisable by the ultimate holding company, and the repurchase provision expires rateably over a period subject to certain conditions specified in the relevant agreements. As certain subscribers of this scheme are employees of the Group, share-based compensation expense, measured as the difference between the fair value of the restricted shares and the related subscription price, of RMB34,407,000 was recognized by the Group in 2011 (2010: nil).

Share-based awards relating to ordinary shares of the Company and the ultimate holding company

Certain employees of the Group have participated in various share-based incentive schemes of the ultimate holding company. Share options and RSUs relating to ordinary shares of the ultimate holding company under such schemes were granted to the directors and employees of the Group, mainly prior to the initial public offering of the Company, to acquire ordinary shares of the ultimate holding company. A proportion of these share-based awards have been exchanged for share options and RSUs to acquire the Company's ordinary shares held by the ultimate holding company pursuant to an equity exchange program with these employees undertaken in 2007. As of December 31, 2011, 7,371,705 (2010: 12,898,436) ordinary shares of the Company are subject to exchange by the ultimate holding company.

The ultimate holding company also granted share options, RSUs and rights to acquire the Company's ordinary shares held by it to the directors and employees of the Group pursuant a pre-IPO share incentive scheme and other share-based incentive schemes of the ultimate holding company. As of December 31, 2011, 12,222,700 (2010: 58,366,600) share options, RSUs and rights granted under the aforesaid schemes were outstanding, of which 10,927,450 (2010: 41,269,800) were vested and exercisable/redeemable.

Total share-based compensation expense for schemes operated by the ultimate holding company

In 2011, the Group recognized share-based compensation expense of RMB73,142,000 (2010: RMB94,439,000) in connection with all share-based incentive schemes, including the senior management equity incentive scheme and restricted share subscription scheme, operated by the ultimate holding company.

(c) Share-based compensation expense by function

Share-based compensation expense allocated by function is analyzed as follows:

	2010 RMB'000	**2011** **RMB'000**
Cost of revenue	26,365	36,383
Sales and marketing expenses	95,096	93,372
Product development expenses	71,476	85,686
General and administrative expenses	148,034	120,696
Total	340,971	336,137

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28 DEFERRED REVENUE AND CUSTOMER ADVANCES

Deferred revenue and customer advances primarily represents service fees prepaid by paying members or other customers for which the relevant services have not been rendered. The respective balances are as follows:

	2010 RMB'000	**2011** **RMB'000**
Deferred revenue	3,071,663	3,346,118
Customer advances	1,362,724	1,077,013
	4,434,387	4,423,131
Less: Current portion	(4,101,442)	(3,969,117)
Non-current portion	332,945	454,014

All service fees received in advance are initially recorded as customer advances. These amounts are transferred to deferred revenue upon commencement of the rendering of services by the Group and are recognized in the consolidated statement of comprehensive income in the period in which the services are rendered. In general, service fees received in advance are non-refundable after such amounts are transferred to deferred revenue.

29 TRADE PAYABLES

The aging analysis of trade payables based on invoice date is as follows:

	2010 RMB'000	**2011** **RMB'000**
0 – 30 days	14,266	11,467
31 days – 60 days	333	3,102
61 days – 90 days	188	420
Over 90 days	1,194	1,441
Total	15,981	16,430

30 OTHER PAYABLES AND ACCRUALS

	Group	
	2010 RMB'000	**2011** **RMB'000**
Non-current portion		
Put liability and compensatory liability in relation to the acquisition of equity interest in HiChina	53,666	29,418
Contingent consideration in relation to the acquisition of a 65% equity interest in One-Touch (Note 37(f))	–	90,571
	53,666	119,989
Current portion		
Accrued salaries, bonuses, sales commissions and staff benefits	389,338	467,376
Accrued advertising and promotion expenses, professional fees and others	296,137	317,140
Accrued purchases of property and equipment	57,705	45,269
Put liability and compensatory liability in relation to the acquisition of equity interest in HiChina	31,191	–
Other taxes payable[i]	84,890	216,808
	859,261	1,046,593
Total	912,927	1,166,582

(i) Other taxes payable mainly represent PRC individual income tax of employees withheld by the Group.

	Company	
	2010 RMB'000	**2011** **RMB'000**
Accrued professional fees and others	11,172	8,571

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

31 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts shown in the consolidated balance sheet are determined after appropriate offset.

	2010 RMB'000	**2011** **RMB'000**
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	19,578	36,674
– Deferred tax assets to be recovered within 12 months	81,754	113,382
	101,332	150,056
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	(117,223)	(179,046)
– Deferred tax liabilities to be settled within 12 months	(13,632)	(61,133)
	(130,855)	(240,179)
Deferred tax liabilities, net	(29,523)	(90,123)

The movement of deferred tax assets/(liabilities), net is as follows:

	2010 RMB'000	**2011** **RMB'000**
As of January 1	3,524	(29,523)
Charged to the consolidated statement of comprehensive income (Note 12)	(26,986)	(55,564)
Deferred tax liabilities arising from the acquisitions of Vendio and Auctiva	(41,145)	–
Deferred tax liabilities arising from the acquisition of One-Touch	–	(11,225)
Others	35,084	6,189
As of December 31	(29,523)	(90,123)

31 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred tax assets

	Deferred revenue and customer advances RMB'000	**Depreciation** RMB'000	**Others[(i)]** RMB'000	**Total** RMB'000
As of January 1, 2010	10,786	9,579	52,800	73,165
Credited to the consolidated statement of comprehensive income (Note 12)	15,430	3,821	10,261	29,512
As of January 1, 2011	26,216	13,400	63,061	102,677
Credited to the consolidated statement of comprehensive income (Note 12)	48,104	2,134	17,087	67,325
Others	4,481	–	–	4,481
As of December 31, 2011	78,801	15,534	80,148	174,483

(i) Others primarily represent accrued expenses which are not deductible until paid under PRC tax laws.

31 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Deferred tax liabilities

	Withholding tax on unremitted earnings[(i)] RMB'000	Others RMB'000	Total RMB'000
As of January 1, 2010	(34,141)	(35,500)	(69,641)
(Charged)/Credited to the consolidated statement of comprehensive income (Note 12)	(60,013)	3,515	(56,498)
Deferred tax liabilities arising from the acquisitions of Vendio and Auctiva	–	(41,145)	(41,145)
Others	34,141	943	35,084
As of January 1, 2011	(60,013)	(72,187)	(132,200)
Charged to the consolidated statement of comprehensive income (Note 12)	(121,321)	(1,568)	(122,889)
Deferred tax liabilities arising from the acquisition of One-Touch (Note 36)	–	(11,225)	(11,225)
Others	–	1,708	1,708
As of December 31, 2011	(181,334)	(83,272)	(264,606)

(i) The related deferred tax liabilities of RMB181,334,000 (2010: RMB60,013,000) were provided in full amount in the retained earnings of Alibaba China and certain other PRC subsidiaries totalling RMB3,626,687,000 (2010: RMB1,200,250,000), which are anticipated to be distributed as dividends to its equity holder in Hong Kong in the foreseeable future. As a result, there were no unrecognized deferred income tax liabilities on undistributed retained earnings as of December 31, 2011.

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize deferred tax assets of RMB81,897,000 (2010: RMB66,501,000) primarily in respect of the accumulated tax losses of subsidiaries incorporated in Hong Kong, Singapore and the United States, and of a branch in Taiwan, subject to the agreement by the relevant tax authorities, amounting to RMB284,151,000 (2010: RMB268,835,000). These tax losses are allowed to be carried forward to offset against future taxable profits. Tax losses carried forward in Hong Kong and Singapore have no time limit, while the tax losses in the United States and Taiwan will expire, if unused, in the following years:

The United States: Years ending December 31, 2019 through 2031; and

Taiwan: Years ending December 31, 2018 through 2020.

Further, the Group did not recognize deferred tax assets of RMB15,413,000 (2010: RMB11,433,000), calculated using the tax rate of 25%, in respect of the accumulated tax losses of subsidiaries incorporated in the PRC, subject to the agreement by the PRC tax authorities, amounting to RMB61,654,000 (2010: RMB48,343,000). These carried forward tax losses will expire, if unused, in the years ending December 31, 2012 through 2016.

32 SHORT-TERM BANK BORROWINGS

(a) Short-term loans are analyzed as follows:

	2010 RMB'000	**2011 RMB'000**
On demand or wholly repayable within one year	92,718	1,286,489

(b) Movements in borrowings are analyzed as follows:

	2010 RMB'000	**2011 RMB'000**
As of January 1	–	92,718
Arising from the acquisition of One-Touch	–	76,560
Additions	92,718	1,426,043
Repayments	–	(279,414)
Exchange differences	–	(29,418)
As of December 31	92,718	1,286,489

(c) The carrying amounts of the short-term loans are denominated in the following currencies:

	2010 RMB'000	**2011 RMB'000**
Hong Kong Dollars (i)	–	344,172
United States Dollars (i)	92,718	663,791
Renminbi (ii)	–	278,526
	92,718	1,286,489

(i) These bank borrowings were unsecured, at floating interest rates and repayable within one year.

(ii) The interest rates were fixed at 3.38% to 6.57% per annum. Part of the bank borrowings were secured by a pledge of bank deposits of RMB135,216,000 which were included in restricted cash and escrow receivables (Note 22).

The carrying amounts of short-term bank borrowings approximate their fair values, as the impact of discounting is not significant.

33 CONTINGENCIES

As of December 31, 2011, the Group did not have any material contingent liabilities or guarantees (2010: nil).

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34 COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for are analyzed as follows:

	2010 RMB'000	2011 RMB'000
Contracted but not provided for:		
Purchase of property and equipment	6,471	6,685
Construction of corporate campus	17,508	275,293
	23,979	281,978

Pursuant to the agreements signed between Alibaba China and Hangzhou Bureau of Land and Resources on March 9, 2010, the Group has committed that the total investment for the extension of the corporate campus would not be less than RMB667,000,000 by September 2013.

(b) Operating lease commitments

The Group has leased offices under non-cancellable operating lease agreements. These leases have varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010 RMB'000	2011 RMB'000
No later than 1 year	55,304	53,535
Later than 1 year and no later than 5 years	41,703	26,995
More than 5 years	1,540	805
Total	98,547	81,335

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Except elsewhere disclosed, the following significant related party transactions were carried out during the year:

(a) Recurring transactions

	2010 RMB'000	**2011** **RMB'000**
Expenses paid or payable to the ultimate holding company for certain technology, intellectual property and related know-how (Note i)	(52,976)	(60,249)
House brand head license fee paid or payable to the ultimate holding company (Note ii)	(2,000)	(2,000)
Purchase of advertising, promotion and technology services from (Note iii):		
– a substantial shareholder of the ultimate holding company and its subsidiaries	(10,374)	(131)
– fellow subsidiaries	(14,932)	(41,168)
Total	(25,306)	(41,299)
Cross-selling of promotion and related services with fellow subsidiaries (Note iv)	(1,934)	(11,086)
Cross-selling of promotion and related services with associated companies (Note v)	12,364	–
Reimbursement for the provision of administrative services (Note vi)		
– fellow subsidiaries	5,836	4,556
– an associated company	–	989
– an affiliated company	–	1,183
Total	5,836	6,728
Reimbursement from fellow subsidiaries for the provision of technology services (Note vii)	5,518	3,493
Purchase of administrative services from fellow subsidiaries (Note viii)	(9,613)	(15,803)
Purchase of customer support services from an associated company (Note ix)	(21,142)	(12,930)

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35 RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring transactions

	2010 RMB'000	**2011** **RMB'000**
Reimbursement from an associated company for costs incurred in relation to Japan website (Note x)	–	6,850

(i) These represent expenses paid or payable by the Group for the use of certain technology, intellectual property and related know-how provided by the ultimate holding company. The expenses were calculated based on a mutually agreed basis.

(ii) This represents license fee paid or payable by the Group to the ultimate holding company at a fixed fee of RMB2 million per annum.

(iii) These represent charges paid or payable by the Group to various related companies and fellow subsidiaries in relation to the purchase of keywords and display advertisements on websites operated by various related companies as well as certain technology and related services from fellow subsidiaries. These charges were calculated based on a mutually agreed basis.

(iv) These represent net amount paid or payable or received or receivable by the Group to fellow subsidiaries for the cross-selling of the Group's website inventory, website and storefront creation services and online software tools and services. These charges were calculated based on a mutually agreed basis.

(v) These represent charges received or receivable by the Group from the associated companies for the cross-selling of products of the associated companies. These charges were calculated based on a pre-determined percentage of the underlying transaction amount.

(vi) These represent charges received or receivable by the Group for the provision of administrative services to fellow subsidiaries, an associated company and an affiliated company. The charges were determined on a cost basis.

(vii) These represent charges received or receivable by the Group for the provision of technology services to fellow subsidiaries. The charges were calculated based on actual cost incurred in providing such services plus a margin of 15%.

(viii) These represent charges paid or payable by the Group to fellow subsidiaries for the administrative services provided by those fellow subsidiaries. The charges were determined on a cost basis.

(ix) These represent charges paid or payable by the Group to an associated company for the provision of customer support services. The charges were determined on a cost basis.

(x) These represent charges receivable by the Group from an associated company for the costs incurred in relation to Japan website. These charges were determined on a mutually agreed basis.

35 RELATED PARTY TRANSACTIONS (Continued)

The Group also exchanged certain advertising, promotion and related services, such as hyperlinks on respective websites, with fellow subsidiaries. Reciprocal services provided by the Group and such fellow subsidiaries to each other were considered to be of a similar nature and have a similar value, accordingly these transactions were not regarded as revenue-generating transactions and thus no revenue or expense were recognized.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

(c) Balances with related parties

	Group	
	2010 RMB'000	**2011** **RMB'000**
Amounts due from related companies:		
Ultimate holding company	1,115	156
Fellow subsidiaries	38,419	47,000
Total	39,534	47,156
Amounts due to related companies:		
Ultimate holding company	18,517	35,530
Fellow subsidiaries	5,109	32,987
Subsidiary of a substantial shareholder of the ultimate holding company	22,341	32
Total	45,967	68,549

	Company	
	2010 RMB'000	**2011** **RMB'000**
Amounts due from subsidiaries:		
Non-current portion (Note 17)	1,565,157	1,565,157
Current portion (Note 17)	1,482,730	1,808,737
Total	3,047,887	3,373,894
Amount due from an associated company	199	6,852
Amount due to the ultimate holding company	(2,234)	(6,263)
Amounts due to subsidiaries (Note 17)	(70,843)	(847,889)

Except for the amounts due from subsidiaries included under non-current portion in the Company's balance sheet, the amounts due from/(to) the ultimate holding company, fellow subsidiaries, subsidiaries and other related parties are unsecured, interest-free and expected to be recovered within the foreseeable future. The carrying amounts of these balances approximate their fair values due to their short-term maturity.

NOTES TO THE FINANCIAL STATEMENTS

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35 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management personnel compensation

Remuneration for key management personnel represented amounts paid to the Company's directors as disclosed in Note 10.

36 BUSINESS COMBINATIONS

In January 2011, the Group completed the acquisition of a 65% equity interest in One-Touch, a provider of one-stop import and export services to small and medium enterprises in China.

Details of the purchase consideration, the net assets acquired and goodwill, in aggregate, were as follows:

	RMB'000
Non-current assets	1,132
Identifiable intangible assets (Note 16)	44,900
Current assets	106,789
Current liabilities	(99,949)
Deferred tax liabilities (Note 31)	(11,225)
	41,647
Non-controlling interests	(14,576)
Net identifiable assets acquired	27,071
Goodwill (Note 16)	95,444
Total purchase consideration for a 65% equity interest in One-Touch	122,515
Purchase consideration settled in cash during the period	(21,122)
Contingent consideration (Note 37(f))	101,393

Acquisition-related costs of RMB628,000 have been included in "general and administrative expenses" of the consolidated statement of comprehensive income.

The contribution to the Group's turnover or profit attributable to equity owners from the newly acquired subsidiary since the date of acquisition, or as if the acquisition had occurred as of the beginning of the year, is not significant.

37 FINANCIAL RISK MANAGEMENT

The Group's major financial assets and liabilities include cash and cash equivalents, time deposits, available-for-sale investments, prepayments, deposits and other receivables, amounts due from/to related companies, trade payables, other payables and accruals and short-term bank borrowings. The details of these financial assets and financial liabilities are disclosed in the respective notes to the financial statements. Major risks associated with these financial assets and liabilities and the policies on how to mitigate these risks are set out below. The Group's management regularly monitors the exposures and implements timely and effective policies to mitigate potential risks.

(a) Currency risk

Currency risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although the Group operates businesses in different countries, substantially all of the revenue-generating and expense-related transactions are denominated in Renminbi which is the functional currency of the Company and the Group's key operating subsidiaries. Renminbi is not freely convertible into other currencies. All foreign currency exchange transactions in the PRC must be effected through the State Administration of Foreign Exchange.

Sensitivity analysis

As of December 31, 2011, most of the foreign currency denominated monetary assets and liabilities being held by the Group were denominated in United States dollars and Hong Kong dollars (2010: same). As of December 31, 2011, if Renminbi had strengthened/weakened 2% against United States dollars and Hong Kong dollars with all other variables held constant, profit attributable to equity owners for the year would have been increased/decreased by RMB45,109,000 (2010: RMB27,241,000) as a result of foreign exchange gains/losses on translation of United States dollars and Hong Kong dollars denominated monetary assets and liabilities.

Exchange differences arising from translation of results and financial positions of certain Group companies from functional currencies to the presentation currency are dealt with as a movement in exchange reserve. As of December 31, 2011, if Renminbi had strengthened/weakened 2% against United States dollars with all other variables held constant, the Group's equity would have been decreased/increased by RMB13,273,000 (2010: RMB12,627,000).

(b) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest-bearing assets including all cash and cash equivalents, term deposits with original maturities of over three months and short-term bank borrowings which are mainly at floating interest rates.

Sensitivity analysis

As of December 31, 2011, if the interest rate increased/decreased by 50 basis-point with all other variables remained constant and assuming the amount of short-term bank borrowings outstanding at the end of the year was outstanding for the whole year, profit attributable to equity owners of the Company would have been RMB51,574,000 (2010: RMB47,833,000) higher/lower, mainly as a result of higher/lower interest income on bank balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

37 FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk

The Group's credit risk is considered minimal as a substantial part of the income is prepaid by a diversified group of customers. The extent of the Group's credit risk exposure is represented by the aggregate of cash and other investments held at banks and at other financial institutions. The Group's cash and other investments are mainly placed with state-owned financial institutions in the PRC and most of them bear maximum original maturities of less than 12 months. There has been no recent history of default in relation to these financial institutions.

The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(d) Liquidity risk

The Group has maintained its own treasury function, which reports to the Group's chief financial officer, to monitor the current and expected liquidity requirements and aims to maintain flexibility by keeping sufficient cash and available bank facilities to meet its commitment over the foreseeable future in accordance with its strategic plans.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivate financial liabilities which are based on contractual undiscounted principal and interest cash flows and the earliest date on which the Group is required to pay.

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but not exceeding 2 years RMB'000	More than 2 years but not exceeding 5 years RMB'000
The Group				
As of December 31, 2011				
Trade payables	16,430	16,430	–	–
Amounts due to customers	318,319	318,319	–	–
Amounts due to related companies	68,549	68,549	–	–
Other payables and accruals	1,202,491	1,046,593	29,418	126,480
Short-term bank borrowings	1,286,489	1,286,489	–	–
Total	2,892,278	2,736,380	29,418	126,480

37 FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but not exceeding 2 years RMB'000	More than 2 years but not exceeding 5 years RMB'000
The Group				
As of December 31, 2010				
Trade payables	15,981	15,981	–	–
Amounts due to customers	220,612	220,612	–	–
Amounts due to related companies	45,967	45,967	–	–
Other payables and accruals	912,927	859,261	27,544	26,122
Dividend payable	943,695	943,695	–	–
Short-term bank borrowings	92,718	92,718	–	–
Total	2,231,900	2,178,234	27,544	26,122
The Company				
As of December 31, 2011				
Amounts due to subsidiaries	847,889	847,889	–	–
Amount due to the ultimate holding company	6,263	6,263	–	–
Other payables and accruals	8,571	8,571	–	–
Total	862,723	862,723	–	–
As of December 31, 2010				
Amounts due to subsidiaries	70,843	70,843	–	–
Amount due to the ultimate holding company	2,234	2,234	–	–
Other payables and accruals	11,172	11,172	–	–
Dividend payable	944,210	944,210	–	–
Total	1,028,459	1,028,459	–	–

(e) Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern while maximizing the returns to shareholders and benefits to other stakeholders. In order to achieve these objectives, the Group will periodically review its capital structure, with consideration on the macroeconomic conditions, prevailing interest rate and adequacy of cash flows generating from operations, and adjust it through the payment of dividends, issue of new shares or debts, the repurchase of shares and redemption of existing debt.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

37 FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair value estimation

The following table provides an analysis of available-for-sale investments and contingent liabilities in relation to an acquisition that are measured subsequent to initial recognition at fair value, grouped into levels based on the degree to which the fair value is observable.

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques, such as discounted cash flow anaylsis in which any significant input is not based on observable market data

	Group Fair value measurement as of December 31, 2011			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total amount** RMB'000
Assets				
Debt securities in the PRC, at fair value (Note 19)	–	20,851	–	20,851
Liabilities				
Contingent consideration in relation to an acquisition (Note 30)	–	–	90,571	90,571

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended December 31, 2011:

	Contingent consideration in relation to the acquisition of a 65% equity interest in One-Touch **RMB'000**
As of January 1, 2011	–
Addition (Note 36)	101,393
Gain recognized in other operating income (Note 6)	(10,822)
As of December 31, 2011 (Note 30)	90,571

38 POST BALANCE SHEET EVENT

On February 12, 2012, Alibaba Group Holding Limited (the "Offeror"), the substantial shareholder of the Company, requested the board of directors to put forward a proposal (the "Proposal") to privatize the Company by way of a scheme of arrangement under Section 86 of the Cayman Islands Companies Law (the "Scheme"). Under the Proposal, shares of the Company other than those held directly or indirectly by the Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited (the "Scheme Shares") will be cancelled in exchange for the payment by the Offeror under the Scheme to each holder of the Scheme Shares the sum of HK$13.50 per Scheme Share in cash. In addition, the Offeror will make (or procure to be made on its behalf) an appropriate offer to the holders of outstanding share options, RSUs and restricted shares granted by the Company and the Offeror pursuant to their respective share-based incentive schemes in accordance with Rule 13 of the Code on Takeovers and Mergers of Hong Kong. The offer under the said Rule 13 is conditional upon the Scheme becoming effective.

Management considered that the Proposal had no financial impact to the Company and the consolidated financial statements of the Group for the year ended December 31, 2011.

39 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of current year.

FINANCIAL SUMMARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31,				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
Revenue	2,153,310	3,004,127	3,874,728	5,557,586	6,416,894
Gross profit	1,867,238	2,603,476	3,340,290	4,626,570	5,156,915
Profit from operations	765,861	1,141,700	1,072,970	1,536,538	1,816,886
Profit before income taxes	1,110,960	1,364,820	1,176,419	1,706,457	2,136,734
Profit attributable to equity owners of the Company	929,311	1,154,503	1,013,026	1,469,464	1,712,673
Share-based compensation	156,194	181,959	200,385	340,971	336,137
Dividends	–	–	888,261	950,538	–
Earnings per share					
– Basic (HK$)	19.6 cents	25.6 cents	22.8 cents	33.4 cents	41.0 cents
– Diluted (HK$)	19.6 cents	25.6 cents	22.6 cents	33.2 cents	40.7 cents

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 31,				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
Assets and liabilities					
Property and equipment	163,773	386,545	783,122	781,145	732,759
Goodwill	–	–	202,631	367,787	455,207
Liquid funds and investments	5,273,552	6,612,324	7,288,831	9,940,013	11,873,393
Deferred revenue and customer advances	(1,935,673)	(2,294,397)	(3,436,975)	(4,434,387)	(4,423,131)
Other net assets/(liabilities)	97,620	202,589	180,540	(851,493)	(1,118,056)
Total assets and liabilities	3,599,272	4,907,061	5,018,149	5,803,065	7,520,172
Equity					
Share capital	486	486	485	485	481
Reserves	3,598,786	4,906,575	4,976,605	5,752,764	7,417,299
Equity attributable to equity owners of the Company	3,599,272	4,907,061	4,977,090	5,753,249	7,417,780
Non-controlling interests	–	–	41,059	49,816	102,392
Total equity	3,599,272	4,907,061	5,018,149	5,803,065	7,520,172
Net current assets	3,169,645	4,234,401	4,045,829	4,655,406	6,279,983
Total assets less current liabilities	3,674,484	5,025,338	5,359,677	6,320,531	8,334,354

Design & Concept: Phoenix Communications Limited