
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer, or other registered institution in securities, a bank manager, solicitor, professional accountant, or other professional advisor.

If you have sold or transferred all your shares in Alibaba.com Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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 **Alibaba Group**
阿里巴巴集团
ALIBABA GROUP HOLDING LIMITED
(Incorporated in the Cayman Islands with limited liability)

 **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)

**PROPOSED PRIVATIZATION OF ALIBABA.COM LIMITED
BY ALIBABA GROUP HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)**

Joint Financial Advisors to the Offeror

 **ROTHSCHILD**

 **CREDIT SUISSE**

Deutsche Bank 

Financial Advisor to the Company

Independent Financial Advisor to the
Independent Board Committee

HSBC 

 **SOMERLEY LIMITED**

Unless the context requires otherwise, capitalized terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders and Share Incentive Holders in connection with the Proposal and the Share Incentives Offer is set out in Part V of this Scheme Document. A letter from Somerley Limited, being the Independent Financial Advisor to the Independent Board Committee, containing its advice to the Independent Board Committee in connection with the Proposal and the Share Incentives Offer, is set out in Part VI of this Scheme Document. An Explanatory Statement regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders and the Share Incentive Holders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting to be held at 9:00 a.m. on May 25, 2012 and the Extraordinary General Meeting to be held either at 9:30 a.m. on May 25, 2012 or immediately after the conclusion or the adjournment of the Court Meeting are set out in Appendix IV and Appendix V to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting or any adjournment thereof, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under Part II – Actions to be taken of this Scheme Document. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting.

This Scheme Document is issued jointly by Alibaba.com Limited and Alibaba Group Holding Limited.

The English language texts of this Scheme Document, the Share Incentives Offer Letter and the Forms of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

April 24, 2012

Notice to US holders of Alibaba.com Shares

The Proposal is being made to acquire the securities of a Cayman Islands company by means of a scheme of arrangement provided for under the Cayman Islands Companies Law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Exchange Act. Accordingly, the Proposal is subject to disclosure requirements and practices applicable in the Cayman Islands and Hong Kong to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules. The financial information included in this Scheme Document has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles of the United States.

The receipt of cash pursuant to the Proposal by a US holder of Shares as consideration for the cancellation of its Shares pursuant to the Scheme may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Shares is urged to consult his/her independent professional advisor immediately regarding the tax consequences of the Proposal applicable to him/her.

It may be difficult for US holders of Shares to enforce their rights and claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the United States, and some or all of their officers and directors may be residents of a country other than the United States. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.

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PART I – DEFINITIONS

In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it in the Hong Kong Takeovers Code
“Announcement”	the announcement dated February 21, 2012, issued jointly by the Offeror and the Company in relation to the Proposal
“Announcement Date”	February 21, 2012, being the date of the Announcement
“associates”	has the meaning ascribed to it in the Hong Kong Takeovers Code
“Beneficial Owner”	any beneficial owner of Shares
“Board”	the board of directors of the Company
“Business Day”	a day (other than a Saturday) on which banks are generally open for business in Hong Kong
“Cancellation Price”	the cancellation price of HK\$13.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Cayman Islands Companies Law”	the Companies Law (2011 revision), as consolidated and revised, of the Cayman Islands
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company” or “Alibaba.com”	Alibaba.com Limited, an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1688)
“Conditions”	the conditions (or any of them) to the implementation of the Proposal and the Scheme as set out in the section headed “Conditions of the Proposal and the Scheme” under Part VII – Explanatory Statement of this Scheme Document
“Conditions Long Stop Date”	means June 20, 2012 the date which is 120 days after the Announcement Date or, subject to applicable laws and regulations, such later date as the Offeror and the Company may agree or, to the extent applicable, as the Cayman Islands Grand Court may direct
“Court Meeting”	a meeting of the Scheme Shareholders convened at the direction of the Cayman Islands Grand Court at which the Scheme will be voted upon, which is to be held at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 9:00 a.m. on May 25, 2012, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof
“Credit Suisse”	Credit Suisse (Hong Kong) Limited, a joint financial advisor to the Offeror in connection with the Proposal
“Deutsche Bank”	Deutsche Bank AG, Hong Kong Branch, a joint financial advisor to the Offeror in connection with the Proposal
“Director(s)”	the director(s) of the Company

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“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the order of the Cayman Islands Grand Court sanctioning the Scheme and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Cayman Islands Companies Law, and which is expected to be June 19, 2012 (Cayman Islands time)
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof
“Executive Directors”	Mr. LU Zhaoxi, Jonathan, Ms. WU Wei, Maggie and Mr. YE Peng
“Explanatory Statement”	the explanatory statement set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 9:30 a.m. on May 25, 2012 (or immediately after the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof
“Form(s) of Acceptance”	the form(s) of acceptance dispatched to Share Incentive Holders in connection with the Share Incentives Offer
“Group”	the Company and its subsidiaries
“HiChina”	HiChina Group Limited (formerly known as China Civilink (Cayman)), a subsidiary of the Company incorporated in the Cayman Islands with limited liability which operates in the PRC through its wholly-owned subsidiary Beijing HiChina Zhicheng Technology Co., Ltd.(北京萬網志成科技有限公司)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited, the financial advisor to the Company in connection with the Proposal. HSBC is a registered institution under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), registered to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)

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“Independent Board Committee”	the independent board committee of the Company, comprising Mr. NIU Gen Sheng and Mr. KWAIK Teh Ming Walter, established by the Board to make a recommendation to the Independent Shareholders and the Share Incentive Holders in respect of the Proposal and the Share Incentives Offer respectively
“Independent Financial Advisor” or “Somerley”	Somerley Limited, the independent financial advisor to the Independent Board Committee in connection with the Proposal and the Share Incentives Offer
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and the Offeror Concert Parties
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Last Trading Day”	February 8, 2012, being the last trading day prior to the date of suspension of trading in the Shares on the Hong Kong Stock Exchange pending the issuance of the Announcement
“Latest Incentives Vesting Date”	4:30 p.m. on April 30, 2012, being the expected latest date upon which RSUs, Offeror RSUs and Share Awards must vest in order for Share Incentive Holders to be entitled to vote at the Court Meeting and the Extraordinary General Meeting and to qualify for entitlements under the Scheme
“Latest Options Exercise Date”	4:30 p.m. on June 8, 2012, being the expected latest date upon which holders must lodge notices of exercise (accompanied by full payment) of their Share Options and Offeror Share Options in order for Share Incentive Holders to qualify for entitlements under the Scheme
“Latest Practicable Date”	April 20, 2012, being the latest practicable date for ascertaining certain information contained in this Scheme Document
“Meeting Record Date”	4:30 p.m. (Hong Kong time) on May 15, 2012, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of Shareholders to attend and vote at the Extraordinary General Meeting
“Offeror”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands with limited liability and a substantial shareholder of the Company
“Offeror Concert Parties”	parties acting in concert with the Offeror according to the definition of “acting in concert” under the Hong Kong Takeovers Code
“Offeror Group”	the Offeror and its subsidiaries, other than members of the Group
“Offeror Incentive(s)”	the Offeror Share Options and the Offeror RSUs
“Offeror Share Option(s)”	the outstanding, vested and unvested, share option(s) granted by the Offeror which relate to Shares held by the Offeror

PART I – DEFINITIONS

“Offeror Share Option Offer Price”	the amount by which the Cancellation Price exceeds the relevant exercise price of that Offeror Share Option (or, where the relevant exercise price exceeds the Cancellation Price, a nominal amount of HK\$0.05 per 500 Offeror Share Options or part thereof), payable in cash by the Offeror to the holder of that Offeror Share Option on the terms and subject to the conditions of the Share Incentives Offer
“Offeror RSU(s)”	the outstanding restricted share unit(s) granted by the Offeror in respect of Shares held by the Offeror
“Offeror RSU Offer Price”	HK\$13.50 per Offeror RSU, being the consideration payable in cash by the Offeror to the holders of Offeror RSUs on the terms and subject to the conditions of the Share Incentives Offer
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited Shares with, a CCASS participant
“Possible Yahoo! Transaction”	the possible restructuring of Yahoo!’s holdings in the Offeror
“PRC”	the People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposal”	the proposal for the privatization of the Company by the Offeror by way of the Scheme
“Record Date”	4:30 p.m. (Hong Kong time) on June 19, 2012, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under the Scheme
“Registered Owner”	any owner of Shares (including without limitation a nominee, trustee, depository or any other authorized custodian or third party) entered in the register of members of the Company
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Resolutions”	(i) the resolution to approve the Scheme to be considered at the Court Meeting; and (ii) the special resolution to approve and give effect to, among other things, the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and to immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror to be considered at the Extraordinary General Meeting
“RMB”	Renminbi, the lawful currency of the PRC
“Rothschild”	Rothschild (Hong Kong) Limited, a joint financial advisor to the Offeror in connection with the Proposal
“RSU(s)”	the outstanding restricted share unit(s) granted under the RSU Scheme
“RSU Offer Price”	HK\$13.50 per RSU, being the consideration payable in cash by the Offeror to the holders of RSUs on the terms and subject to the conditions of the Share Incentives Offer

PART I – DEFINITIONS

“RSU Scheme”	the restricted share unit scheme adopted by the Company on October 12, 2007, amended on May 5, 2008 and on December 10, 2010
“SAFE”	State Administration of Foreign Exchange
“Scheme”	the scheme of arrangement under Section 86 of the Cayman Islands Companies Law set out in Appendix III – Scheme of Arrangement to this Scheme Document (subject to any modifications or additions or conditions as may be approved or imposed by the Cayman Islands Grand Court and agreed to by the Offeror), involving, among other matters, the cancellation of all the Scheme Shares and the restoration of the share capital of the Company to the amount immediately before cancellation of the Scheme Shares
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it
“Scheme Share(s)”	Share(s) other than those held by the Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited as at the Record Date
“Scheme Shareholder(s)”	holder(s) of Scheme Shares as at the Record Date
“Securities and Futures Commission”	Securities and Futures Commission of Hong Kong
“Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.0001 each in the share capital of the Company
“Share Award(s)”	the outstanding share award(s) granted under the Share Award Scheme from time to time
“Share Award Offer Price”	HK\$13.50 per Share Award, being the consideration payable in cash by the Offeror to the holders of Share Awards on the terms and subject to the conditions of the Share Incentives Offer
“Share Award Scheme”	the share award scheme adopted by the Company on August 10, 2010 and amended on November 10, 2010
“Shareholder(s)”	registered holder(s) of Shares
“Share Incentive(s)”	Share Options, RSUs, Share Awards, Offeror Share Options and/or Offeror RSUs
“Share Incentive Holder(s)”	holder(s) of any Share Incentive(s)
“Share Incentives Offer”	the offer to be made by or on behalf of the Offeror to the Share Incentive Holders (in respect of (i) their holdings of unvested Share Incentives as at the Share Incentives Record Date and (ii) their holdings of Share Incentives which have vested before the Share Incentives Record Date but whose underlying Shares are not registered in the name of the relevant holder (or in the name of its nominee) before the Record Date)

PART I – DEFINITIONS

“Share Incentives Offer Letter”	the letter dated April 24, 2012 setting out the terms and conditions of the Share Incentives Offer sent separately to the Share Incentive Holders and substantially in the form set out in Appendix VI to this Scheme Document
“Share Incentives Record Date”	4:30 p.m. (Hong Kong time) on June 19, 2012, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining entitlements under the Share Incentives Offer
“Share Option(s)”	the outstanding, vested and unvested, share option(s) granted by the Company under the Share Option Scheme from time to time
“Share Option Offer Price”	the amount by which the Cancellation Price exceeds the relevant exercise price of that Share Option (or, where the relevant exercise price exceeds the Cancellation Price, a nominal amount of HK\$0.05 per 500 Share Options or part thereof), payable in cash by the Offeror to the holder of that Share Option on the terms and subject to the conditions of the Share Incentives Offer
“Share Option Scheme”	the share option scheme adopted by the Company on October 12, 2007 and amended on December 10, 2010
“Softbank”	SOFTBANK CORP., a substantial shareholder of the Offeror
“trading day”	a day on which the Hong Kong Stock Exchange is open for the business of dealings in securities
“US” or “United States”	United States of America
“US Exchange Act”	the US Securities Exchange Act 1934, as amended
“Yahoo!”	Yahoo! Inc., a substantial shareholder of the Offeror

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Cayman Islands Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant dates in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

In Appendix I to this Scheme Document, the translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.8812 to HK\$1.0000 for the year ended December 31, 2009; RMB0.8714 to HK\$1.0000 for the year ended December 31, 2010 and RMB0.8300 to HK\$1.0000 for the year ended December 31, 2011.

PART II – ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from May 11, 2012 to May 15, 2012 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on May 10, 2012.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Extraordinary General Meeting are enclosed with copies of this Scheme Document sent to the Registered Owners.

Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting, if you are a Scheme Shareholder, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 9:00 a.m. on May 23, 2012 or be handed to the Chairman of the Court Meeting at the Court Meeting, and the white form of proxy for use at the Extraordinary General Meeting should be lodged not later than 9:30 a.m. on May 23, 2012.** If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting. The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the Extraordinary General Meeting, you will still be bound by the outcome of the Court Meeting and the Extraordinary General Meeting if, among other things, the Resolutions are passed by the requisite majorities of Scheme Shareholders or Shareholders (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and the Extraordinary General Meeting in person or by proxy.

The Company will make an announcement in relation to the results of the Court Meeting and the Extraordinary General Meeting on May 25, 2012. If all the Resolutions are passed at those meetings, the Company will make further announcements of the results of the hearing of the petition to, among other things, sanction the Scheme by the Cayman Islands Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Hong Kong Stock Exchange.

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognize any person as holding any Shares through any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions in relation to the manner in which your Shares should be voted at the Court Meeting and/or the Extraordinary General Meeting. Such instructions should be given in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting in order to provide the Registered Owner with sufficient time to accurately complete and submit his, her or its proxy. To the extent that any Registered Owner requires instructions from any Beneficial Owner in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting, any such Beneficial Owner should comply with the requirements of the Registered Owner.

PART II – ACTIONS TO BE TAKEN

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with an Other CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the Extraordinary General Meeting. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting, in order to provide such person with sufficient time to provide HKSCC with instructions in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the Extraordinary General Meeting (as a Shareholder). You can become a Shareholder of record by withdrawing your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the Extraordinary General Meeting, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

ACTIONS TO BE TAKEN BY SHARE INCENTIVE HOLDERS

The Share Incentives Offer Letter is being sent to each Share Incentive Holder, together with this Scheme Document and a Form of Acceptance. If you are a Share Incentive Holder and you wish to accept the Share Incentives Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, care of Alibaba Group Services Limited at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, for the attention of the HR Department of the Offeror and marked "Alibaba.com Limited – Share Incentives Offer" by no later than 4:30 p.m. (Hong Kong time) on July 3, 2012 (or such later date and time as may be notified to you by Rothschild, Credit Suisse, Deutsche Bank, or the Offeror). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Share Incentives or any other document will be given. The Offeror will offer HK\$13.50 for each RSU, Share Award and Offeror RSU and HK\$13.50 minus the relevant exercise price for each Share Option and Offeror Share Option. If the exercise price of the relevant Share Option or Offeror Share Option granted to you exceeds HK\$13.50, the "see-through" price is zero and a cash offer of a nominal amount of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof) will be made.

The cash will be payable by the Offeror on a staggered basis in accordance with the existing vesting schedule and subject to the other terms of your Share Incentives. In return: (i) all rights and obligations under your Share Options, RSUs and Share Awards (in each case, if any) will be transferred to the Offeror and will be immediately cancelled by the Offeror; and (ii) all rights and obligations under your Offeror Share Options and Offeror RSUs (in each case, if any) will be cancelled by the Offeror. **All Share Incentive Holders must lodge the duly completed and executed Form of Acceptance as mentioned above at or before 4:30 p.m. (Hong Kong time) on July 3, 2012 (or such later date and time as may be notified to you by Rothschild, Credit Suisse, Deutsche Bank, or the Offeror).**

You are urged to read the instructions and other terms and conditions of the Share Incentives Offer in the Share Incentives Offer Letter, substantially in the form set out in Appendix VI to this Scheme Document.

PART II – ACTIONS TO BE TAKEN

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EXTRAORDINARY GENERAL MEETING. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISOR.

PART III – EXPECTED TIMETABLE

Hong Kong Time

Date of dispatch of this Scheme Document	Tuesday, April 24, 2012
Date of dispatch of the Share Incentives Offer Letter for Share Incentives	Tuesday, April 24, 2012
Latest time for RSUs, Offeror RSUs and Share Awards to vest in order for holders to become entitled to vote at the Court Meeting and the Extraordinary General Meeting and to qualify as Scheme Shareholders for entitlements under the Scheme (“Latest Incentives Vesting Date”) (Note 5 and Note 10)	4:30 p.m. on Monday, April 30, 2012
Latest time for holders to lodge notices of exercise (accompanied by full payment) of their Share Options and Offeror Share Options in order to become entitled to vote at the Court Meeting and the Extraordinary General Meeting (Note 10)	4:30 p.m. on Tuesday, May 8, 2012
Latest time for lodging transfers of Shares in order to become entitled to vote at the Court Meeting and the Extraordinary General Meeting	4:30 p.m. on Thursday, May 10, 2012
Register of members of the Company closed for determination of entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the Extraordinary General Meeting (Note 1)	from Friday, May 11, 2012 to Tuesday, May 15, 2012 (both days inclusive)
Meeting Record Date	4:30 p.m. on Tuesday, May 15, 2012
Latest time for lodging forms of proxy in respect of (Note 2)	
• Court Meeting	9:00 a.m. on Wednesday, May 23, 2012
• Extraordinary General Meeting	9:30 a.m. on Wednesday, May 23, 2012
Suspension of trading in the Shares on the Hong Kong Stock Exchange	9:00 a.m. on Friday, May 25, 2012
Court Meeting (Note 3)	9:00 a.m. on Friday, May 25, 2012
Extraordinary General Meeting (Note 3)	9:30 a.m. on Friday, May 25, 2012 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of the results of the Court Meeting and the Extraordinary General Meeting posted on the website of the Hong Kong Stock Exchange	not later than 7:00 p.m. on Friday, May 25, 2012
Resumption of trading in the Shares on the Hong Kong Stock Exchange	9:00 a.m. on Monday, May 28, 2012
Court hearing of the Company’s application to dispense with settling a list of creditors and for directions concerning the capital reduction (unless such orders are made on the paper)	9:30 a.m. on Tuesday, May 29, 2012 (Cayman Islands time)

PART III – EXPECTED TIMETABLE

Expected last day for trading in the Shares on the Hong Kong Stock Exchange	Friday, June 8, 2012
Latest time for holders to lodge notices of exercise (accompanied by full payment) of their Share Options and Offeror Share Options in order to qualify as Scheme Shareholders for entitlements under the Scheme ("Latest Options Exercise Date") (<i>Note 5 and Note 10</i>)	4:30 p.m. on Friday, June 8, 2012
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Wednesday, June 13, 2012
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 4 and Note 5</i>)	from Thursday, June 14, 2012
Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Friday, June 15, 2012 (Cayman Islands time)
Announcement of the result of the court hearing to sanction the Scheme and to confirm the capital reduction	Monday, June 18, 2012
Record Date	4:30 p.m. on Tuesday, June 19, 2012
Share Incentives Record Date (<i>Note 5 and Note 6</i>)	4:30 p.m. on Tuesday, June 19, 2012
Effective Date (<i>Note 7</i>)	Tuesday, June 19, 2012 (Cayman Islands time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange	Tuesday, June 19, 2012
Lapse/cancellation of RSUs and any obligations to deliver Shares thereunder (<i>Note 11</i>)	Tuesday, June 19, 2012
Expected withdrawal of the listing of Shares on the Hong Kong Stock Exchange becoming effective (<i>Note 8</i>)	4:00 p.m. on Wednesday, June 20, 2012
Latest time to dispatch checks for cash payment under the Scheme	on or before Thursday, June 28, 2012
Latest time to accept the Share Incentives Offer and closing date of the Share Incentives Offer (<i>Note 6</i>)	4:30 p.m. on Tuesday, July 3, 2012
Announcement of the results of the Share Incentives Offer, or as to whether the Share Incentives Offer has been revised or extended, on the website of the Securities and Futures Commission	not later than 7:00 p.m. on Tuesday, July 3, 2012
Latest time to dispatch checks or effect bank transfer for cash payment under the Share Incentives Offer, in respect of Share Incentives that have vested before the Share Incentives Record Date but in respect of which the underlying Shares have not been registered in the name of the relevant holder or its nominee as at the Record Date (<i>Note 9</i>)	on or before Thursday, July 12, 2012

PART III – EXPECTED TIMETABLE

Shareholders and Share Incentive Holders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Extraordinary General Meeting. This book close period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than the times and dates stated above. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the Extraordinary General Meeting must be lodged no later than the latest times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the Extraordinary General Meeting will not preclude a Scheme Shareholder and Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting.
- (3) The Court Meeting and the Extraordinary General Meeting will be held at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix IV to this Scheme Document and the notice of Extraordinary General Meeting set out in Appendix V to this Scheme Document for details.
- (4) The register of members of the Company will be closed as from such time and on such date for the purpose of determining which Scheme Shareholders are qualified for entitlements under the Scheme.
- (5) Please note that for holders of RSUs, Offeror RSUs and Share Awards, the latest time for RSUs, Offeror RSUs and Share Awards to vest in order to qualify for entitlements under the Scheme is the same as the latest time for RSUs, Offeror RSUs and Share Awards to vest in order for holders to become entitled to vote at the Court Meeting and the Extraordinary General Meeting. If holders of vested Share Options or vested Offeror Share Options wish to qualify as Scheme Shareholders for entitlements under the Scheme, they must exercise their Share Options or Offeror Share Options and, subject to the customary process for allotment or transfer of Shares by the Offeror or the Company (as the case may be), become registered holders of Shares by the Record Date. Holders of RSUs, Offeror RSUs and Share Awards will only qualify as Scheme Shareholders for entitlements under the Scheme if their RSUs, Offeror RSUs or Share Awards, as applicable, vest and, subject to the customary process for allotment or transfer of Shares by the Offeror or the Company (as the case may be), such holders become registered holders of Shares by the time of the Record Date. Holders of (i) unvested Share Incentives as at the Share Incentives Record Date, or (ii) vested Share Incentives as at the Share Incentives Record Date in respect of which the underlying Shares have not been registered in the name of the relevant holder or its nominee before the Record Date, will be entitled to the Share Incentives Offer. The above takes into account an administrative time lag between the vesting and/or exercise of Share Incentives and the issue or transfer of Shares underlying such Share Incentives. This time lag derives from withholding individual income tax obligations imposed on certain subsidiaries of the Offeror and the Company upon vesting of the Share Incentives, which require the Offeror or the Company to, among other things, wait until the relevant month end before the aggregate amount of staff compensation for that month can be determined and individual income tax can be calculated.
- (6) Forms of Acceptance, duly completed and executed in accordance with the instructions on them, must be lodged with the Offeror, care of Alibaba Group Services Limited at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong not later than 4:30 p.m. on July 3, 2012 (or such later date as may be notified by Rothschild, Credit Suisse, Deutsche Bank or the Offeror).
- (7) The Scheme shall become effective upon all the Conditions set out in the paragraph headed "3. Conditions of the Proposal and the Scheme" in Part VII – Explanatory Statement of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case may be).
- (8) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Hong Kong Stock Exchange will be withdrawn at or before 4:00 p.m. on June 20, 2012, being the next day after the Effective Date.

PART III – EXPECTED TIMETABLE

- (9) Payment (by check or bank transfer) in respect of validly completed and executed Forms of Acceptance received after the Share Incentives Record Date but before 4:30 p.m. on Tuesday, July 3, 2012 will be dispatched within seven Business Days following receipt of such validly completed and executed Forms of Acceptance. In respect of Share Incentives that have not vested as at the Share Incentives Record Date, as set out in the Share Incentives Offer Letter, payment in respect of each unvested Share Incentive will be made by the Offeror within 60 days of the vesting date of the relevant Share Incentive. An application for waiver from strict compliance with Rule 20.1 of the Hong Kong Takeovers Code has been made to the Executive.
- (10) These denote the recommended latest dates, which are based on the latest time at which the Offeror or the Company can be certain that it can complete all required processes to issue or transfer the underlying Shares before the Record Date. For holders of RSUs, Offeror RSUs and/or Share Awards that have vested in April 2012, the Offeror and/or the Company will ascertain the aggregate amount of staff compensation including salary, commission and other allowances for the month of April 2012 on or before April 30, 2012, calculate the relevant amount of their individual income tax on or before May 4, 2012, and fulfill the withholding tax obligations in the PRC that the Offeror and/or the Company are subject to on or before May 10, 2012. The Company will issue new Shares to the account under the Company's name with the broker who helps to handle the Share Incentives on April 30, 2012 and will distribute the relevant amount of Shares to the account of each RSU holders' and/or Share Award holder with the same broker on or before May 10, 2012. The Offeror will also transfer the relevant amount of Shares to the account of each Offeror RSU holders' with the same broker on or before May 10, 2012 (the latest time for lodging transfers of Shares in order to become entitled to vote at the Court Meeting and the Extraordinary General Meeting). For holders of RSUs, Offeror RSUs and Share Awards that vest after April 30, 2012 who, as a result of the above processes, are not able to register the underlying Shares in their name (or the name of their nominee) in time to qualify as Scheme Shareholders for entitlement under the Scheme or to vote on the Court Meeting and the Extraordinary General Meeting, will remain eligible for the Share Incentives Offer.
- (11) Pursuant to the terms of the RSU Scheme, all unvested RSUs shall be cancelled automatically upon the Record Date.

All references to times and dates in this document are references to Hong Kong times and dates, unless otherwise stated.

PART IV – LETTER FROM THE BOARD



ALIBABA.COM LIMITED

阿里巴巴網絡有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1688)

Chairman and Non-executive Director

MA Yun, Jack

Executive Directors

LU Zhaoxi, Jonathan
WU Wei, Maggie
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

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

April 24, 2012

To: The Shareholders and Share Incentive Holders

Dear Sir or Madam

**PROPOSED PRIVATIZATION OF
ALIBABA.COM LIMITED
BY ALIBABA GROUP HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)**

INTRODUCTION

On February 21, 2012, the Offeror and the Company jointly announced that on February 12, 2012, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatization of the Company by way of a scheme of arrangement under Section 86 of the Cayman Islands Companies Law, involving, among other things, the cancellation of all the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share and the withdrawal and termination of the listing of the Shares on the Hong Kong Stock Exchange.

The purpose of this Scheme Document is to provide you with further details of the Proposal, information regarding the Company, the Share Incentives Offer and the expected timetable and to give you notice of the Court Meeting and the Extraordinary General Meeting (together with proxy forms in relation thereto). Your attention is also drawn to the letter from

PART IV – LETTER FROM THE BOARD

the Independent Board Committee set out in Part V of this Scheme Document, the letter from the Independent Financial Advisor set out in Part VI of this Scheme Document, the Explanatory Statement set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

TERMS OF THE PROPOSAL

Subject to the fulfillment or waiver (as applicable) of the Conditions as described in the Explanatory Statement, the Proposal will be implemented by way of the Scheme, which will involve, among other things, the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares. Upon the Scheme becoming effective, all the Scheme Shares will be cancelled in exchange for the payment to each Scheme Shareholder of the Cancellation Price of HK\$13.50 in cash for each Scheme Share by the Offeror. Upon the Scheme becoming effective, and the withdrawal of listing of the Shares on the Hong Kong Stock Exchange, the Company will be wholly owned by the Offeror Group.

The Scheme

Under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the same number of Shares as the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied to the paying up in full at par of the new Shares so issued, credited as fully paid, to the Offeror.

Subject to the Scheme becoming effective, each Scheme Shareholder whose name appears in the register of members of the Company at the Record Date will be entitled to receive HK\$13.50 in cash for each Scheme Share from the Offeror. The total consideration of approximately HK\$18,390 million payable for the Scheme Shares will be payable by the Offeror.

Assuming that the Scheme becomes effective on June 19, 2012, checks for cash entitlements under the Scheme are expected to be dispatched to Scheme Shareholders on or before June 28, 2012.

The Offeror will not be entitled to receive the Cancellation Price as its Shares do not form part of the Scheme Shares.

Shares held by Alibaba Group Treasury Limited and Direct Solutions Management Limited which are wholly-owned subsidiaries of the Offeror will also not form part of the Scheme Shares, therefore, Alibaba Group Treasury Limited and Direct Solutions Management Limited will also not be entitled to receive the Cancellation Price in respect of their Shares.

Cancellation Price

The Cancellation Price of HK\$13.50 per Scheme Share represents:

- a premium of approximately 45.9% over the closing price of HK\$9.25 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- a premium of approximately 55.3% over the average closing price of approximately HK\$8.70 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 58.8% over the average closing price of approximately HK\$8.50 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 60.4% over the average closing price of approximately HK\$8.42 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 60 trading days up to and including the Last Trading Day;

PART IV – LETTER FROM THE BOARD

- a premium of approximately 61.3% over the average closing price of approximately HK\$8.37 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 1.5% over the closing price of HK\$13.30 per Share as at the Latest Practicable Date; and
- a price to earnings ratio of 33.2 times the diluted earnings per Share of the Company for the year ended December 31, 2011.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Hong Kong Stock Exchange, the trading multiples of comparable trading companies and with reference to other privatization transactions in Hong Kong in recent years.

Share Incentives Offer

Your attention is drawn to the section headed “11. Share Incentives Offer” in Part VII – Explanatory Statement of this Scheme Document and to Appendix VI – Form of Share Incentives Offer Letter to this Scheme Document.

BACKGROUND TO, REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed “10. Background to, reasons for and benefits of the Proposal” in Part VII – Explanatory Statement of this Scheme Document.

INDEPENDENT BOARD COMMITTEE

The Board has established an Independent Board Committee, which comprises Mr. Niu Gen Sheng and Mr. Walter Kwauk, both of whom are independent non-executive Directors, to make a recommendation to the Independent Shareholders and the Share Incentive Holders in connection with the Proposal and the Share Incentives Offer.

As Mr. Jack Ma and Mr. Joseph Tsai are non-executive Directors and also directors of the Offeror, and Ms. Rose Tsou and Mr. Satoshi Okada are non-executive Directors nominated by the Offeror Concert Parties (Yahoo! and Softbank, respectively) for appointment to the Board, all of the non-executive Directors (other than the independent non-executive Directors and Ms. Sabrina Peng as explained below) are regarded as being interested in the Proposal and therefore have not participated in any voting at the meeting(s) of the Board in relation to the Proposal and will not form part of the Independent Board Committee. In light of their shareholding in the Offeror, Mr. Andrew Tsuei and Mr. Savio Kwan will not form part of the Independent Board Committee, either. Ms. Sabrina Peng, who was re-designated as a non-executive Director on March 12, 2012, was an executive Director at the time when the Independent Board Committee was formed. Therefore she will also not form part of the Independent Board Committee.

INDEPENDENT FINANCIAL ADVISOR

Somerley has been appointed as the independent financial advisor (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal and the Share Incentives Offer.

INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose shares have been listed on the Main Board of the Hong Kong Stock Exchange since November 6, 2007 with the stock code 1688. The Company is a global leader in e-commerce for small businesses and the flagship company of the Offeror Group. Founded in 1999 in Hangzhou, PRC, the Company makes it easy for millions of buyers and suppliers around the world to do business online 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. The Company has offices in more than 70 cities across Greater China, India, Japan, Korea, Europe and the United States.

PART IV – LETTER FROM THE BOARD

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the Cayman Islands with limited liability and is the parent company of the Company. The Offeror Group is a family of internet-based businesses that includes online marketplaces that facilitate business-to-business international and domestic PRC trade, retail platforms, shopping search engine and data-centric cloud computing services. The Offeror Group was founded in 1999 by Mr. Jack Ma. The privately held Offeror Group reaches internet users in more than 240 countries and regions. The Offeror Group, including its affiliated entities, employs more than 25,000 people in over 70 cities in Greater China, India, Japan, Korea, Europe and the United States.

As at the Latest Practicable Date, the shareholders of the Offeror who hold 5% or more of the outstanding ordinary shares in the Offeror are: Yahoo!, which together with its associates, holds approximately 41.7% of the outstanding ordinary shares in the Offeror; Softbank, which together with its associates, holds approximately 31.8% of the outstanding ordinary shares in the Offeror; and Mr. Jack Ma, who holds and has interests in respect of approximately 7.3% of the outstanding ordinary shares in the Offeror.

INTENTIONS OF THE OFFEROR

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Hong Kong Stock Exchange for the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange to take effect immediately following the Effective Date of the Scheme. The Scheme Shareholders will be notified by way of announcement of, among other things, the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange will become effective. An indicative, or expected, timetable of the Scheme is included in Part III of this Scheme Document.

The Offeror has no plans to make any major changes to the business of the Group or to redeploy the fixed assets of the Group other than through the continued implementation of the Company's strategic transition (as described in the section headed "10. Background to, reasons for and benefits of the Proposal" in Part VII – Explanatory Statement of this Scheme Document) and other previously announced business plans or as may be necessary or appropriate in order to optimize the operations of the Group in reaction to the rapidly changing business environment in which the Group operates. The Offeror and the Company also have no intention of making any significant changes to the employees of the Group as a result of the implementation of the Proposal.

Following the privatization, the Offeror intends for the Group to continue to operate as a separate business unit within the Offeror Group. This is because the Group's website platforms are targeted at small and medium-sized enterprises that trade with each other, whereas the Offeror Group's other website marketplaces are targeted at retail consumers.

The Offeror does not, and notes that the Company does not, have any specific timetable for the spin-off of HiChina.

Your attention is drawn to the section headed "14. Intentions of the Offeror" in Part VII – Explanatory Statement of this Scheme Document.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Hong Kong Stock Exchange for the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange to take effect immediately following the Effective Date. The Company will notify the Scheme Shareholders by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange will become effective as further set out in Part III – Expected Timetable of this Scheme Document.

PART IV – LETTER FROM THE BOARD

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Hong Kong Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders, Share Incentive Holders and potential investors should therefore exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisors.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

Court Meeting

In accordance with the directions of the Cayman Islands Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting.

The Scheme is conditional upon, among other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:

- (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
- (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

Your attention is drawn to the section headed “25. Court Meeting and Extraordinary General Meeting” in Part VII – Explanatory Statement of this Scheme Document.

Extraordinary General Meeting

The Extraordinary General Meeting will be held after the Court Meeting.

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Extraordinary General Meeting with respect to the special resolution to, among other things:

- (i) approve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and
- (ii) immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror.

Each of the Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited has indicated that if the Scheme is approved at the Court Meeting, those Shares held by it will be voted in favor of the special resolution to be proposed at the Extraordinary General Meeting.

PART IV – LETTER FROM THE BOARD

Your attention is drawn to the section headed “25. Court Meeting and Extraordinary General Meeting” in Part VII – Explanatory Statement of this Scheme Document.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 9:00 a.m. (Hong Kong time) on May 25, 2012 at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong.

Notice of the Extraordinary General Meeting is set out in Appendix V to this Scheme Document. The Extraordinary General Meeting will be held at 9:30 a.m. (Hong Kong time) (or immediately after the Court Meeting convened for the same day and place shall have been concluded or adjourned) on May 25, 2012 at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong.

Assuming that the conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before June 19, 2012 (Cayman Islands time). The Company will make further announcements giving details of the results of the Court Meeting and the Extraordinary General Meeting and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for, among other things, the sanction of the Scheme by the Cayman Islands Grand Court, the Record Date, the Effective Date, and the date of withdrawal of the listing of the Shares on the Hong Kong Stock Exchange.

OVERSEAS SHAREHOLDERS AND SHARE INCENTIVE HOLDERS

Your attention is drawn to the section headed “22. Overseas Shareholders and Share Incentive Holders” in Part VII – Explanatory Statement of this Scheme Document.

ACTIONS TO BE TAKEN

Your attention is drawn to Part II – Actions to be Taken and the section headed “28. Summary of actions to be taken” in Part VII – Explanatory Statement of this Scheme Document.

RECOMMENDATION

The Directors (other than those on the Independent Board Committee) all believe that the terms of the Proposal are fair and reasonable and in the interests of the Shareholders as a whole. The non-executive Directors forming the Independent Board Committee, namely Mr. Niu Gen Sheng and Mr. Walter Kwauk, have provided their recommendation in the Letter from the Independent Board Committee in Part V of this Scheme Document.

In the letter from the Independent Financial Advisor set out in Part VI of this Scheme Document, Somerley states that it considers the terms of the Proposal and the Share Incentives Offer to be fair and reasonable, and advises the Independent Board Committee to recommend that the Independent Shareholders vote in favor of the relevant resolutions which will be proposed at the Court Meeting and the Extraordinary General Meeting to approve and implement the Scheme.

Your attention is drawn to the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document.

The Independent Board Committee, having considered the terms of the Proposal and the Share Incentives Offer and having taken into account the opinion of Somerley, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal and the Share Incentives Offer are fair and reasonable.

SHARE CERTIFICATE, DEALINGS AND LISTINGS

Your attention is drawn to the section headed “20. Share certificates, dealings and listings” in Part VII – Explanatory Statement of this Scheme Document.

PART IV – LETTER FROM THE BOARD

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “21. Registration and Payment” in Part VII – Explanatory Statement of this Scheme Document.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “23. Taxation” in Part VII – Explanatory Statement of this Scheme Document.

None of the Offeror, the Company, Rothschild, Credit Suisse, Deutsche Bank, HSBC, Somerley or any of their respective directors or associates or any other person involved in the Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme. All Scheme Shareholders and Share Incentive Holders are recommended to consult their professional advisors if in any doubt as to the taxation implications of the Proposal or the Share Incentives Offer.

FURTHER INFORMATION

We urge you to read carefully the letters from the Independent Board Committee and from Somerley, the Independent Financial Advisor, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Statement as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the terms of the Scheme as set out in Appendix III to this Scheme Document, the notice of Court Meeting as set out in Appendix IV to this Scheme Document and the notice of Extraordinary General Meeting as set out in Appendix V to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the Extraordinary General Meeting are enclosed with copies of this Scheme Document.

Yours faithfully
For and on behalf of the Board
Alibaba.com Limited

MA Yun, Jack
Chairman



ALIBABA.COM LIMITED

阿里巴巴網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1688)

April 24, 2012

To: The Independent Shareholders and the Share Incentive Holders

Dear Sir or Madam

**PROPOSED PRIVATIZATION OF ALIBABA.COM LIMITED
BY ALIBABA GROUP HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)**

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders and the Share Incentive Holders in respect of the Proposal and the Share Incentives Offer, respectively, details of which are set out in Part IV – Letter from the Board and Part VII – Explanatory Statement of this Scheme Document. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

As Mr. Jack Ma and Mr. Joseph Tsai are non-executive Directors and also directors of the Offeror, and Ms. Rose Tsou and Mr. Satoshi Okada are non-executive Directors nominated by Offeror Concert Parties (Yahoo! and Softbank, respectively) for appointment to the Board, all of the non-executive Directors (other than members of the Independent Board Committee, Mr. Andrew Tsuei, Mr. Savio Kwan and Ms. Sabrina Peng as explained below) are regarded as being interested in the Proposal and therefore have been precluded from participating in the formulation of advice to the Scheme Shareholders. In light of their interests in the Offeror, Mr. Andrew Tsuei and Mr. Savio Kwan have also abstained from participating in the formulation of advice to the Scheme Shareholders. Ms. Sabrina Peng, who was re-designated as a non-executive Director on March 12, 2012, was an executive Director at the time when the Independent Board Committee was formed. Therefore she has also abstained from participating in the formulation of advice to the Scheme Shareholders.

The Board, with our approval, has appointed Somerley as the Independent Financial Advisor to advise us in connection with the Proposal and the Share Incentives Offer.

The Independent Board Committee, having considered the terms of the Proposal and the Share Incentives Offer, and having taken into account the opinion of Somerley, in particular, the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal and the Share Incentives Offer are fair and reasonable.

Accordingly, the Independent Board Committee recommends:

- (a) at the Court Meeting:
 - (i) the Independent Shareholders vote in favor of the resolution to approve the Scheme;

PART V – LETTER FROM THE INDEPENDENT BOARD COMMITTEE

- (b) at the Extraordinary General Meeting:
 - (i) the Shareholders vote in favor of the special resolution to, among other things:
 - (1) reduce the share capital of the Company by cancelling and extinguishing the Scheme Shares; and
 - (2) immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror; and
- (c) the Share Incentive Holders accept the Share Incentives Offer.

The Independent Board Committee draws the attention of the Scheme Shareholders and the Share Incentive Holders to (i) the letter from the Board in Part IV of this Scheme Document; (ii) the letter from the Independent Financial Advisor, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, in Part VI of this Scheme Document; and (iii) the Explanatory Statement in Part VII of this Scheme Document.

Yours faithfully
For and on behalf of
The Independent Board Committee

NIU Gen Sheng **KWAUK Teh Ming, Walter**

Independent Non-executive Directors

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the letter of advice from Somerley to the Independent Board Committee, which has been prepared for the purpose of inclusion in the Scheme Document.



SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

April 24, 2012

To: The Independent Board Committee of Alibaba.com Limited

Dear Sirs,

**PROPOSED PRIVATIZATION OF ALIBABA.COM LIMITED
BY ALIBABA GROUP HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE CAYMAN ISLANDS COMPANIES LAW)**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the proposed privatization of the Company by Alibaba Group Holding Limited by way of a scheme of arrangement under section 86 of the Cayman Islands Companies Law. Details of the Proposal are contained in the document to the Shareholders and Share Incentive Holders dated April 24, 2012 (the “**Scheme Document**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On February 21, 2012, the Offeror and the Company jointly announced that on February 12, 2012, the Offeror had requested the Board put forward to the Scheme Shareholders the proposed privatization of the Company by way of a scheme of arrangement under Section 86 of the Cayman Islands Companies Law. The Scheme involves the cancellation of all the Scheme Shares in exchange for HK\$13.50 in cash for each Scheme Share, and the subsequent issue of new Shares to the Offeror, as a result of which it is intended that the Company will be wholly owned by the Offeror Group. Upon the Scheme becoming effective, listing of the Shares on the Hong Kong Stock Exchange will be withdrawn. The Offeror is also making the Share Incentives Offer to the Share Incentive Holders to cancel all the Share Incentives. The Share Incentives Offer will be conditional on the Scheme becoming effective.

The Board comprises 12 directors, three of whom (namely, Mr. Jonathan Lu, Ms. Maggie Wu and Mr. Ye Peng) are executive directors, five of whom (namely, Mr. Jack Ma, Mr. Joseph Tsai, Ms. Rose Tsou, Mr. Satoshi Okada and Ms. Sabrina Peng) are non-executive directors and the remaining four of whom (namely, Mr. Niu Gen Sheng, Mr. Walter Kwauk, Mr. Andrew Tsuei and Mr. Savio Kwan) are independent non-executive directors. As Mr. Jack Ma and Mr. Joseph Tsai are non-executive Directors and also directors of the Offeror, and Ms. Rose Tsou and Mr. Satoshi Okada are non-executive Directors nominated by the Offeror Concert Parties (Yahoo! and Softbank respectively) for appointment to the Board, all of the non-executive Directors (other than the independent non-executive Directors, Mr. Andrew Tsuei, Mr. Savio Kwan and Ms. Sabrina Peng as explained below) are regarded as being interested in the Proposal and therefore will not form part of the Independent Board Committee. As at the Latest Practicable Date, Mr. Andrew Tsuei held options to subscribe for 728,000 shares in the Offeror and Mr. Savio Kwan held 9,800,000 shares in the Offeror, representing approximately 0.03% and 0.39% of the issued share capital of the Offeror, respectively. In light of their shareholding in the Offeror, Mr. Andrew Tsuei and Mr. Savio Kwan will not form part of the Independent Board Committee. Ms. Sabrina Peng, who was re-designated as a non-executive Director on March 12, 2012, was an executive Director at the time when the Independent Board Committee was formed. Therefore she will also not form part of the Independent Board Committee.

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

An Independent Board Committee, which comprises Mr. Niu Gen Sheng and Mr. Walter Kwauk, both of whom are independent non-executive Directors, has been established by the Board to make a recommendation to the Independent Shareholders and the Share Incentive Holders in connection with the Proposal and the Share Incentives Offer. The Independent Board Committee has approved the appointment of Somerley as the independent financial advisor to the Independent Board Committee as regards these matters.

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal and the Share Incentives Offer. Apart from normal professional fees payable to us in connection with this appointment or other similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Announcement; (ii) the annual reports of the Company for the three years ended December 31, 2011; (iii) the Scheme Document; and (iv) the rules of the Share Option Scheme, the RSU Scheme, the Share Award Scheme, and the terms under which the Offeror Share Options and the Offeror RSUs were granted.

We have also relied on the information and facts supplied, and the opinions expressed, by the Directors and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of this letter. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent Shareholders or the Share Incentive Holders of acceptance or non-acceptance of the Proposal or the Share Incentives Offer, as the case may be, since these are particular to their individual circumstances. In particular, the Independent Shareholders or the Share Incentive Holders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL AND THE SHARE INCENTIVES OFFER

In summary, the Proposal and the Share Incentives Offer involve the following:

The Proposal

- (i) The Scheme will provide that the Scheme Shares be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$13.50 in cash for each Scheme Share from the Offeror. **The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.**
- (ii) As at the Latest Practicable Date, the relevant securities of the Company in issue comprised 5,005,071,959 Shares of which the Scheme Shares (being 1,362,242,626 Shares) represented approximately 27.22%. The Offeror held 2,604,574,904 Shares, representing approximately 52.04% of the issued share capital of the Company, as at the Latest Practicable Date. Such Shares will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting. The Offeror Concert Parties held in aggregate 1,069,555,472 Shares, representing approximately 21.37% of the issued share capital of the Company as at the Latest Practicable Date. With the exception of Shares held by Alibaba Group Treasury Limited and Direct Solutions Management Limited, both of whom are Offeror Concert Parties and wholly-owned subsidiaries of the Offeror, the other Shares in which the Offeror Concert Parties are interested will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective. However, such Offeror Concert

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Parties will abstain from voting on the Scheme at the Court Meeting. The remaining Offeror Concert Parties (being Alibaba Group Treasury Limited and Direct Solutions Management Limited) will not vote on the Scheme.

- (iii) Following the Effective Date and the withdrawal of listing of the Shares on the Hong Kong Stock Exchange, it is intended that the Company will be wholly owned by the Offeror Group. The listing of the Shares on the Hong Kong Stock Exchange will be withdrawn unless the Scheme is not approved or the Proposal otherwise lapses.
- (iv) The Proposal will become effective subject to the fulfilment or waiver, as applicable, of the Conditions on or before June 20, 2012 (or, subject to applicable laws and regulations, such later date as the Offeror and the Company may agree or as the Cayman Islands Grand Court may allow), failing which the Proposal and the Scheme will lapse. Independent Shareholders are recommended to read carefully the Explanatory Statement, which contains further details of the terms of the Proposal.

The Share Incentives Offer

- (i) As at the Latest Practicable Date, there were 27,177,725 Share Options granted under the Share Option Scheme, 39,429,922 RSUs granted under the RSU Scheme, 1,597,959 Share Awards granted under the Share Award Scheme, 8,926,422 Offeror Share Options granted by the Offeror and 12,576,073 Offeror RSUs granted by the Offeror, each relating to one Share.
- (ii) The Offeror will make (or procure to be made on its behalf) the offer as detailed below to the Share Incentive Holders in accordance with Rule 13 of the Hong Kong Takeovers Code, where applicable. The Share Incentives Offer is conditional upon the Scheme becoming effective and binding. Under the Share Incentives Offer, the Offeror will offer holders of Share Options, RSUs, Share Awards, Offeror Share Options and Offeror RSUs cash equal to the “see-through” price (being, in the case of the Share Options and Offeror Share Options, the Cancellation Price minus the relevant exercise price of that Share Option or Offeror Share Option, and, in the case of the RSUs, the Share Awards and the Offeror RSUs, the Cancellation Price) for each Share Option, RSU, Share Award, Offeror Share Option and/or Offeror RSU that they hold. Holders of Share Options or Offeror Share Options which have an exercise price exceeding HK\$13.50 will only be entitled to receive a nominal amount of cash consideration of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof).
- (iii) Under the Share Incentives Offer, the cash payable to the Share Incentive Holders will be paid on a staggered basis, in accordance with the respective vesting schedules under, and subject to, the terms of each of the Share Incentives.
- (iv) In the event that any Share Incentive vests, any Shares which are registered in the name of the relevant Share Incentive Holder (or in the name of its nominee) prior to the Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be subject to and eligible to participate in the Scheme.

Details of the Share Incentives Offer are set out under the section headed “11. Share Incentives Offer” in the Explanatory Statement. Further details in relation to the procedures for the acceptance of the Share Incentives Offer are set out in the form of Share Incentives Offer Letter which is set out in Appendix VI to the Scheme Document.

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

1. Reasons for and benefits of the Proposal

As set out in the Explanatory Statement, the reasons for and benefits of the Proposal are as follow:

(a) To facilitate a shift in strategy towards longer term growth

The implementation of the Company's strategic plan, and its effect on the Company's near-term growth profile, may continue to lead to a difference between investors' view of the Company's share price and the Offeror's view of the Company's potential long-term value. Following implementation of the Proposal, the Offeror and the Company will be able to make strategic decisions focused on long-term benefits, free from the pressure of market expectations, earnings visibility and share price fluctuations associated with being a publicly listed company.

(b) A depressed Share price may continue to adversely impact the Company's business, reputation with customers and employee morale

The Shares have closed at a price below the Cancellation Price of HK\$13.50, which was also the initial public offering price of the Shares, since May 19, 2011.

As an e-commerce company providing a trading platform, the reputation of the Company as a leading, trustworthy, and efficient market place is important. The Offeror considers that the depressed price of the Shares has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal would eliminate this adverse impact.

(c) Change in investment and risk profile of the Shares

The above-mentioned shift to a new business strategy may continue to change the investment profile of the Shares for Shareholders and potential investors. The Proposal is intended to provide Scheme Shareholders with an opportunity to realize their investment in the Company for cash at an attractive premium, instead of assuming a different risk profile brought about by the new business strategy.

(d) A good opportunity for Scheme Shareholders to realize their investment for a significant premium without suffering any illiquidity discount

The Shares have suffered from low trading liquidity for a significant period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 9.14 million Shares per day, representing only approximately 0.18% of the issued Shares as at the Last Trading Day. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares.

The Proposal provides Scheme Shareholders with an attractive opportunity to realize their investment in the Company in cash at a significant premium over the current market price of the Shares without having to suffer any illiquidity discount.

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

2. Background and information of the Company

The Company is an exempted company incorporated in the Cayman Islands with limited liability, and the Shares have been listed on the Main Board of the Hong Kong Stock Exchange since November 6, 2007 (the “IPO”). The Company is a global leader in e-commerce for small businesses and the flagship company of the Offeror Group. Founded in 1999 in Hangzhou, China, the Company enables suppliers and buyers around the world to transact business online through three marketplaces, namely (a) a global trade platform (www.alibaba.com) for importers and exporters; (b) a Chinese platform (www.1688.com) for domestic trade in China; and (c) a transaction-based wholesale platform on the global site (www.aliexpress.com) (“AliExpress”) geared for smaller buyers seeking fast shipment of small quantities of goods. The Company has offices in more than 70 cities across Greater China, India, Japan, Korea, Europe and the United States.

At the time of the IPO, the Group focused on providing online platforms to facilitate e-commerce between suppliers and buyers both in the domestic PRC market and international market. The platforms allowed suppliers and buyers to establish their presence on the internet, identify potential trading partners and interact with each other to conduct business transactions. During that time, revenue of the Group was generated largely through the sale of paid membership subscriptions.

Since then, the business of the Group has developed significantly in terms of the number of registered users, paying members, revenue and profit. However, growth has been decelerating in recent years and, in particular, the number of paying members dropped by approximately 5.4% in 2011. As explained by the management of the Group, the decrease in the number of paying members was due to, among other reasons, the Group’s step-up efforts to combat fraud, strengthen the authenticity of user information and improve trust and safety of its platforms, after fraudulent activities undertaken by some China Gold Supplier members through the online marketplaces of the Group in late 2009 and 2010 were identified by the Group. Set out below are certain key operational data of the Group since the IPO.

	As at December 31,				
	2007	2008	2009	2010	2011
Registered users	27,599,959	38,075,335	47,732,916	61,801,281	76,332,163
<i>Percentage change from prior year</i>	+40%	+38%	+25%	+29%	+24%
Storefronts (Note)	2,956,846	4,614,250	6,819,984	8,544,544	10,023,832
<i>Percentage change from prior year</i>	+43%	+56%	+48%	+25%	+17%
Paying members	305,545	432,031	615,212	809,362	765,363
<i>Percentage change from prior year</i>	+39%	+41%	+42%	+32%	-5%

Note: Storefronts are the places on the Group’s marketplaces where suppliers and, in certain cases, buyers, host their company profiles and catalogues in standardized formats.

In addition to the size of the membership population, the business model of the Group has evolved from focusing on the provision of an online marketplace for sales and marketing to an integrated platform for small business customers to conduct transactions and enjoy related services including procurement, sales and marketing, operation management and financing. For instance, the Group has introduced transaction-based platform (AliExpress and 1688.com) and the sale of key words and performance-based advertising such as Ali-ADvance, which is a “pay-for-performance” model for key word search, and other services in respect of import or export logistics, customs clearance, currency exchange and tax refund. The expanded service scope not only allows the Group to capture additional customers but also enhances the total revenue by earning service income from these value-added services (“VAS”) and reduces the reliance on fees from membership subscriptions.

Detailed analysis of the financial information of the Group and the Company’s share price performance since the IPO are set out in sections 4 and 6 below.

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

3. The industry of business-to-business (“B2B”) e-commerce for small and medium enterprises (“SMEs”)

The internet has always been a powerful medium for content, communication and commerce around the world and China is the largest base of internet users of any country in the world. According to China Internet Network Information Center (中國互聯網絡信息中心) (the “CNNIC”), the administrative agency responsible for internet affairs under the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), which we consider a reputable organisation and a reliable source of information, while already significant in size, China’s internet population grew at a rapid pace in 2011 to approximately 513 million, representing an increase of approximately 12.2% from previous year, and had a penetration rate of approximately 38.3% of China’s population at the end of 2011. Such penetration rate is still well below that of the developed countries of approximately 70%. According to the CNNIC, home computer broadband internet users in China reached approximately 392 million at the end of 2011, covering approximately 98.9% of home computer internet users. Such statistics suggest that China now has a very stable base population of broadband users who have fast access to the “always-on” internet connection that is paramount to facilitating the greater usage of the internet for e-commerce activities.

SMEs, being one of the key driving forces for the PRC’s economic growth and also important business partners of the Group, are showing clear signs of distress. According to a recent news article by Xinhua News Agency in July 2011, SMEs, which contribute to approximately 60% of China’s industrial output and create approximately 80% of the country’s jobs, are facing significant pressures which is mainly due to, among other things, surging production costs. In light of such hardship, the SMEs may turn to use e-commerce to conduct business activities in order to achieve better cost efficiencies.

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4. Analysis of the financial information of the Group

(a) Financial performance

Set out below are the summarized consolidated income statements of the Company for the three years ended December 31, 2011.

	For the year ended December 31,		
	2011	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Total revenue	6,416,894	5,557,586	3,874,728
<i>Percentage change from prior year</i>	+15.5%	+43.4%	+29.0%
Cost of revenue	(1,259,979)	(931,016)	(534,438)
Gross profit	5,156,915	4,626,570	3,340,290
<i>Percentage change from prior year</i>	+11.5%	+38.5%	+28.3%
<i>Gross profit margin</i>	80.4%	83.2%	86.2%
Sales and marketing expenses	(2,041,846)	(2,050,561)	(1,623,845)
Product development expenses	(784,667)	(580,173)	(384,333)
General and administrative expenses	(640,059)	(568,324)	(409,708)
Other operating income, net	126,543	109,026	150,566
Profit from operations	1,816,886	1,536,538	1,072,970
<i>Percentage change from prior year</i>	+18.2%	+43.2%	-6.0%
<i>Operating profit margin</i>	28.3%	27.6%	27.7%
Finance income, net	319,118	176,398	140,941
Share of profits/(losses) of associated companies and jointly controlled entities, net of tax	730	(6,479)	(37,492)
Profit before income taxes	2,136,734	1,706,457	1,176,419
Income tax charges	(427,896)	(236,445)	(163,393)
Profit for the year	1,708,838	1,470,012	1,013,026
<i>Percentage change from prior year</i>	+16.2%	+45.1%	-12.3%
<i>Net profit margin</i>	26.6%	26.5%	26.1%
Profit/(loss) for the year attributable to			
Equity owners of the Company	1,712,673	1,469,464	1,013,026
Non-controlling interests	(3,835)	548	-
	<u>1,708,838</u>	<u>1,470,012</u>	<u>1,013,026</u>

PART VI – LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

(i) Revenue

The Group generates revenue primarily from selling membership packages and VAS to suppliers on the Group's international and China marketplaces. Revenue from the international marketplace primarily consists of (a) membership fees from the sale of membership packages; (b) revenue from the sale of VAS, such as key words, Ali-ADvance and Product Showcase to the paying members; (c) transaction fees earned from buyers and sellers; and (d) revenue from the provision of other comprehensive export-related services. Revenue from the China marketplace primarily consists of (a) membership fees from the sale of China TrustPass packages; (b) revenue from the sale of VAS comprising Ali-ADvance and Premium Placement, which increases the paying member's exposures to potential buyers through premium placements on the Group's web pages, to paying members; (c) online branded advertisements; and (d) revenue from Liang Wu Xian (良無限), a supply chain service for Chinese manufacturers that involves quality control of manufacturers, product quality certification, logistics and inventory management and distribution channels management services.

Although the number of paying members declined by approximately 5.4% in 2011, the Group posted an increase in revenue of approximately 15.5% to approximately RMB6,416.9 million for the year ended December 31, 2011 as compared to approximately RMB5,557.6 million for the year ended December 31, 2010. The increase was mainly attributed to (a) the growth in the revenue from VAS; (b) the full-year contributions from new businesses, including Vendio Services, Inc. ("**Vendio**") and Auctiva Corporation ("**Auctiva**"), two U.S.-based companies providing e-commerce solutions for sellers on eBay and Amazon and other platforms, which were acquired by the Group in the second half of 2010; and (c) full-year contribution from transaction-based revenue from AliExpress, an online wholesale transaction platform that facilitates small-order transactions online which was launched by the Group in April 2010.

Nevertheless, the revenue growth for the year ended December 31, 2011 of approximately 15.5% was significantly lower as compared to that of approximately 43.4% and approximately 29.0% achieved for year ended December 31, 2010 and December 31, 2009 respectively. The comparatively slower growth in revenue in 2011 was due to, among other factors, a decline in the number of paying members, whereas the robust growths of revenue in prior years were largely driven by the surge in the number of paying members of the Group's marketplaces. The decrease in the number of paying members, as explained by the management of the Group, was due to the tightened requirements for membership acquisition and renewal, a proactive measure undertaken during 2011 in order to enhance trust and safety on the Group's platforms, particularly in light of the fraudulent activities undertaken by certain paying members in 2009 and 2010.

Furthermore, it is worth noting that the change in the Group's revenue is generally "lagged" behind the changes in deferred revenue and customer advances as well as the number of the paying members. As mentioned in sub-paragraph 4(b)(iv) below, cash from sales of membership packages and VAS is collected upfront while the costs and expenses of providing such services are generally incurred subsequently. The upfront payments collected from paying members for sales of membership packages and VAS are reflected in the balance sheet as deferred revenue and customer advances. These upfront payments will be recognized as revenue when the relevant services are provided subsequently. For instance, a significant portion of revenue for 2011 represents the realization of deferred revenue and customer advances as at December 31, 2010, the current portion of which stood at RMB4,101.4 million on the same date. We will review the trend of the Group's deferred revenue and customer advances in sub-paragraph 4(b)(iv) below.

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(ii) Gross profit

In tandem with the increased revenue, gross profit rose by approximately 11.5% to approximately RMB5,156.9 million for the year ended December 31, 2011 as compared to approximately RMB4,626.6 million for the year ended December 31, 2010. Against the backdrop of decelerating growth in revenue, the gross profit growth for 2011 was also below that for 2010 and 2009 of approximately 38.5% and approximately 28.3% respectively. Furthermore, the gross profit margin declined to approximately 80.4%, as compared with approximately 83.2% and approximately 86.2% for 2010 and 2009 respectively. The decrease in the gross profit margin was primarily due to a higher cost of revenue stemming from (a) higher acquisition costs on website user traffic to help the Group's performance-based transactions; (b) increased staff costs resulting from salary adjustment and introduction of various employee subsidy programs; and (c) the consolidation of financial results from Vendio, Auctiva, AliExpress and HiChina, which have different business models and relatively lower gross profit margins.

(iii) Operating profit and operating expenses

Operating expenses consist of selling and marketing expenses, product development expenses and general and administrative expenses. A significant portion of operating expenses is made up of staff costs. The operating expenses have increased generally in line with the Group's revenue and business volume. As a percentage of revenue, however, the operating expenses dropped, on a year-on-year basis, from approximately 62.4% for 2009 to approximately 57.6% for 2010 and further to approximately 54.0% for 2011. As explained by the management of the Group, the decreases were chiefly because of lower marketing costs incurred in 2011 as the Group invested more on traffic acquisition (included in cost of revenue) to help the performance-based transactions while the Group invested significant marketing expenses in 2010 for advertising and promotion to build the brand awareness of the Group's China marketplace and for an extensive brand promotion campaign overseas especially in the US market in 2009.

The operating profit for the year ended December 31, 2011 was approximately RMB1,816.9 million, representing a growth of approximately RMB280.3 million or approximately 18.2% as compared to the year ended December 31, 2010. However, similar to the trend of revenue, such percentage growth was considerably slower than the approximately 43.2% achieved for 2010 but higher than that of negative 6.0% for 2009. The operating profit margin was largely consistent between 2011 and 2010 with a slight increase from approximately 27.6% for 2010 to approximately 28.3% for 2011. While gross profit margin has been decreasing from approximately 83.2% for 2010 to approximately 80.4% for 2011, the consistency of the operating profit margin was maintained due to the offsetting effects by the savings in operating expenses for 2011.

(iv) Income tax charges

Current income tax charges primarily represent the provision for PRC Enterprise Income Tax for subsidiaries operating in the PRC.

Alibaba (China) Technology Co., Ltd. ("**Alibaba China**"), a principal operating entity of the Group, has been designated as a High and New Technology Enterprise in 2011 and was entitled to a preferential tax rate of 15% under the PRC Enterprise Income Tax Law. As a result, the Group has used 15% to calculate Alibaba China's PRC Enterprise Income Tax for 2011. Alibaba China was recognized in 2010 as a Key Software Enterprise by four PRC ministries and therefore could enjoy a preferential PRC Enterprise Income Tax rate of 10% under the PRC Enterprise Income Tax Law. As a result, the Group has used 10% to calculate Alibaba China's PRC Enterprise income Tax for 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.

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In addition, pursuant to the PRC Enterprise Income Tax Law, withholding tax will be levied on dividends declared by companies established in the PRC to their foreign investors. In 2010, the Group anticipated only part of the retained earnings of Alibaba China would be distributed in the foreseeable future and accordingly the corresponding withholding tax has been provided for in the accounts of Group for 2010. In 2011, the Group anticipated all the retained earnings of Alibaba China and certain other PRC subsidiaries will be distributed as dividends to finance the business development outside the PRC in the foreseeable future and as a result a full provision of withholding tax for the remaining undistributed earnings has been provided for the year.

Income tax charges were approximately RMB427.9 million for 2011, representing an approximately 81.0% increase from approximately RMB236.4 million for 2010. The effective tax rates were 20.0% and 13.9% for 2011 and 2010 respectively. As discussed with the management of the Group, after excluding the increase in provision of withholding tax on the undistributed earnings retained by Alibaba China and certain other PRC subsidiaries and assuming the preferential tax treatment will be granted by the authority to Alibaba China as in 2010, the income tax charges for the year ended December 31, 2011 would have been decreased to approximately RMB256.3 million and the effective tax rate would become approximately 12.0%.

(v) Net profit

Also in line with the increased revenue, net profit rose by approximately 16.2% to approximately RMB1,708.8 million for the year ended December 31, 2011 as compared to approximately RMB1,470.0 million for the year ended December 31, 2010. The net profit growth rate of approximately 16.2% was lower than that of approximately 45.1% for 2010 but higher than that of approximately negative 12.3% for 2009.

The net profit margin for the year ended December 31, 2011 was approximately 26.6%, which was marginally over that of approximately 26.5% and approximately 26.1% for 2010 and 2009 respectively. Although the Group recorded an improved operating profit margin of approximately 28.3% for the year ended December 31, 2011, it was partially offset by the increased tax charge as discussed above. The net profit margin for the year ended December 31, 2011 would have improved to approximately 29.3% if the aforesaid tax effects were excluded.

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(b) *Financial position*

Set out below are the summarized consolidated balance sheets of the Company as at December 31, 2011, 2010 and 2009.

	As at December 31,		
	2011	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
ASSETS			
Non-current assets			
Property and equipment	732,759	781,145	783,122
Goodwill	455,207	367,787	202,631
Intangible assets	223,948	231,535	165,506
Other non-current assets	642,457	284,658	162,589
Total non-current assets	2,054,371	1,665,125	1,313,848
Current assets			
Term deposits with original maturities of over three months	8,218,563	6,497,368	4,467,755
Cash and cash equivalents	3,433,048	3,086,165	2,748,690
Other current assets	1,589,486	1,456,482	926,449
Total current assets	13,241,097	11,040,015	8,142,894
Total assets	15,295,468	12,705,140	9,456,742
EQUITY			
Equity attributable to the equity owners of the Company	7,417,780	5,753,249	4,977,090
Non-controlling interests	102,392	49,816	41,059
Total equity	7,520,172	5,803,065	5,018,149
LIABILITIES			
Deferred revenue	454,014	332,945	204,285
Other non-current liabilities	360,168	184,521	137,243
Total non-current liabilities	814,182	517,466	341,528
Current liabilities			
Deferred revenue and customer advances	3,969,117	4,101,442	3,232,690
Other payables and accruals	1,046,593	859,261	785,577
Dividend payable	–	943,695	–
Short-term bank borrowings	1,286,489	92,718	–
Other current liabilities	658,915	387,493	78,798
Total current liabilities	6,961,114	6,384,609	4,097,065
Total liabilities	7,775,296	6,902,075	4,438,593
Total equity and liabilities	15,295,468	12,705,140	9,456,742
Net current assets	6,279,983	4,655,406	4,045,829
Total assets less current liabilities	8,334,354	6,320,531	5,359,677

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(i) Property and equipment

The property and equipment of the Group mainly comprise building, leasehold and building improvements and computer equipment. The building, leasehold and building improvements largely represent the corporate campus of the Company located in the Binjiang District of Hangzhou, the PRC. The Company moved into the corporate campus in August 2009.

The property and equipment of the Group are stated at historical costs less accumulated depreciation. As at December 31, 2011, the total net book value of building, leasehold and building improvements of the Group was approximately RMB444.4 million, representing approximately 2.9% of total assets only. Based on our discussion with the management of the Group, since the corporate campus of the Company is located on industrial land, the fair value change (being the difference between the market value and the book value), if any, of the building, leasehold and building improvements of the Group will not be significant as compared to the total assets of the Group.

(ii) Goodwill

Goodwill of the Group was mainly generated as a result of its acquisitions of HiChina in 2009, Vendio and Auctiva in 2010 and Shenzhen 1-Touch Enterprise Services Ltd. in 2011. 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. No impairment on the goodwill of the Group has been identified so far.

(iii) Cash, cash equivalents and term deposits

The Group maintains a considerable amount of cash reserves. As at December 31, 2011, the total of cash and cash equivalents and term deposits with original maturities of over three months represented approximately 88.0% and approximately 76.2% of total current assets and total assets respectively.

The Group collects substantially all of the cash from sales of membership subscriptions and VAS upfront, while the costs and expenses of providing such services are generally incurred over the course of the contracts relating to such services. As a result, the Group retains a significant amount of cash as working capital for operating use and future growth.

Although the Group maintains a significant amount of cash reserves, the recurring free cash flow, which represents net cash flow generated from operating activities as presented in the Group's consolidated cash flow statement less purchase of property and equipment and excludes non-recurring capital expenditure and other one-off items, was approximately RMB1,981.1 million in 2011, representing a 30.3% decrease from approximately 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 as a result of the decrease in paid membership.

(iv) Deferred revenue and customer advances

As mentioned in sub paragraph 4(b)(iii) above, cash from sales of membership packages and VAS is collected upfront while the costs and expenses of providing such services are generally incurred subsequently. The upfront payments collected from paying members for sales of membership packages and VAS are reflected in the balance sheet as deferred revenue and customer advances and included as liabilities because the services to earn such revenue are yet to be provided. These upfront payments are generally not refundable once a paying member passes the authentication and verification process and the Group displays the paying member's storefront on the Group's marketplace. Accordingly, deferred revenue generally does not represent any obligation on the Group's part to pay out cash. In fact, the deferred revenue and customer advances provide an indication of

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the potential future revenue of the Group given the Group's business practice of collecting significant amount of payments upfront from paying members for sales of membership packages and VAS.

The deferred revenue and customer advances, including those classified under non-current liabilities, of approximately RMB4,423.1 million as at December 31, 2011, remained stable as compared to the corresponding amount as at December 31, 2010. As discussed with the management of the Group, it was mainly due to the offsetting of the decrease in the number of paying members from 809,362 as at December 31, 2010 to 765,363 as at December 31, 2011 by the increase in the membership fee of China Gold Supplier during 2011.

(v) Net asset value and net tangible asset value

The net asset value (the "NAV") attributable to the equity owners of the Company was approximately RMB7,417.8 million as at December 31, 2011. Based on the approximately 5,005.1 million Shares outstanding, as at the Latest Practicable Date, the NAV per Share was approximately RMB1.48. On the same basis, the net tangible asset value (the "NTAV"), being the NAV less goodwill and intangible assets, per Share was approximately RMB1.35.

5. Outlook of the Group

The prospects of both the world economy and the PRC economy can exert a significant degree of impact on the B2B e-commerce industry. For the Group, the economic prospects of both the world and the PRC can transform into financial results as the Group has approximately two-thirds of revenue from the international marketplace and approximately one-third of revenue from the China marketplace.

According to the Global Economic Prospects 2012 report issued by the World Bank in January 2012, the world economy has entered a dangerous period and is expected to grow by 2.5% and 3.1% in 2012 and 2013 respectively, versus its earlier projections of 3.6% annual growth for both years. While adversely impacted by the dampening growth, the world trade figures, according to the World Bank, which expanded by an estimated 6.6% in 2011, is expected to grow by 4.7% in 2012, before strengthening to 6.8% in 2013.

Domestically, Chinese Premier Wen Jiabao, during the most recent annual parliamentary session of the National People's Congress, has cut the growth target of the PRC economy for 2012 to an eight-year low of 7.5%. According to the International Monetary Fund (the "IMF"), the projected growth of the Chinese economy in 2012 had been revised downwards from 9.0% projected in September 2011 to 8.25%, citing the threat of weakening exports amid an uncertain global environment. China's core inflation pressures are expected to remain subdued while economic growth may slip alongside the slowdown in international trade and the cooling off of the real estate market. Chinese export growth may also slow down due to global economic weakness and the rising labour costs. Moreover, following the fraudulent activities that happened on the Group's online platforms in late 2009 and 2010, it is likely that the Group has to take some time and effort to restore the confidence of other suppliers and buyers on the Group's platforms.

Against this backdrop and following a strategic review, the Company shifted its focus in 2011 from aggressive growth in paying members (i.e. sellers on the platform) to improving the quality and trustworthiness of its e-commerce platforms to buyers, with a view to increasing the number and activity levels of buyers, who are essential to the success of the e-commerce platforms but do not pay any fees for the use of the these platforms. In particular, the Group continues to invest in new businesses such as AliExpress, Liang Wu Xian (良無限) and performance-based services in order to contribute to the growth in website traffic and online activities, upgrade the business model towards a more transaction-driven and performance-driven model and create a more balanced, multi-revenue stream business in the long run.

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However, while on course to accomplishing its long-term objectives, the Group has begun to suffer declining membership growth and slower growth in its financial results. The Group experienced its first negative growth in its paying members of approximately 5.4% year-on-year in 2011 since its IPO. In addition, the Group's total revenue growth for 2011 also slowed to approximately 15.5%, down from approximately 43.4% in 2010. Indeed, the deferred revenue and customer advances, being an indicator of future revenue of the Group, have not shown any sign of recovery and remained flat as at December 31, 2011, as compared to that as at December 31, 2010. Whether the Group may succeed in restoring its remarkable growth in the long run largely depends on the result of the implementation of its new strategy as well as the pace and extent of the recovery of the global and Chinese economies. In any event, the aforesaid shift of the Company's focus may continue to change the investment profile of the Shares as stated in the section headed "10. Background to, reasons for and benefits of the Proposal" in the Explanatory Statement.

6. Analysis of the price performance and trading liquidity of the Shares

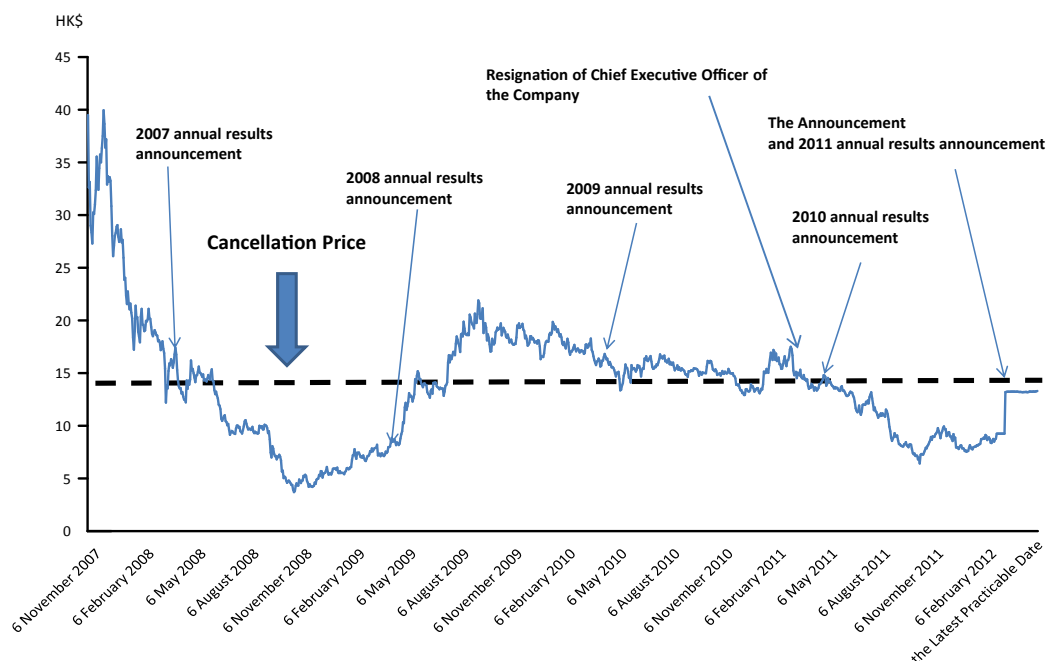
(a) Price performance

The Cancellation Price of HK\$13.50 for each Scheme Share represents:

- (i) a premium of approximately 45.9% over the closing price of HK\$9.25 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 55.3% over the average closing price of approximately HK\$8.70 per Share as quoted on the Hong Kong Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 58.8% over the average closing price of approximately HK\$8.50 per Share as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 60.4% over the average closing price of approximately HK\$8.42 per Share as quoted on the Hong Kong Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 61.3% over the average closing price of approximately HK\$8.37 per Share as quoted on the Hong Kong Stock Exchange for the 120 trading days up to and including the Last Trading Day; and
- (vi) a premium of approximately 1.5% over the closing price of HK\$13.30 per Share as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date.

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Set out below is the movement of the closing price of the Shares from 6 November 2007, being the first trading day of the Company at its IPO, up to and including the Latest Practicable Date (the “**Review Period**”):



Source: Bloomberg

The offer price of the Shares at the IPO was HK\$13.50, which represented the then prospective price-to-earnings multiple of 106.3 times on a pro forma basis (based on the profit forecast for the year ended December 31, 2007). The Share price surged significantly immediately after the IPO and traded as high as HK\$41.80 on December 3, 2007. The Share price then declined and traded at historical low of HK\$3.46 on October 28, 2008 when stock markets crashed in late October 2008 as a result of the outbreak of the global financial crisis.

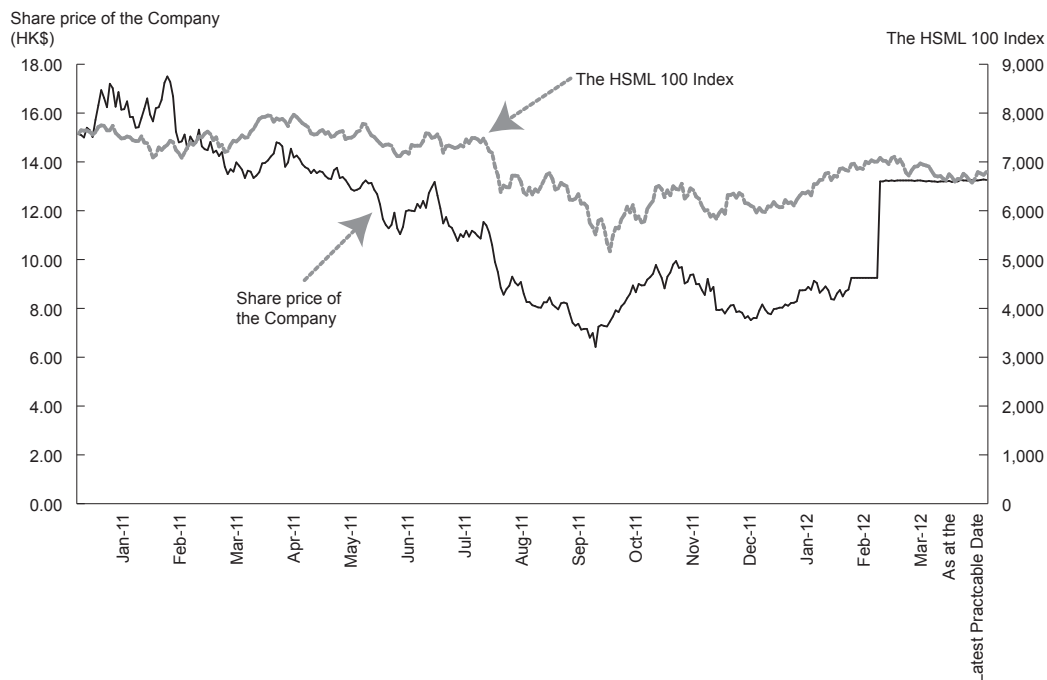
From the period from post financial crisis (say January 1, 2009) up to the end of 2011, the closing prices of the Shares ranged between HK\$5.40 and HK\$21.90 and had an average of approximately HK\$13.67. In approximately 38.6% of the trading days during this period, Share prices closed at below HK\$13.50. As discussed, the Group has shifted its strategic focus from acquisition of membership to provision of VAS and a more transaction-driven and performance-driven business model in 2011. This change of strategy, together with a relatively weak Hong Kong equity market, may attribute to the relatively sluggish performance of the Share price for the 12 months immediately prior to the Last Trading Day. During such period, the closing prices of the Shares ranged between HK\$6.42 and HK\$17.50 and had an average of approximately HK\$10.82. In approximately 75.5% of the trading days during such period, Share prices closed at below HK\$13.50.

The closing price of the Shares was HK\$9.25 on the Last Trading Day. As set out in the chart above, the closing price of the Shares surged to HK\$13.20 on February 22, 2012, the first trading date after publication of the Announcement. The closing prices of the Shares have stayed within the range from HK\$13.18 to HK\$13.30 with an average of approximately HK\$13.23 from the first trading date after publication of the Announcement and up to and including the Latest Practicable Date. We believe the recent prices of the Shares are supported by the Proposal and are unlikely to be sustained if the Proposal lapses. We consider the Cancellation Price of HK\$13.50 represents a significant premium over the market prices of the Shares before the release of the Announcement. From the Independent Shareholders' perspective, the Cancellation Price represents an immediate uplift in shareholders' value as compared to the recent prices of the Shares.

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(b) Comparison with the stock market

Set out below is a comparison between the movements of the closing prices of the Shares and the Hang Seng Mainland 100 Index (the “**HSML 100 Index**”) from early 2011 to and including the Latest Practicable Date:



Source: Bloomberg

The HSML 100 Index is a stock index which comprises the 100 largest Hong Kong-listed PRC companies which derive the majority of their sales revenue (or profit or assets if more relevant) from the PRC. The Company is also a constituent of the HSML 100 Index. The HSML 100 Index offers a comprehensive benchmark to gauge the performance of the PRC segment of the Hong Kong equity market.

As shown in the chart above, the Share price has been traded in a declining trend and generally underperformed the HSML 100 Index before the Last Trading Day. The shift in the Group's strategic focus in 2011, which changed the risk profile of the Group, may attribute to the relative underperformance of the Share price as compared to the HSML 100 Index during the period under review.

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(c) *Trading liquidity*

Set out in the table below are the average daily trading volume and the monthly total trading volumes of the Shares and the comparison of such trading volume to the total issued share capital of the Company during the 12 whole months immediately prior to the Last Trading Day:

	Average daily trading volume of the Shares	Percentage of the average daily trading volume of the Shares to the total issued Shares (Note 1)	Monthly total trading volume of the Shares	Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 2)
2011				
February	17,411,010	0.3%	313,398,181	6.2%
March	11,678,709	0.2%	268,610,299	5.3%
April	10,848,516	0.2%	195,273,292	3.9%
May	5,299,015	0.1%	105,980,304	2.1%
June	5,954,984	0.1%	125,054,661	2.5%
July	6,788,106	0.1%	135,762,125	2.7%
August	10,415,332	0.2%	239,552,637	4.7%
September	8,340,166	0.2%	166,803,311	3.3%
October	10,694,215	0.2%	213,884,291	4.3%
November	6,555,190	0.1%	144,214,185	2.9%
December	5,029,209	0.1%	100,584,178	2.0%
2012				
January	4,824,771	0.1%	86,845,879	1.7%

Source: Bloomberg and the website of the Hong Kong Stock Exchange

Notes:

1. The calculation is based on the average daily trading volumes of the Shares of each month divided by the total issued share capital of the Company at the end of each month during the 12 whole months immediately prior to the Last Trading Day.
2. The calculation is based on the monthly total trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month during the 12 whole months immediately prior to the Last Trading Day.

Based on the above table, we consider the trading liquidity of the Shares generally thin during the 12-month period immediately prior to the Last Trading Day with the exception of a two-day surge in trading volume of the Shares on February 22, 2011 and February 23, 2011. Within these two days, approximately 107.4 million Shares in aggregate were traded. This figure is significantly above the average daily trading volume of approximately 8.7 million Shares during the period under review. This surge was, in our opinion, just a spontaneous reaction to the announcement in relation to the changes to the Board and senior management of the Group dated February 21, 2011 and does not reflect a sustained increase in trading liquidity of the Shares.

Based on the above, we consider the Proposal provides the Independent Shareholders, especially those holding a large block of the Shares, a cash exit to realize their holdings which would not normally be available through the market if the Scheme is not effected. A further analysis of the trading liquidity of the Company as compared to that of its peers is set out in section 7(e) of this letter below.

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7. Peer comparison

(a) Comparable Companies

Our approach to peer comparison is twofold. We began by collating all listed Chinese B2B e-commerce marketplaces (the “**Chinese B2B Peers**”). However, we note that (i) there is only a limited number of listed Chinese B2B e-commerce marketplaces; (ii) some of these Chinese B2B Peers are listed on the PRC domestic stock exchanges that are restricted from direct participation by international investors in general (save for those being allowed under certain special arrangements); and (iii) the sizes of these Chinese B2B Peers may be significantly different to that of the Company. As such, we have also included all listed Chinese internet companies with a market capitalization of over US\$1.0 billion or approximately HK\$7.8 billion (the “**Chinese Internet Forerunners**”, together with these Chinese B2B Peers, the “**Comparable Companies**”), which we consider represent an exhaustive list of companies comparable to the Company for our analysis in this letter. We note that the Chinese Internet Forerunners offer a diverse range of products and services, using various internet technologies, in different markets and business sectors which may not be identical to that of the Company. However, the Chinese Internet Forerunners’ business models share the key features that they conduct most of their businesses on the internet through their web-based platforms. We consider the Chinese Internet Forerunners offer a complementary group of comparables in addition to the Chinese B2B Peers. As such, we are of the view that the Chinese B2B Peers and the Chinese Internet Forerunners, taken together as a whole, are a fair and representative group of comparables and we have relied on the findings on both the Chinese B2B Peers and the Chinese Internet Forerunners for our analysis purposes.

The table below sets out the Comparable Companies:

Name	Listing location	Stock code	Stock exchange	Principal activities	Market capitalization as at the Latest Practicable Date HK\$ (million) (Note)
Chinese B2B Peers					
Focus Technology Co Ltd. (“ Focus Technology ”)	PRC	002315	Shenzhen Stock Exchange	Focus Technology provides B2B e-commerce solutions. The company provides the supply and demand sides for the release, search and management services of transaction information.	5,962
Zhejiang NetSun Co., Ltd. (“ NetSun ”)	PRC	002095	Shenzhen Stock Exchange	NetSun provides internet information service, website development and maintenance services, e-commerce service, and application software development. The company developed and is currently operating www.chemnet.com.cn, www.chemnet.com, www.texnet.com.cn, www.TexWeb.com, www.pharmnet.com.cn and other several vertical e-commerce websites.	2,940

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Name	Listing location	Stock code	Stock exchange	Principal activities	Market capitalization as at the Latest Practicable Date HK\$ (million) (Note)
Global Sources Ltd. ("Global Sources")	US	GSOL	NASDAQ	Global Sources creates and facilitates global trade between buyers and suppliers. The company's integrated sourcing and marketing solutions enable importers to buy, and exporters to sell, more effectively and profitably. Global Sources aggregates and formats industry-specific supplier and product information, then delivers this content to its buyer community worldwide.	1,649
HC International Inc. ("HCI")	Hong Kong	8292	Hong Kong Stock Exchange	HCI, through its subsidiaries, provides primary business information through trade catalogues and yellow page directories, search engine services, and television and print periodicals. The company also performs value-added processes on business information and sells this by way of value-added business information services and products.	1,104
Chinese Internet Forerunners					
Tencent Holdings Ltd. ("Tencent")	Hong Kong	700	Hong Kong Stock Exchange	Tencent provides internet, mobile, and telecommunication value-added services in China. The company has an instant messaging community in China. Tencent also provides online advertising services.	431,284
Baidu Inc. ("Baidu")	US	BIDU	NASDAQ	Baidu operates an internet search engine. The company offers algorithmic search, enterprise search, pay for performance and news, MP3, and image searches.	391,742
NetEase.com Inc. ("NetEase")	US	NTES	NASDAQ	NetEase is an internet technology company that develops applications, services and other internet technologies in China. The company provides online gaming services that include in-house developed massively multi-player online role-playing games and licensed titles. NetEase also provides free email and various channels of content, online advertising, search and community services.	59,475

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Name	Listing location	Stock code	Stock exchange	Principal activities	Market capitalization as at the Latest Practicable Date HK\$ (million) (Note)
Sina Corp. (“ Sina ”)	US	SINA	NASDAQ	Sina is a global internet media company operating Chinese-language destination sites. The company offers a network of branded content and services targeting people of Chinese descent worldwide. SINA.com offers online news, entertainment, community, and commerce through web sites that are produced and updated by local teams in China, Hong Kong, Taiwan, and North America.	30,144
Ctrip.com International Ltd. (“ Ctrip ”)	US	CTRP	NASDAQ	Ctrip is a consolidator of hotel accommodations and airline tickets in China.	23,493
Qihoo 360 Technology Co. Ltd. (“ Qihoo ”)	US	QIHU	New York Stock Exchange	Qihoo provides internet and mobile security products in the PRC. The company’s products include an internet security product for internet security and system optimization, an anti-virus application to protect users’ computers against trojan horses, viruses, worms, adware, and other forms of malware, and a mobile smartphone security program.	22,279
Renren Inc. (“ Renren ”)	US	RENN	New York Stock Exchange	Renren operates an internet website. The company operates a real-time social networking website that offers users the ability to communicate, share information and user-generated content, play online games, listen to music, shop for deals, and use other services.	21,424
Youku Inc. (“ Youku ”)	US	YOKU	New York Stock Exchange	Youku is an internet television company. The company’s internet television platform enables consumers to search, view and share video content quickly and easily across multiple devices in the PRC.	21,028
Sohu.com Inc. (“ Sohu ”)	US	SOHU	NASDAQ	Sohu operates an internet portal in China. The company’s website consists of Chinese language web navigational and search capabilities, Web-based communications services, and a platform for e-commerce services.	15,046

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Name	Listing location	Stock code	Stock exchange	Principal activities	Market capitalization as at the Latest Practicable Date HK\$ (million) (Note)
51job, Inc. (“51job”)	US	JOBS	NASDAQ	51job provides integrated human resource services in China, with a strong focus on recruitment related services. The company’s recruitment related services are delivered in both print and online formats.	13,061
Shanda Games Ltd. (“Shanda Games”)	US	GAME	NASDAQ	Shanda Games develops, sources and operates internet games in China.	11,098
Changyou.com Ltd. (“Changyou”)	US	CYOU	NASDAQ	Changyou develops online computer games. The company licenses its massively multi-player online role playing games.	10,673
Soufun Holdings Ltd. (“Soufun”)	US	SFUN	New York Stock Exchange	Soufun operates real estate and home furnishing and improvement internet websites. The company offers marketing, listing and other services and products for China’s real estate and home furnishing and improvement sectors.	10,620
Giant Interactive Group Inc. (“Giant Interactive”)	US	GA	New York Stock Exchange	Giant Interactive develops online games. The company focuses on multiplayer online games that are played through networked game servers in which players are able to simultaneously connect and interact.	9,811

Source: Bloomberg

Note: Market capitalization of the Comparable Companies are based on the market capitalization of the respective companies as at the Latest Practicable Date or, for the Comparable Companies listed outside Hong Kong or the PRC, the trading day immediately before the Latest Practicable Date. Foreign currency denominated market capitalization figures have been converted to HK\$ using foreign currency exchange rates of HK\$1: US\$0.129 and HK\$1: RMB0.810, which are for the purposes of illustration only.

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(b) *Comparison of PE*

Set out below are the price-to-earnings multiples (the “PE(s)”) of the Comparable Companies:

The Comparable Companies	PE (times) (Note 1)
<u>Chinese B2B Peers</u>	
Focus Technology	29.3
NetSun	75.4
Global Sources	7.2
HCI	27.2
1. Chinese B2B Peers	
Simple average (mean)	34.8
Median	28.2
Maximum	75.4
Minimum	7.2
<u>Chinese Internet Forerunners</u>	
Tencent	34.2
Baidu	48.0
NetEase	14.9
Sina	N/A
	<i>(Note 2)</i>
Ctrip	17.7
Qihoo	N/A
	<i>(Note 3)</i>
Renren	66.9
Youku	N/A
	<i>(Note 2)</i>
Sohu	11.9
51job	27.5
Shanda Games	7.1
Changyou	5.6
Soufun	13.5
Giant Interactive	9.1
2. Chinese Internet Forerunners	
Simple average (mean)	23.3
Median	14.9
Maximum	66.9
Minimum	5.6
3. All Comparable Companies	
Simple average (mean)	26.4
Median	17.7
Maximum	75.4
Minimum	5.6
Cancellation Price (Note 4)	32.0

Source: Bloomberg and the respective companies' most recently published annual reports, annual results announcements, interim or quarterly financial results, as the case may be.

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Notes:

- 1. The PEs of the Comparable Companies are computed based on the market capitalization of the respective companies as at the Latest Practicable Date (as for the Comparable Companies listed outside Hong Kong or the PRC, the trading day immediately before the Latest Practicable Date) divided by the consolidated net profit attributable to the shareholders from continuing operations for the latest financial year of the respective companies.*
- 2. The companies were loss-making during their latest financial year.*
- 3. We consider Qihoo's PE an extreme (significantly above 100 times) that would tend to produce an anomalous result to our analysis. We have therefore excluded such PE from the analysis in this section.*
- 4. The implied PE of the Cancellation Price is computed based on the Cancellation Price of HK\$13.50 divided by the earnings per Share. The earnings per Share is calculated based on the consolidated net profit attributable to the equity owners of the Company for the year ended December 31, 2011 divided by the basic weighted-average Shares outstanding for the year.*

As set out in the table above, the PEs of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies range from 7.2 times to 75.4 times, 5.6 times to 66.9 times and 5.6 times to 75.4 times respectively. The simple average PEs of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies are approximately 34.8 times, 23.3 times and 26.4 times, respectively. The implied PE of the Cancellation Price of approximately 32.0 times is within the range of those of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies, is slightly below the average of the PE of the Chinese B2B Peers (but is above the median of the PE of the Chinese B2B Peers) and is above the averages of the PEs of the Chinese Internet Forerunners and all Comparable Companies.

On this basis, we consider the Cancellation Price to be fair and reasonable.

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(c) *Comparison of EV/EBITDA*

Set out below are the EV/EBITDAs, being enterprise value (“EV”) divided by earnings before interest, taxes, depreciation and amortization (“EBITDA”) multiples, of the Comparable Companies:

The Comparable Companies	EV/EBITDA (times) <i>(Note 1)</i>
<u>Chinese B2B Peers</u>	
Focus Technology	20.8
NetSun	31.9
Global Sources	3.6
HCI	11.3
1. Chinese B2B Peers	
Simple average (mean)	16.9
Median	16.1
Maximum	31.9
Minimum	3.6
<u>Chinese Internet Forerunners</u>	
Tencent	24.9
Baidu	39.0
NetEase	12.6
Sina	N/A
	<i>(Note 2)</i>
Ctrip	11.8
Qihoo	93.4
Renren	N/A
	<i>(Note 2)</i>
Youku	N/A
	<i>(Note 3)</i>
Sohu	4.3
51job	21.7
Shanda Games	4.2
Changyou	3.6
Soufun	17.1
Giant Interactive	8.3
2. Chinese Internet Forerunners	
Simple average (mean)	21.9
Median	12.6
Maximum	93.4
Minimum	3.6
3. All Comparable Companies	
Simple average (mean)	20.6
Median	12.6
Maximum	93.4
Minimum	3.6
Cancellation Price (Note 4)	24.8

Source: Bloomberg and the respective companies' most recently published annual reports, annual results announcements, interim or quarterly financial results, as the case maybe.

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Notes:

1. *The EV/EBITDAs of the Comparable Companies are computed based on the EV as at the Latest Practicable Date divided by latest available EBITDA of the respective companies. EV as at the Latest Practicable Date for each company is calculated based on the sum of: (i) the market capitalization as at the Latest Practicable Date (as for the Comparable Companies listed outside Hong Kong or the PRC, the trading day immediately before the Latest Practicable Date); (ii) the total debt; and (iii) non-controlling interests, and minus the cash balances (excluding restricted cash), of the respective companies.*
2. *The companies' EBITDAs were negative during their latest financial year and therefore they are not applicable for our analysis in this section.*
3. *We consider Youku's EV/EBITDA an extreme (significantly above 700 times) that would tend to produce an anomalous result to our analysis. We have therefore excluded such EV/EBITDA from the analysis in this section.*
4. *The implied EV/EBITDA of the Cancellation Price is computed based on the implied EV of the Company under the Proposal divided by the EBITDA of the Company based on the financial results of the Group for the year ended December 31, 2011. The implied EV of the Company is calculated based on the sum of: (i) the Cancellation Price of HK\$13.50 times approximately 5,005.1 million Shares in issue as at the Latest Practicable Date; (ii) the total debt; and (iii) non-controlling interests of the Company, and minus the cash balances (excluding restricted cash) of the Company as at December 31, 2011.*

To supplement our PE analysis as set out above and given the Group carried a significant cash and bank balances (excluding restricted cash) of approximately RMB11,651.6 million as at December 31, 2011, we have examined the EV/EBITDAs of the Comparable Companies and compared these with the implied EV/EBITDA of the Company based on the Cancellation Price.

As set out in the table above, the EV/EBITDAs of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies range from 3.6 times to 31.9 times, 3.6 times to 93.4 times and 3.6 times to 93.4 times respectively. The average EV/EBITDAs of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies are approximately 16.9 times, 21.9 times and 20.6 times respectively. The implied EV/EBITDA of the Company based on the Cancellation Price of approximately 24.8 times is within the range of those of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies and is above all the averages of the EV/EBITDAs of the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies.

On this basis, we consider the Cancellation Price to be fair and reasonable.

(d) Comparison of PB

For reference, we have examined price-to-book multiples (the "PB") of all Comparable Companies. They are ranged from 1.6 times to 20.8 times and have an average of approximately 5.6 times. The implied PB of the Cancellation Price is approximately 7.4 times, which is also clearly above the average and within range of the PBs of the Comparable Companies.

We consider the valuation basis for companies engaged in B2B e-commerce marketplaces should be largely based on earnings rather than net asset backings. We therefore place less reliance on the PB analysis.

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(e) *Comparison of trading liquidity*

Set out in the table below is a comparison of trading liquidity of the Shares and the shares of the Comparable Companies during the 12 whole months immediately prior to the Last Trading Day:

The Comparable Companies	Average monthly trading volume as a percentage of the total number of outstanding shares (Note)
<u>Chinese B2B Peers</u>	
Focus Technology	10.6%
NetSun	16.2%
Global Sources	3.9%
HCI	1.2%
1. Chinese B2B Peers	
Simple average (mean)	8.0%
Median	7.3%
Maximum	16.2%
Minimum	1.2%
<u>Chinese Internet Forerunners</u>	
Tencent	6.0%
Baidu	63.0%
NetEase	14.9%
Sina	213.9%
Ctrip	37.1%
Qihoo	75.1%
Renren	38.2%
Youku	89.6%
Sohu	100.8%
51job	9.3%
Shanda Games	18.5%
Changyou	68.2%
Soufun	9.9%
Giant Interactive	6.9%
2. Chinese Internet Forerunners	
Simple average (mean)	53.7%
Median	37.7%
Maximum	213.9%
Minimum	6.0%
3. All Comparable Companies	
Simple average (mean)	43.5%
Median	17.3%
Maximum	213.9%
Minimum	1.2%
The Company	3.5%

Source: Bloomberg

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Note: The percentages of average monthly trading volume to the total number of outstanding shares above are calculated by taking the average of the quotient of the monthly trading volume of the shares of the Comparable Companies and the Company for each month from February 2011 to January 2012 (being the 12 whole months immediately prior to the Last Trading Day, with the exception of Qihoo and Renren which had only 10 and 8 whole months of trading history respectively) divided by the total number of outstanding shares of the respective companies as at the end of the respective months.

As shown in the table above, the percentage of average monthly trading volume of the Shares was lower than that of the Comparable Companies and was close to the low end of that of the Comparable Companies.

8. Privatization precedents

We have compared the terms of the Proposal to other privatization proposals in Hong Kong since 2010. Set out in the table below are privatization precedents (excluding failed and pending cases), which we consider represents an exhaustive list, involving listed companies in Hong Kong announced since the beginning of 2010 and up to the Latest Practicable Date:

First announcement date	Company	Stock code	Premium of offer/cancellation price over the share price of the relevant company prior to announcement of privatization proposals		
			30-day share price average	90-day share price average	180-day share price average
October 19, 2011	Zhengzhou China Resources Gas Co. Ltd. (Note 1)	3928	38.4%	22.8%	10.9%
August 8, 2011	HannStar Board International Holdings Ltd.	667	51.8%	48.0%	23.8%
July 7, 2011	Cosway Corporation Limited ("Cosway") (Note 2)	288	45.1%	32.9%	23.8%
June 30, 2011	China Resources Microelectronics Ltd. (Note 1)	597	29.7%	21.9%	27.5%
May 13, 2011	Little Sheep Group Limited	968	29.6%	32.3%	30.8%
January 20, 2011	Shanghai Forte Land Co. Ltd.	2337	34.3%	43.0%	52.4%
January 10, 2011	Fubon Bank (Hong Kong) Ltd. (Note 3)	636	43.2%	39.3%	45.9%
August 12, 2010	Integrated Distribution Services Group Ltd. (Note 1)	2387	45.8%	51.3%	60.9%
August 10, 2010	Industrial and Commercial Bank of China (Asia) Limited	349	41.2%	48.8%	59.1%
April 27, 2010	Wheelock Properties Limited ("Wheelock Properties") (Note 4)	49	162.3%	162.2%	155.2%
January 22, 2010	Denway Motors Limited (Notes 3 and 5)	203	14.6%	28.3%	39.0%
January 8, 2010	Hutchison Telecommunications International Limited	2332	38.5%	37.2%	29.2%
All precedents (Note 4)					
Simple average (mean)			37.5%	36.9%	36.7%
Median			38.5%	37.2%	30.8%
Maximum			51.8%	51.3%	60.9%
Minimum			14.6%	21.9%	10.9%
February 21, 2012	Cancellation Price		58.8%	59.3%	42.0%

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Notes:

- 1. The offers in the privatization proposals consist of a cash offer or a share exchange offer. The computation above is based on the cash offer only.*
- 2. Cosway announced on March 2, 2012 that the offeror has received adequate acceptance of offer for the purpose of privatisation. The procedures of compulsory acquisition of the remaining shares of Cosway and delisting of Cosway were still in progress as at the Latest Practicable Date.*
- 3. The offer prices of the privatization proposals were revised upwards after the initial announcement for privatization. The computations above are based on the revised offer prices.*
- 4. The statistics for the privatization proposal of Wheelock Properties have been excluded from the analysis in this section as we consider it an outlier on the basis that the cancellation price for the privatization proposal is based on Wheelock Properties' audited consolidated net asset value per share (representing a discount of approximately 3.35% to the audited consolidated net asset value per share), where the cancellation price represented significant premiums above 30-day, 90-day and 180-day share price averages.*
- 5. The offer in the privatization proposal of Denway Motors Limited is a share exchange offer. The computation above is based on the estimated value of the shares to be exchanged as set out in the document issued by, among others, Denway Motors Limited dated June 18, 2010.*

As set out in the table above, the premiums offered by the Cancellation Price over the 30-day, 90-day and 180-day Share price averages are above the corresponding averages and medians of the above privatization precedents. In addition, the premiums offered by the Cancellation Price over the 30-day and 90-day Share price averages are also higher than the maximum premiums of the privatization precedents for the corresponding periods as set out above.

Shareholders should bear in mind that the privatization precedents may be conducted under different market conditions and the companies involved operate in different industry sectors. Consequently, Shareholders should take these privatization precedents for reference purpose only and should note that the premiums of offer or cancellation consideration in the other privatizations may be different from that of the Proposal.

9. The Share Incentives Offer

The Offeror will make (or procure to be made on its behalf) an offer to the Share Incentive Holders in accordance with Rule 13 of the Hong Kong Takeovers Code. The Share Incentives Offer is conditional upon the Scheme becoming effective and binding.

In the event that any Share Incentive vests: (i) the holder of any Shares registered in the name of the relevant Share Incentive Holder prior to the Meeting Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of such Shares; and (ii) any Shares which are registered in the name of the relevant Share Incentive Holder (or in the name of its nominee) prior to the Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be subject to and eligible to participate in the Scheme.

Any Share Incentive Holder whose Share Incentive remains unvested or, to the extent the Share Incentive has vested but in respect of which the underlying Shares have not been registered in the name of the relevant Share Incentive Holder, as at the Meeting Record Date and/or the Record Date as the case may be, will not be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of such Share Incentive, and will not be eligible to participate in the Scheme but still be eligible to participate in the Share Incentives Offer in respect of such Share Incentive, respectively.

The Share Incentives Offer will be made to each Share Incentive Holder in respect of each of their unvested Share Incentives held as at the Share Incentives Record Date. In the event that any Share Incentive has vested before the Share Incentives Record Date but the Shares underlying such Share Incentive are not registered in the name of the relevant Share Incentive Holder (or in the name of its nominee) before the Record Date, the Offeror will, as part of the Share Incentives Offer, offer a cash payment of HK\$13.50 for each Share underlying such Share Incentive in return for the acquisition of all rights and obligations under such Share Incentive and/or the immediate cancellation of such Share Incentive.

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(a) Share Options and Offeror Share Options

Under the Share Incentives Offer, the Offeror will offer holders of Share Options and Offeror Share Options cash equal to the “see-through” price (being the Cancellation Price minus the relevant exercise price of that Share Option or Offeror Share Option) for each Share Option and Offeror Share Option that they hold respectively. The cash payable to the holders of Share Options and Offeror Share Options will be paid on a staggered basis in accordance with the respective vesting schedules under, and subject to the terms of the Share Options and Offeror Share Options respectively. If the exercise price of any Share Options or Offeror Share Options exceeds HK\$13.50 (the “**Out-of-the-Money Share Options**”), the holders of the Out-of-the-Money Share Options will only be entitled to receive a nominal amount of cash consideration of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof) in relation to those Out-of-the-Money Share Options.

Holders of Share Options or Offeror Share Options who do not accept the Share Incentives Offer will continue to have a right to exercise his/her Share Options or Offeror Share Options, after the Scheme becoming effective, to the extent that such Share Options or Offeror Share Options are exercisable under its existing terms. In such circumstances, holders of the Share Options or Offeror Share Options are reminded that any underlying Shares that they may receive (assuming, in the case of the Offeror Share Options, the Offeror does not exercise its right to settle its obligation to the holder of the Offeror Share Options by cash instead of delivering the Shares (the “**Cash Settlement Right**”)) will then become unlisted and an open market will no longer exist for the trading of the Shares. In respect of the Offeror Share Options, the Offeror may exercise the Cash Settlement Right to settle the Offeror Share Options in cash, which will be equal to the then fair market value of the Shares (as determined at the sole discretion of a committee of the Offeror administering the plans of the Offeror Share Options) less the relevant exercise price of the Offeror Share Option in accordance with the share option award agreement entered into between the Offeror and the relevant holder of the Offeror Share Option. Given the Shares will then become unlisted, it is uncertain that the holders of the Offeror Share Options will be able to obtain significant value from the out-of-the-money Offeror Share Options held by them in the event that the Cash Settlement Right is elected by the Offeror. Holders of the Share Options or Offeror Share Options are also advised to consult their professional advisors for any potential taxation implications as a result of the exercise of Share Options or Offeror Share Options after the Latest Options Exercise Date.

The “see-through” principle is normally adopted in Hong Kong for privatization proposals and/or general offer situations. On the basis that (i) the Cancellation Price of HK\$13.50 is fair and reasonable; (ii) the Share Option Offer Price and the Offeror Share Option Offer Price will also be paid in cash equal to the Cancellation Price minus the relevant exercise price of that Share Option and that Offeror Share Option for each Share Option and Offeror Share Option respectively; and (iii) the Shares will become unlisted upon the Scheme becoming effective and an open market will no longer exist for the trading of the Shares, we consider the terms of the Share Incentives Offer to be fair and reasonable so far as the holders of Share Options and Offeror Share Options are concerned.

In relation to “in-the-money” Share Options and Offeror Share Options

Based on the above, we recommend the Independent Board Committee to recommend the holders of Share Options and Offeror Share Options with an exercise price below HK\$13.50 to accept the Share Incentives Offer.

In relation to the Out-of-the-Money Share Options

For holders of the Out-of-the-Money Share Options, on the basis that they will only be entitled to receive a nominal amount of cash consideration of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof) for their Out-of-the-Money Share Options, may opt not to accept the Share Incentives Offer as the holding of these Out-of-the-Money Share Options may, in the future, enable them to extract some value, for example, if the proceeds from selling the underlying Shares as a result of the conversion of these Out-of-the-Money Share Options is higher than the respective exercise price of these Out-of-the-Money Share Options, net of relevant costs.

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However, as stated in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document, the Offeror intends the Company to become and to remain a wholly-owned subsidiary of the Offeror (whether directly or indirectly) on and from the Effective Date. In view of that intention, the Offeror may take steps to ensure that the Company remains a wholly-owned subsidiary by, for example, amending the terms of the Share Incentives schemes and/or amending the terms of the articles of association of the Company to ensure that Share Incentive Holders are not entitled to receive any Shares. Accordingly, the Share Incentive Holders should note that there is no certainty that they will receive any consideration for their Share Incentives if they reject the Share Incentives Offer.

Holders of the Out-of-the-Money Share Options are also reminded that they can only choose to accept or reject their Share Incentives Offer for all, but not any part, of the Share Incentives held by them based on the choices available to the Share Incentive Holders in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document. In other words, if holders of the Out-of-the-Money Share Options choose to reject their Share Incentive Offer, then they will be giving up and will not be able to receive any cash consideration offered by the Offeror in respect of Share Options and Offeror Share Options that are in-the-money, RSUs, Share Awards and Offeror RSUs, where applicable, held by them. Further details in relation to the procedures for the acceptance of the Share Incentives Offer are stated in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document.

(b) RSUs, Share Awards and Offeror RSUs

Under the Share Incentives Offer, the Offeror will offer holders of RSUs, Share Awards and Offeror RSUs cash equal to the Cancellation Price of HK\$13.50, which is equal to the “see-through” price, for each RSU, Share Award or Offeror RSU that may be held by them. The cash payable to the holders of RSUs, Share Awards and Offeror RSUs will be paid on a staggered basis, in accordance with the respective vesting schedules under, and subject to the terms of the RSUs, Share Awards and Offeror RSUs respectively.

Under the RSU Scheme, all RSUs will be automatically cancelled upon the Record Date and the holders of RSUs who do not accept the Share Incentives Offer will not be entitled to the Cancellation Price in respect of any RSUs as at the Record Date.

On the other hand, holders of Share Awards or Offeror RSUs who do not accept the Share Incentives Offer will continue to be entitled to receive Shares pursuant to his/her Share Awards or Offeror RSUs, after the Scheme becomes effective, to the extent that such Share Awards or Offeror RSUs are vested under its existing terms. In such circumstances, holders of Share Awards or Offeror RSUs are reminded that the underlying Shares will then become unlisted and an open market will no longer exist for the trading of the Shares. Moreover, as stated in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document, the Offeror intends the Company to become and to remain a wholly-owned subsidiary of the Offeror (whether directly or indirectly) on and from the Effective Date. In view of that intention, the Offeror may take steps to ensure that the Company remains a wholly-owned subsidiary by, for example, amending the terms of the Share Incentives schemes and/or amending the terms of the articles of association of the Company to ensure that Share Incentive Holders are not entitled to receive any Shares. Accordingly, the Share Incentive Holders should note that there is no certainty that they will receive any consideration for their Share Incentives if they reject the Share Incentives Offer. Holders of Share Awards or Offeror RSUs are also advised to consult their professional advisors for any potential taxation implications as a result of the vesting of Share Awards or Offeror RSUs after the Latest Incentives Vesting Date.

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As mentioned above, the “see-through” principle is normally adopted in Hong Kong for privatization proposals and/or general offer situation. On the basis that (i) the Cancellation Price of HK\$13.50 is fair and reasonable; (ii) RSU Offer Price, Share Award Offer Price and Offeror RSUs Offer Price will be in cash equal to the Cancellation Price for each RSU, Share Award and Offeror RSU respectively; (iii) all RSUs will be automatically cancelled upon the Record Date; and (iv) the Shares will become unlisted upon the Scheme becoming effective and an open market will no longer exist for the trading of the Shares, we consider the terms of the Share Incentives Offer to be fair and reasonable so far as the holders of RSUs, Share Awards and Offeror RSUs are concerned.

Based on the above, we recommend the Independent Board Committee to recommend the holders of RSUs, Share Awards and Offeror RSUs to accept the Share Incentives Offer.

10. Intentions of the Offeror regarding the Group

As set out in the Explanatory Statement, the Offeror has no plans to make any major changes to the business of the Group or to redeploy the fixed assets of the Group other than through the continued implementation of the Company’s strategic transition and other previously announced business plans or as may be necessary or appropriate in order to optimize the operations of the Group in reaction to the rapidly changing business environment in which the Group operates. The Offeror and the Company also have no intention of making any significant changes to employees of the Group as a result of the implementation of the Proposal.

Following the privatization, the Offeror intends for the Group to continue to operate as a separate business unit within the Offeror Group. This is because the Group’s website platforms are targeted at small and medium-sized enterprises that trade with each other, whereas the Offeror Group’s other website marketplaces are targeted at retail consumers.

On September 26, 2011, the Company announced that it had submitted a proposal to the Hong Kong Stock Exchange in relation to the proposed spin-off through an initial public offering of shares of HiChina, a non-wholly owned subsidiary of the Company, in the United States. HiChina is a leading full-service internet infrastructure services provider that provides domain name services, traditional hosting services, cloud-based services and website building solutions to SMEs in China. Through its comprehensive and integrated offering of products and services, HiChina enables its customers to establish a presence and conduct business online. As set out in the letter from the Board and the Explanatory Statement, the Company does not have any specific timetable for the spin-off of HiChina.

DISCUSSION AND ANALYSIS

The Company is currently a global leader in e-commerce for SMEs. Ever since its IPO in late 2007 until early 2011, the Group had been focusing on, among others, the growth of memberships through the membership categories of registered members, storefronts and paying members. These membership categories had been growing at a rapid pace in the last decade but such growth appears to be decelerating in recent years. For the first time in 2011, the number of paying members has dropped by approximately 5.4%. Registered members and storefronts are also experiencing various degrees of decelerating growth.

Since the outbreak of fraudulent activities undertaken by some China Gold Supplier members through the online marketplaces of the Group in late 2009 and 2010, the Group has committed its effort to cracking down on all internet fraud cases in its online marketplaces, leading to further strengthening of the screening and acceptance procedures of new membership subscriptions. In the short to medium term, this may further decelerate the growth of memberships as potential and existing members may show resistance to the heightened security measures. Putting further pressure to the impeding growth was the uncertainty of the global economy including that of the PRC with Chinese SMEs being severely impacted. Although the B2B e-commerce industry has been showing resilience, we remain cautious and consider that the current global economic climate may continue to cast uncertainty on future prospects in the industry in the medium term.

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As a result of a strategic review by the management of the Group in 2010, the Company decided to shift its focus from the business model of pursuing aggressive growth in paying members to one that is revolved around longer term value creation through improving the quality of its platforms to buyers, being a more transaction-driven and performance-driven business model with an aim to diversify the Group's revenue streams and focus on long-term values. Following the strategic review, the Group is expected to undergo a profound degree of transformation and only if such transformation prevails, will the positive effects be felt by the capital markets gradually by way of longer-term improvements in the bottom line.

In the meantime, as the most recent financials of the Group reveal, the Group's total revenue and net profit growth in 2011 slowed to approximately 15.5% and 16.2% respectively, down from approximately 43.4% and 45.1% respectively as compared to 2010.

The concept behind the Proposal was one that revolves around decoupling the Company from capital market expectations and allowing the Group to commit and implement its long-term strategy as discussed. Following the initial hype of the IPO back in 2007, the Share is now trading in sharp discount to its peak of HK\$41.80 shortly after the IPO. Recent performance of the Share price has also not been particularly encouraging. We agree with the view that the new business strategy may continue to change the investment profile of the Shares. During the past 12 months prior to the Last Trading Day, the Share traded in a range between HK\$6.42 and HK\$17.50, with an average of approximately HK\$10.82. In approximately 75.5% of the trading days during the past 12 months immediately prior to the Last Trading Day, the Share traded at below HK\$13.50 and is generally underperforming against the HSML 100 Index before the Last Trading Day.

In the short to medium term, the aforesaid transformation of business strategy may continue to cast uncertainty on the Company's future growth and financial performance. We consider the principal benefits of the Proposal to the Scheme Shareholders and the Share Incentive Holders arise from the sluggish performance of the Share price and trading liquidity. As discussed in section 6 above, the Cancellation Price of HK\$13.50 represents a premium of approximately 61.3% over the average closing price of approximately HK\$8.37 per Share as quoted on the Hong Kong Stock Exchange for the 120 trading days up to and including the Last Trading Day. From the Independent Shareholders' perspective, the Cancellation Price represents a substantial uplift in shareholder value compared to the recent prices of the Shares. We believe the recent prices of the Shares are supported by the Proposal and are unlikely to sustain if the Proposal lapses.

In our view, the trading liquidity of the Shares is thin. From the Independent Shareholders' perspective, in particular those holding large blocks of the Shares, the Proposal will provide a good opportunity if the Proposal is approved for the Independent Shareholders to realize their holdings through a cash exit which would not normally be available through the market.

Based on the financial results of the Group for the year ended December 31, 2011, the Cancellation Price of HK\$13.50 represents implied PE and EV/EBITDA of approximately 32.0 times and 24.8 times respectively. Such implied PE and EV/EBITDA are above the averages of the PEs and EV/EBITDAs across the Chinese B2B Peers, the Chinese Internet Forerunners and all Comparable Companies except that the implied PE is slightly below the average of the PE of the Chinese Peers. We further note that, for reference purpose only, the premiums offered by the Cancellation Price over the 30-day, 90-day and 180-day Share price averages are above the corresponding averages and medians of the recent privatization precedents.

Our analysis on the Share Incentives Offer is set out in section 9 above.

We have not considered the tax and regulatory implications on the Independent Shareholders or Share Incentive Holders of acceptance or non-acceptance of the Proposal or the Share Incentives Offer, as the case may be, since these are particular to their individual circumstances. In particular, the Independent Shareholders or the Share Incentive Holders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

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OPINION AND RECOMMENDATION

In respect of the Proposal

Based on the above principal factors and reasons, we consider the terms of the Proposal to be fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the Extraordinary General Meeting to approve and implement the Scheme.

In respect of the Share Incentives Offer

We consider the terms of the Share Incentives Offer to be fair and reasonable as far as the Share Incentive Holders are concerned.

We advise the Independent Board Committee to recommend the holders of Share Options, RSUs, Share Awards, Offeror Share Options and Offeror RSUs to accept the Share Incentives Offer provided, however, with respect to holders of the Out-of-the-Money Share Options, our advice is subject to the considerations below.

Holders of the Out-of-the-Money Share Options might consider not accepting the Share Incentives Offer and retaining their Out-of-the-Money Share Options because, if they accept, they will only be entitled to receive a nominal amount of cash consideration of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof) for their Out-of-the-Money Share Options. Holders of the Out-of-the-Money Share Options are however reminded that they can only choose to accept or reject their Share Incentives Offer for all, but not any part, of the Share Incentives held by them based on the choices available to the Share Incentive Holders in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document. In other words, if holders of the Out-of-the-Money Share Options choose to reject their Share Incentive Offer, then they will be giving up and will not be able to receive any cash consideration offered by the Offeror in respect of Share Options and Offeror Share Options that are in-the-money, RSUs, Share Awards and Offeror RSUs, where applicable, held by them. Moreover, as stated in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document, the Offeror intends the Company to become and to remain a wholly-owned subsidiary of the Offeror (whether directly or indirectly) on and from the Effective Date. In view of that intention, the Offeror may take steps to ensure that the Company remains a wholly-owned subsidiary by, for example, amending the terms of the Share Incentives Schemes and/or amending the terms of the articles of association of the Company to ensure that Share Incentive Holders are not entitled to receive any Shares. Accordingly, holders of the Out-of-the-Money Share Options should note that there is no certainty that they will receive any consideration for their Out-of-the-Money Share Options if they reject the Share Incentives Offer. Further details in relation to the procedures for the acceptance of the Share Incentives Offer are stated in the Share Incentives Offer Letter which is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to the Scheme Document.

Yours faithfully,
For and on behalf of
SOMERLEY LIMITED

Kenneth Chow
Managing Director – Corporate Finance

PART VII – EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Order 102, rule 20(4) (e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE FOR EACH SCHEME SHARE AND SHARE INCENTIVES OFFER

1. INTRODUCTION

On February 21, 2012, the Offeror and the Company jointly announced that on February 12, 2012, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatization of the Company by way of the Scheme.

The Scheme involves the cancellation of all the Scheme Shares in exchange for HK\$13.50 in cash for each Scheme Share, and the subsequent issue of new Shares to the Offeror, as a result of which it is intended that the Company will be wholly-owned by the Offeror Group.

The Offeror is making the Share Incentives Offer to the Share Incentive Holders to cancel all Share Incentives. The Share Incentives Offer will be conditional on the Scheme becoming effective.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal, the Scheme and the Share Incentives Offer, which are to be implemented by the Scheme and the Share Incentives Offer Letter, and to provide the Scheme Shareholders and Share Incentive Holders with other relevant information in relation to the Scheme and the Share Incentives Offer, in particular, to provide the intentions of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme.

The particular attention of the Scheme Shareholders and Share Incentive Holders is drawn to the following sections of this Scheme Document: (a) a letter from the Board set out in Part IV of this Scheme Document; (b) a letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) a letter from Somerley, the Independent Financial Advisor, set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix III to this Scheme Document.

2. TERMS OF THE PROPOSAL

The Proposal is to be implemented by way of a scheme of arrangement under Section 86 of the Cayman Islands Companies Law.

Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears in the register of members of the Company as at the Record Date will be entitled to receive HK\$13.50 in cash for each Scheme Share.

Scheme Shareholders whose names appear in the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any dividend on or before the Effective Date.

As at the Latest Practicable Date, the authorized share capital of the Company was HK\$800,000 divided into 8,000,000,000 Shares, and the issued share capital of the Company was approximately HK\$500,507 divided into 5,005,071,959 Shares. All of the Shares rank equally in all respects as regards to rights to capital, dividends and voting. As at that date, the Scheme Shareholders were interested in 1,362,242,626 Shares, representing approximately 27.22% of the issued share capital of the Company.

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As at the Latest Practicable Date, there were 27,177,725 Share Options granted under the Share Option Scheme, each relating to one Share. The relevant exercise price applicable to each Share Option, which is set out in the table below, ranges from HK\$5.54 to HK\$20.60.

Share Option exercise price (HK\$)	“See-through” price (HK\$)	Total outstanding options (vested and unvested)	Exercise period (Note 1) (MM/DD/YYYY)
5.54	7.96	2,012,300	12/17/2008 - 12/17/2014
5.71	7.79	1,606,525	01/23/2010 - 01/23/2015
7.25	6.25	8,390,900	04/01/2010 - 04/01/2015
12.74	0.76	771,500	02/13/2010 - 06/20/2014
14.22	0.00 (Note 2)	500,000	12/08/2012 - 04/11/2017
14.26	0.00 (Note 2)	2,000,000	02/21/2013 - 03/18/2017
16.12	0.00 (Note 2)	6,640,500	01/31/2011 - 03/31/2016
17.62	0.00 (Note 2)	1,335,000	08/21/2011 - 12/28/2015
19.86	0.00 (Note 2)	2,621,000	02/01/2009 - 02/01/2014
20.60	0.00 (Note 2)	1,300,000	03/20/2011 - 09/04/2015

Notes:

- (1) Vesting of options generally spreads over a period of 4 years, and exercise period is from the later of the first vesting date and grant date to the expiration date of the outstanding options.
- (2) If the exercise price of the Share Option granted exceeds HK\$13.50, the “see-through” price is zero and a cash offer of a nominal amount of HK\$0.05 per 500 Share Options (or part thereof) will be made.

As at the Latest Practicable Date, there were 39,429,922 RSUs granted under the RSU Scheme, each relating to one Share. There is no exercise price for these RSUs.

As at the Latest Practicable Date, there were 1,597,959 Share Awards granted under the Share Award Scheme, each relating to one Share, all of which were held by directors of the Group. There is no exercise price for these Share Awards.

In addition to the Share Options, RSUs and Share Awards, the Offeror has granted the Offeror Incentives (comprising the Offeror Share Options and the Offeror RSUs, which entitle the holder to receive Shares upon vesting and/or exercise) to employees of the Offeror Group and directors, employees, advisors and/or consultants of the Group. As the Offeror Incentives are not granted by the Company and relate to Shares which are held by the Offeror, the Offeror is not required to make an offer in respect of such Offeror Incentives under Rule 13 of the Hong Kong Takeovers Code. However, subject to the terms of the Offeror Incentives, the Offeror intends to treat the holders of the Offeror Incentives in a manner which is consistent with the terms of the offer being made to the holders of the Share Options, RSUs and Share Awards under the Share Incentives Offer.

As at the Latest Practicable Date, there were 8,926,422 Offeror Share Options granted by the Offeror relating to 8,926,422 Shares. The relevant exercise price applicable to each Offeror Share Option, which is set out in the table below, ranges from HK\$0.13 to HK\$20.60.

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Offeror Share Option exercise price (HK\$)	“See-through” price (HK\$)	Total outstanding options (vested and unvested)	Exercise period (Note 2) (MM/DD/YYYY)
0.130 (Note 1)	13.37	407,544	01/01/2004 - 01/01/2013
0.325 (Note 1)	13.18	136,799	12/31/2004 - 11/15/2014
3.250 (Note 1)	10.25	145,198	03/06/2007 - 11/22/2012
4.225 (Note 1)	9.28	1,214,350	10/08/2006 - 03/27/2013
4.810 (Note 1)	8.69	1,566,306	07/31/2007 - 03/27/2013
5.200 (Note 1)	8.30	126,000	04/02/2008 - 06/20/2013
5.540	7.96	67,000	04/07/2010 - 04/07/2016
5.710	7.79	364,425	04/07/2010 - 04/07/2016
5.772 (Note 1)	7.73	49,000	06/01/2008 - 07/10/2013
6.162 (Note 1)	7.34	67,500	04/06/2008 - 08/07/2013
6.422 (Note 1)	7.08	141,000	08/03/2008 - 09/13/2013
6.800 (Note 1)	6.70	2,359,500	09/24/2008 - 09/24/2013
6.890	6.61	126,300	09/07/2008 - 10/04/2013
7.250	6.25	269,000	03/06/2011 - 04/07/2016
9.490 (Note 1)	4.01	1,000	10/12/2008 - 10/17/2013
10.556 (Note 1)	2.94	127,500	10/18/2008 - 11/05/2013
12.740	0.76	10,000	04/07/2010 - 04/07/2016
16.120	0.00 (Note 3)	700,000	01/31/2011 - 03/31/2016
17.620	0.00 (Note 3)	130,000	09/01/2011 - 06/29/2016
19.860	0.00 (Note 3)	878,000	04/07/2010 - 04/07/2016
20.600	0.00 (Note 3)	40,000	03/20/2011 - 04/07/2016

Notes:

- (1) These represent share options initially granted by the Offeror over shares in the Offeror, which were converted into options over Shares prior to the initial public offering of the Company on November 6, 2007 under an Employee Equity Exchange program.
- (2) Vesting of options generally spreads over a period of 4 years. The exercise period is from the later of the first vesting date and grant date to the expiration date of the outstanding options.
- (3) If the exercise price of the Offeror Share Option exceeds HK\$13.50, the “see-through” price is zero and a cash offer of a nominal amount of HK\$0.05 per 500 Offeror Share Options (or part thereof) will be made.

As at the Latest Practicable Date, there were 12,576,073 Offeror RSUs granted by the Offeror relating to 12,576,073 Shares. There is no exercise price for these Offeror RSUs.

In the event that any Share Incentive vests and, in the case of the Share Options and Offeror Share Options only, is exercised: (i) the holder of any Shares registered in the name of the relevant Share Incentive Holder prior to the Meeting Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of such Shares; and (ii) any Shares which are registered in the name of the relevant Share Incentive Holder (or in the name of its nominee) prior to the Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be subject to and eligible to participate in the Scheme.

Any Share Incentive Holder whose Share Incentive remains unvested or whose Share Incentive has vested but in respect of which the underlying Shares have not been registered in the name of the relevant Share Incentive Holder, as at the Meeting Record Date and/or the Record Date as the case may be, will not be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of such Share Incentive, and will not be eligible to participate in the Scheme but still be eligible to participate in the Share Incentives Offer in respect of such Share Incentive, respectively.

Apart from Mr. Jack Ma and Mr. Joseph Tsai, there are no other Share Incentive Holders who are Offeror Concert Parties.

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Details of the Share Incentives Offer to be made in respect of the above Share Incentives are set out in the section headed “11. Share Incentives Offer” below, and in the Share Incentives Offer Letter set out in Appendix VI to this Scheme Document.

Save for the Share Incentives and the redeemable preference shares issued by Direct Solutions Management Limited, there are no outstanding options, warrants, derivatives or other securities issued by the Company, the Offeror or the Offeror Concert Parties that carry a right to subscribe for or which are convertible into Shares.

After the Scheme becomes effective, the listing of the Shares on the Hong Kong Stock Exchange will be withdrawn and the Company will be wholly owned by the Offeror Group. The Proposal is conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the section headed “3. Conditions of the Proposal and the Scheme” below. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Conditions Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Cayman Islands Grand Court may direct), otherwise the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme will be made as and when necessary.

If the Proposal does not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Hong Kong Stock Exchange.

Settlement of the Cancellation Price and the Share Incentives Offer will be implemented in full in accordance with the terms of the Scheme and the Share Incentives Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Share Incentive Holder.

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Proposal will become effective and binding on the Company and all Shareholders, subject to the fulfillment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders;
- (b) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an Extraordinary General Meeting of the Company to, among other things, (i) reduce the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror;
- (c) the Cayman Islands Grand Court’s sanction of the Scheme (with or without modifications) and, to the extent necessary, its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Cayman Islands Grand Court for registration;

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- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Cayman Islands Companies Law in relation to the reduction of the issued share capital of the Company;
- (e) all Authorizations in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (f) all Authorizations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any related matters, documents (including circulars) or things, in each case up to and at the time when the Scheme becomes effective;
- (g) all necessary consents which may be required under any existing contractual obligations of the Company being obtained;
- (h) if required, the obtaining by the Offeror of such other necessary consent, approval, authorization, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under the applicable laws and regulations;
- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;
- (j) since December 31, 2011, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and
- (k) since the Announcement Date, there not having been instituted or remaining outstanding any litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no such proceedings having been threatened in writing against any such member (and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member), in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal.

The Offeror reserves the right to waive Conditions (e), (f), (g), (h), (i), (j) and (k) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c) and (d) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Hong Kong Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Conditions Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Cayman Islands Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

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Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before June 19, 2012. Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the Extraordinary General Meeting and, if all the resolutions are passed at those meetings; (ii) the result of the hearing of the petition for the sanction of the Scheme by the Cayman Islands Grand Court; (iii) the Record Date; (iv) the Effective Date; and (v) the date of withdrawal of the listing of the Shares on the Hong Kong Stock Exchange as further set out in Part III – Expected Timetable of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made by the Offeror and the Company, and trading of the Shares on the Hong Kong Stock Exchange will resume.

4. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Cayman Islands Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Cayman Islands Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Cayman Islands Grand Court directs.

It is expressly provided in Section 86 of the Cayman Islands Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Cayman Islands Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Cayman Islands Grand Court, be binding on all members or class of members, as the case may be, and also on the company. For the avoidance of doubt, the Cayman Islands Grand Court will be ordering a meeting of a class of members being the Scheme Shareholders.

5. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE HONG KONG TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarized above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Hong Kong Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, Independent Shareholders comprise all Shareholders as at the Meeting Record Date other than the Offeror and the Offeror Concert Parties. Scheme Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Hong Kong Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 1,330,941,583 Scheme Shares. On that basis, and assuming no Share Incentives are exercised and/or vested (as applicable) before the Meeting Record Date, 10% of the votes attached to all disinterested Shares referred to in (b) above therefore represent approximately 133,094,158 Shares as at the Latest Practicable Date.

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6. BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the Extraordinary General Meeting.

7. SHAREHOLDING STRUCTURE OF THE COMPANY AND SCHEME SHARES

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Proposal, assuming that no Share Options and Offeror Share Options are exercised and no RSUs, Offeror RSUs and Share Awards have vested before the Record Date and that there is no other change in shareholding:

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Offeror (Note 1)	2,604,574,904	52.04	3,966,817,530	79.26
Offeror Concert Parties				
<i>Shares held not subject to the Scheme:</i>				
Alibaba Group Treasury Limited (Note 2)	1,000,000,000	19.98	1,000,000,000	19.98
Direct Solutions Management Limited (Note 3)	38,254,429	0.76	38,254,429	0.76
<i>Sub-total</i>	1,038,254,429	20.74	1,038,254,429	20.74
<i>Shares held subject to the Scheme:</i>				
Mr. MA Yun, Jack	15,369,053	0.31	–	–
Mr. TSAI Chung, Joseph Rothschild	3,120,000	0.06	–	–
Credit Suisse Group (Note 4)	2,254,500	0.05	–	–
Deutsche Bank Group (Note 5)	31,165	0.00	–	–
HSBC Group (Note 6)	8,131,866	0.16	–	–
HSBC Trustee (Hong Kong) Limited (Note 7)	2,394,459	0.05	–	–
Softbank	–	–	–	–
Yahoo!	–	–	–	–
<i>Sub-total</i>	31,301,043	0.63	–	–
Aggregate number of Shares held by the Offeror Concert Parties	1,069,555,472	21.37	1,038,254,429	20.74
Aggregate number of Shares held by the Offeror and the Offeror Concert Parties	3,674,130,376	73.41	5,005,071,959	100.00
Independent Shareholders	1,330,941,583	26.59	–	–
Total	<u>5,005,071,959</u>	<u>100.00</u>	<u>5,005,071,959</u>	<u>100.00</u>
Total number of Scheme Shares	1,362,242,626	27.22	–	–

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Notes:

1. The Offeror has granted Offeror Share Options that, upon full vesting and exercise, will entitle the holders to receive 8,926,422 Shares in aggregate from the Offeror. As such, the Offeror has a deemed short interest in the 8,926,422 Shares to which the Offeror Share Options relate. The Offeror has also granted Offeror RSUs that, upon full vesting, will entitle the holders to receive 12,576,073 Shares in aggregate from the Offeror. As such, the Offeror has a deemed short interest in the 12,576,073 Shares to which the Offeror RSUs relate.
2. The 30,990,000 Shares that had previously been lent out by Alibaba Group Treasury Limited (as disclosed in the Announcement) have now been returned to Alibaba Group Treasury Limited and are now registered in the name of Alibaba Group Treasury Limited.
3. Direct Solutions Management Limited, a wholly-owned subsidiary of the Offeror, has issued redeemable preference shares to a small group of individuals that entitle the holders, on exercise of their redemption rights in full, to receive 5,085,151 Shares in aggregate from Direct Solutions Management Limited. On the basis of undertakings received by the Offeror and Direct Solutions Management Limited, none of the redemption rights under the preference shares can be exercised until after the Scheme has become effective or lapsed. Shares held by Direct Solutions Management Limited shall not form part of the Scheme Shares.
4. Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Credit Suisse Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.
5. Deutsche Bank and persons controlling, controlled by or under the same control as Deutsche Bank, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Deutsche Bank Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Codes.
6. HSBC and persons controlling, controlled by or under the same control as HSBC, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**HSBC Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.

As at the Latest Practicable Date, 8,131,866 Shares (out of which 206,615 Shares were proprietarily held and 7,925,251 Shares were under discretionary management authority) were proprietarily held by and/or under the discretionary management authority of the HSBC Group. The 8,131,866 Shares do not include 2,394,459 Shares held by HSBC Trustee (Hong Kong) Limited as the trustee in relation to the Share Award Scheme.

7. HSBC Trustee (Hong Kong) Limited is the trustee in relation to the Share Award Scheme and currently holds 2,394,459 Shares. The Company does not issue any Shares to satisfy the Share Awards but provides sufficient funds by way of gift to enable HSBC Trustee (Hong Kong) Limited to purchase such number of Shares on the market as required to satisfy Share Awards that vest. Under the terms of the trust deed, HSBC Trustee (Hong Kong) Limited is prohibited from exercising any voting rights in respect of any Shares held under the trust.

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The table below sets out the shareholding structure of the Company before completion of the Proposal (assuming that all Share Options and Offeror Share Options are exercised in full and all RSUs, Offeror RSUs and Share Awards have vested before the Record Date and that there is no other change in shareholding) and immediately after completion of the Proposal:

Shareholders	Assuming that all Share Incentives are fully exercised/vested before the Record Date and no other change in shareholding before completion of the Proposal		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Offeror (Note 1)	2,583,072,409	50.93	4,033,425,177	79.53
Offeror Concert Parties				
<i>Shares held not subject to the Scheme:</i>				
Alibaba Group Treasury Limited (Note 2)	1,000,000,000	19.72	1,000,000,000	19.72
Direct Solutions Management Limited (Note 3)	38,254,429	0.75	38,254,429	0.75
<i>Sub-total</i>	1,038,254,429	20.47	1,038,254,429	20.47
<i>Shares held subject to the Scheme:</i>				
Mr. MA Yun, Jack	15,369,053	0.30	–	–
Mr. TSAI Chung, Joseph Rothschild	3,120,000	0.06	–	–
Credit Suisse Group (Note 4)	–	–	–	–
Deutsche Bank Group (Note 5)	2,254,500	0.04	–	–
HSBC Group (Note 6)	31,165	0.00	–	–
HSBC Trustee (Hong Kong) Limited (Note 7)	8,131,866	0.16	–	–
Softbank	796,500	0.02	–	–
Yahoo!	–	–	–	–
<i>Sub-total</i>	–	–	–	–
Aggregate number of Shares held by the Offeror Concert Parties	1,067,957,513	21.06	1,038,254,429	20.47
Aggregate number of Shares held by the Offeror and the Offeror Concert Parties	3,651,029,922	71.99	5,071,679,606	100.00
Independent Shareholders	1,420,649,684	28.01	–	–
Total	5,071,679,606	100.00	5,071,679,606	100.00
Total number of Scheme Shares	1,450,352,768	28.60		

Notes:

- The Offeror has granted Offeror Share Options that, upon full vesting and exercise, will entitle the holders to receive 8,926,422 Shares in aggregate from the Offeror. As such, the Offeror has a deemed short interest in the 8,926,422 Shares to which the Offeror Share Options relate. The Offeror has also granted Offeror RSUs that, upon full vesting, will entitle the holders to receive 12,576,073 Shares in aggregate from the Offeror. As such, the Offeror has a deemed short interest in the 12,576,073 Shares to which the Offeror RSUs relate.

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2. The 30,990,000 Shares that had previously been lent out by Alibaba Group Treasury Limited (as disclosed in the Announcement) have now been returned to Alibaba Group Treasury Limited and are now registered in the name of Alibaba Group Treasury Limited.
3. Direct Solutions Management Limited, a wholly-owned subsidiary of the Offeror, has issued redeemable preference shares to a small group of individuals that entitle the holders, on exercise of their redemption rights in full, to receive 5,085,151 Shares in aggregate from Direct Solutions Management Limited. On the basis of undertakings received by the Offeror and Direct Solutions Management Limited, none of the redemption rights under the preference shares can be exercised until after the Scheme has become effective or lapsed. Shares held by Direct Solutions Management Limited shall not form part of the Scheme Shares.
4. Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Credit Suisse Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.
5. Deutsche Bank and persons controlling, controlled by or under the same control as Deutsche Bank, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Deutsche Bank Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Codes.
6. HSBC and persons controlling, controlled by or under the same control as HSBC, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**HSBC Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.

As at the Latest Practicable Date, 8,131,866 Shares (out of which 206,615 Shares were proprietarily held and 7,925,251 Shares were under discretionary management authority) were proprietarily held by and/or under the discretionary management authority of the HSBC Group. The 8,131,866 Shares do not include 2,394,459 Shares held by HSBC Trustee (Hong Kong) Limited as the trustee in relation to the Share Award Scheme.

7. HSBC Trustee (Hong Kong) Limited is the trustee in relation to the Share Award Scheme and currently holds 2,394,459 Shares of which 1,597,959 Shares represent unvested Share Awards granted to directors of the Group. On the assumption that the Share Awards have fully vested, the 1,597,959 Shares would be transferred to the relevant Share Incentive Holder(s). The remaining 796,500 Shares represent surplus Shares purchased by the trustee in the market for the purpose of making new grants in the future and unvested Share Awards that have lapsed following termination of a grantee's employment with the Group. The Company does not issue any Shares to satisfy the Share Awards but provides sufficient funds by way of gift to enable HSBC Trustee (Hong Kong) Limited to purchase such number of Shares on the market as required to satisfy Share Awards that vest. Under the terms of the trust deed, HSBC Trustee (Hong Kong) Limited is prohibited from exercising any voting rights in respect of any Shares held under the trust.

Following the Effective Date and the withdrawal of listing of the Shares on the Hong Kong Stock Exchange, the Company will be wholly-owned by the Offeror Group.

As at the Latest Practicable Date, the relevant securities of the Company in issue comprised 5,005,071,959 Shares of which the Scheme Shares (being 1,362,242,626 Shares) represent approximately 27.22%.

As at the Latest Practicable Date, the Offeror held 2,604,574,904 Shares representing approximately 52.04% of the issued share capital of the Company. Such Shares will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting. As at the Latest Practicable Date, the Offeror Concert Parties held in aggregate 1,069,555,472 Shares, representing approximately 21.37% of the issued share capital of the Company. Of these Offeror Concert Parties, the Shares held by Alibaba Group Treasury Limited and Direct Solutions Management Limited, which are wholly-owned subsidiaries of the Offeror, will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting. The Shares held by the remaining Offeror Concert Parties will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective, but such Offeror Concert Parties will abstain from voting on the Scheme at the Court Meeting.

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Save for the Share Options, RSUs and Share Awards, there are no outstanding options, warrants, derivatives or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares; and save for the Offeror Share Options and Offeror RSUs and the redeemable preference shares issued by Direct Solutions Management Limited, there are no outstanding derivatives in respect of the Shares that have been entered into by the Offeror or the Offeror Concert Parties as at the Latest Practicable Date.

8. TOTAL CONSIDERATION

On the assumption that, before the Record Date, no Share Options and Offeror Share Options are exercised and no RSUs, Offeror RSUs and Share Awards have vested, the amount of cash required to implement the Proposal (before taking into account the Share Incentives Offer to be made) would be approximately HK\$18,390 million. On the assumption that all Share Options and Offeror Share Options are exercised before the Latest Options Exercise Date and all RSUs, Offeror RSUs and Share Awards vest before the Latest Incentives Vesting Date, resulting in Shares being allotted/transferred prior to the Record Date, the amount of cash required for the Proposal (after taking into account the Share Incentives Offer to be made) would be approximately HK\$19,580 million.

The Offeror intends to finance the Proposal and the Share Incentives Offer from part of a US\$3,000,000,000 loan facility provided by a consortium of banks (the principal lenders and lead arrangers being Australia and New Zealand Banking Group Limited, Credit Suisse AG, Singapore Branch, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited and Mizuho Corporate Bank, Ltd., Hong Kong Branch), and from the internal cash resources of the Offeror. In accordance with the loan documentation, each of the above-mentioned banks have the right to syndicate all or part of their loan commitments, which they may or may not choose to do. Under the terms of the loan documentation, following the Scheme becoming effective, all of the Shares held by the Offeror and its wholly-owned subsidiaries will be pledged in favour of the lenders as security for the obligations of the borrower under the loan documentation.

As at the Latest Practicable Date, Rothschild, Credit Suisse and Deutsche Bank, being the joint financial advisors to the Offeror, are satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal and the Share Incentives Offer in accordance with their terms.

9. CANCELLATION PRICE

The Cancellation Price of HK\$13.50 per Scheme Share represents:

- a premium of approximately 45.9% over the closing price of HK\$9.25 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- a premium of approximately 55.3% over the average closing price of approximately HK\$8.70 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 58.8% over the average closing price of approximately HK\$8.50 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 60.4% over the average closing price of approximately HK\$8.42 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 61.3% over the average closing price of approximately HK\$8.37 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 1.5% over the closing price of HK\$13.30 per Share as at the Latest Practicable Date; and
- a price to earnings ratio of 33.2 times the diluted earnings per Share of the Company for the year ended December 31, 2011.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Hong Kong Stock Exchange, the trading multiples of comparable trading companies and with reference to other privatization transactions in Hong Kong in recent years.

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10. BACKGROUND TO, REASONS FOR AND BENEFITS OF THE PROPOSAL

Background

The Company's strategy since its initial public offering has been primarily to focus on driving customer and revenue growth, which has contributed to a compound annual growth rate in total revenue of approximately 36.0% from 2008 to 2010.

Following a strategic review, the Company shifted its focus in early 2011 from aggressive growth in paying members (i.e., sellers on the platform) to longer term value creation through improving the quality of its platforms to buyers, with a view to increase the number and activity levels of buyers, who are essential to the success of the e-commerce platforms but do not pay any fees for the use of the platforms.

These initiatives contributed to the Company experiencing negative growth in its paying members of 5.4% year-on-year in 2011, down from growth of 31.6% year-on-year in 2010. In addition, the Company's total revenue growth in 2011 decreased to approximately 15.5%, down from 43.4% in 2010.

In addition, the Company has been investing in several new business initiatives, including AliExpress and the 1688.com transactional platform, which have not yet contributed materially to revenues.

The Company is confident that its strategic shift will result in favorable long-term prospects. However, the new strategy may adversely affect the Company's revenue growth and limit earnings visibility for the foreseeable future.

Reasons for and benefits of the Proposal

To facilitate a shift in strategy towards longer term growth

The implementation of the Company's strategic plan, and its effect on the Company's near-term growth profile, may continue to lead to a difference between investors' view of the Company's share price and the Offeror's view of the Company's potential long-term value. Following implementation of the Proposal, the Offeror and the Company will be able to make strategic decisions focused on long-term benefits, free from the pressure of market expectations, earnings visibility and share price fluctuations associated with being a publicly listed company.

A depressed Share price may continue to adversely impact the Company's business, reputation with customers and employee morale

The Shares have closed below the Cancellation Price of HK\$13.50, which was also the initial public offering price of the Shares, since May 19, 2011.

As an e-commerce company providing a trading platform, the reputation of the Company as a leading, trustworthy, and efficient market place is important. The Offeror considers that the depressed price of the Shares has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal would eliminate this adverse impact.

Change in investment and risk profile of the Shares

The above-mentioned shift to a new business strategy may continue to change the investment profile of the Shares for Shareholders and potential investors. The Proposal is intended to provide Scheme Shareholders with an opportunity to realize their investment in the Company for cash at an attractive premium, instead of assuming a different risk profile brought about by the new business strategy.

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A good opportunity for Scheme Shareholders to realize their investment for a significant premium without suffering any illiquidity discount

The Shares have suffered from low trading liquidity for a significant period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 9.14 million Shares per day, representing only approximately 0.18% of the issued Shares as at the Last Trading Day. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares.

The Proposal provides Scheme Shareholders with an attractive opportunity to realize their investment in the Company in cash at a significant premium over the current market price of the Shares without having to suffer any illiquidity discount.

11. SHARE INCENTIVES OFFER

The Offeror will make (or procure to be made on its behalf) the offer as detailed below to the Share Incentive Holders in accordance with Rule 13 of the Hong Kong Takeovers Code. The Share Incentives Offer is conditional upon the Scheme becoming effective and binding. Further information on the Share Incentives Offer is set out in the form of Share Incentives Offer Letter which is set out in Appendix VI to this Scheme Document.

In the event that any Share Incentive vests: (i) the holder of any Shares registered in the name of the relevant Share Incentive Holder prior to the Meeting Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of such Shares; and (ii) any Shares which are registered in the name of the relevant Share Incentive Holder (or in the name of its nominee) prior to the Record Date as a result of the vesting and, to the extent applicable, exercise of such Share Incentive, will be subject to and eligible to participate in the Scheme.

Any Share Incentive Holder whose Share Incentive remains unvested or, to the extent the Share Incentive has vested, in respect of which the underlying Shares have not been registered in the name of the relevant Share Incentive Holder, as at the Meeting Record Date and/or the Record Date as the case may be, will not be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of such Share Incentive, and will not be eligible to participate in the Scheme but still be eligible to participate in the Share Incentives Offer in respect of such Share Incentive, respectively.

The Share Incentives Offer will be made to each Share Incentive Holder in respect of each of their unvested Share Incentives held as at the Share Incentives Record Date. In the event that any Share Incentive vests before the Share Incentives Record Date but the Shares underlying such Share Incentive are not registered in the name of the relevant Share Incentive Holder (or in the name of its nominee) prior to the Record Date, the Offeror will, as part of the Share Incentives Offer, offer a cash payment of HK\$13.50 for each Share underlying such Share Incentive in return for the acquisition of all rights and obligations under such Share Incentive and/or the immediate cancellation of such Share Incentive.

Share Options

The Company adopted the Share Option Scheme on October 12, 2007 pursuant to which certain of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors), its employees and any of its advisors or consultants are eligible for the grant of Share Options. As at the Latest Practicable Date, there were 27,177,725 Share Options, which when exercised, will entitle their holders to subscribe for 27,177,725 Shares. The relevant exercise price applicable to each Share Option ranges from HK\$5.54 to HK\$20.60.

As part of the Share Incentives Offer, the Offeror will offer the Share Option Offer Price for each Share Option in return for the acquisition of all rights and obligations under the Share Options and the immediate cancellation of the Share Options. The cash will be paid on a staggered basis, in accordance with the respective vesting schedules under, and subject to the terms of, the Share Options.

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The Share Incentives Offer Letter to holders of Share Options setting out the terms and conditions of the Share Incentives Offer is being dispatched separately to holders of Share Options and is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to this Scheme Document.

The Share Incentives Offer is conditional upon the Scheme becoming effective and binding.

Each holder of Share Options as at the Share Incentives Record Date who accepts the Share Incentives Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive the Share Option Offer Price as set out in the respective Share Incentives Offer Letters that are sent to each holder of Share Options individually. The Share Option Offer Price will represent the “see-through” price of that Share Option, being the amount by which the Cancellation Price exceeds the relevant exercise price of that Share Option. If the exercise price of a holder’s Share Option exceeds HK\$13.50, the “see-through” price is zero and a cash offer of a nominal amount (of HK\$0.05 per 500 Share Options or part thereof) will be made.

All payments in respect of the Share Option Offer Price will be made in Hong Kong dollars. However, with regard to Share Incentive Holders based in Mainland China, subject to SAFE approval, payment of an equivalent amount will be made in Renminbi at the then prevailing exchange rate with reference to the mid point exchange rate published by the People’s Bank of China at the time of payment. If the payment is made in Renminbi, the same exchange rate will be applied to holders whose Share Incentives vest at the same time. Given that the applicable Share Incentives vest over a period of time and the exchange rate may vary from time to time, the applicable exchange rate may be different for holders whose Share Incentives vest at different times.

Settlement of the Share Option Offer Price to which the holders of Share Options are entitled under the Share Incentives Offer will be implemented in full in accordance with the terms of the Share Incentives Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such holder of Share Options.

Below is a table setting out all the exercise prices and the corresponding “see-through” prices for all of the Share Options granted under the Share Option Scheme:

Exercise price (HK\$)	“See-through” price (HK\$)	Total outstanding options (vested and unvested)	Exercise period (Note 1) (MM/DD/YYYY)
5.54	7.96	2,012,300	12/17/2008 - 12/17/2014
5.71	7.79	1,606,525	01/23/2010 - 01/23/2015
7.25	6.25	8,390,900	04/01/2010 - 04/01/2015
12.74	0.76	771,500	02/13/2010 - 06/20/2014
14.22	0.00 (Note2)	500,000	12/08/2012 - 04/11/2017
14.26	0.00 (Note2)	2,000,000	02/21/2013 - 03/18/2017
16.12	0.00 (Note2)	6,640,500	01/31/2011 - 03/31/2016
17.62	0.00 (Note2)	1,335,000	08/21/2011 - 12/28/2015
19.86	0.00 (Note2)	2,621,000	02/01/2009 - 02/01/2014
20.60	0.00 (Note2)	1,300,000	03/20/2011 - 09/04/2015

Notes:

- (1) Vesting of options generally spreads over a period of 4 years, and exercise period is from the later of the first vesting date and grant date to the expiration date of the outstanding options.
- (2) If the exercise price of the Share Option exceeds HK\$13.50, the “see-through” price is zero and a cash offer of a nominal amount of HK\$0.05 per 500 Share Options (or part thereof) will be made.

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RSUs

The Company adopted the RSU Scheme on October 12, 2007. Pursuant to the RSU Scheme, RSUs may be granted by the Directors to employees, consultants or advisors to the Group, third party suppliers or providers of goods and/or services to any member of the 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, the Group, or any third party group or class of persons or entities. As at the Latest Practicable Date, there were 39,429,922 RSUs granted under the RSU Scheme, which will entitle their holders to receive 39,429,922 Shares.

Under the terms of the RSU Scheme, a holder of a RSU does not need to pay any exercise price to acquire the Shares underlying the RSU and automatically receives the relevant number of fully paid-up Shares when a RSU (or a portion thereof) vests.

As part of the Share Incentives Offer, the Offeror proposes to acquire all rights and obligations under the RSUs and to cancel them, in return for providing a cash payment of HK\$13.50 for each RSU held to holders of RSUs. The cash will be paid on a staggered basis, in accordance with the respective vesting schedules under, and subject to the terms of, the RSUs.

The Share Incentives Offer Letter to holders of RSUs setting out the terms and conditions of the Share Incentives Offer is being dispatched separately to holders of RSUs and is substantially in the form set out in Appendix VI to this Scheme Document. Each holder of RSUs who accepts the Share Incentives Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive a staggered cash payment as described above, in accordance with the vesting period under the terms of the RSU.

The Share Incentives Offer (and any cash payment pursuant to the Share Incentives Offer) is conditional upon the Proposal becoming effective and binding.

All payments in respect of the RSU Offer Price will be made in Hong Kong dollars. However, with regard to Share Incentive Holders based in Mainland China, subject to SAFE approval, payment of an equivalent amount will be made in Renminbi at the then prevailing exchange rate with reference to the mid point exchange rate published by the People's Bank of China at the time of payment. If the payment is made in Renminbi, the same exchange rate will be applied to holders whose Share Incentives vest at the same time. Given that the applicable Share Incentives vest over a period of time and the exchange rate may vary from time to time, the applicable exchange rate may be different for holders whose Share Incentives vest at different times.

Settlement of the RSU Offer Price to which the holders of RSUs are entitled under the Share Incentives Offer will be implemented in full in accordance with the terms of the Share Incentives Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled to against any such holder of RSUs.

RSUs vest over a period of time, typically over a period of four years in accordance with either of the following vesting schedule: (i) 25% of the RSUs vesting each year; or (ii) 50% of the RSUs vesting upon the second anniversary of the relevant grantee's employment or engagement and with 25% of the RSUs vesting each year thereafter.

Share Awards

The Company adopted the Share Award Scheme on August 10, 2010. Pursuant to the Share Award Scheme, Share Awards may be granted to Directors and directors of the Company's subsidiaries. As at the Latest Practicable Date, 1,597,959 Share Awards have been granted, which when vested, will entitle their holders to receive 1,597,959 Shares.

Under the terms of the Share Award Scheme a holder of Share Awards does not need to pay any exercise price to acquire the Shares underlying the Share Award and automatically receives the relevant number of fully paid-up Shares when a Share Award (or a portion thereof) vests.

As part of the Share Incentives Offer, the Offeror proposes to acquire all rights and obligations under the Share Awards and cancel them, in return for providing a cash payment of HK\$13.50 for each Share Award held to holders of Share Awards. The cash will be paid on a staggered basis in accordance with the vesting schedules under the terms and conditions of each of the Share Awards.

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The Share Incentives Offer Letter to holders of Share Awards setting out the terms and conditions of the Share Incentives Offer is being dispatched separately to holders of Share Awards and is substantially in the form set out in Appendix VI to this Scheme Document. Each holder of Share Awards who accepts the Share Incentives Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive a staggered cash payment as described above, in accordance with the vesting period under the terms of the Share Award.

The Share Incentives Offer (and any cash payment pursuant to the Share Incentives Offer) is conditional upon the Proposal becoming effective and binding.

All payments in respect of the Share Award Offer Price will be made in Hong Kong dollars. However, with regard to Share Incentive Holders based in Mainland China, subject to SAFE approval, payment of an equivalent amount will be made in Renminbi at the then prevailing exchange rate with reference to the mid point exchange rate published by the People's Bank of China at the time of payment. If the payment is made in Renminbi, the same exchange rate will be applied to holders whose Share Incentives vest at the same time. Given that the applicable Share Incentives vest over a period of time and the exchange rate may vary from time to time, the applicable exchange rate may be different for holders whose Share Incentives vest at different times.

Settlement of the Share Award Offer Price to which the holders of Share Awards are entitled under the Share Incentives Offer will be implemented in full in accordance with the terms of the Share Incentives Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled to against any such holder of Share Awards.

Vesting under the Share Award Scheme is contingent upon the fulfillment of certain terms and conditions including, among other things, the expiry of the applicable vesting period. The vesting period for Share Awards, other than for special grants, is typically over a period of four years in accordance with either of the following vesting schedules: (i) 25% of the Share Awards vesting each year; or (ii) 50% of the Share Awards vesting upon the second anniversary of the relevant grantee's employment or engagement and with 25% of the Share Awards vesting each year thereafter.

Offeror Share Options

In addition to the Share Options issued by the Company, the Offeror has granted Offeror Share Options, which entitle the holder to receive Shares held by the Offeror upon exercise, to employees of the Offeror Group and directors, employees, advisors and/or consultants of the Group.

As at the Latest Practicable Date, there were 8,926,422 Offeror Share Options granted by the Offeror, each relating to one Share. The relevant exercise price applicable to each Offeror Share Option ranges from HK\$0.13 to HK\$20.60.

As part of the Share Incentives Offer, the Offeror will offer the Offeror Share Option Offer Price for each Offeror Share Option in return for the cancellation of the Offeror Share Options. The cash will be paid on a staggered basis, in accordance with the respective vesting schedules under, and subject to the terms of, the Offeror Share Options.

The Share Incentives Offer Letter to holders of Offeror Share Options setting out the terms and conditions of the Share Incentives Offer is being dispatched separately to holders of Offeror Share Options and is substantially in the form set out in Appendix VI – Form of Share Incentives Offer Letter to this Scheme Document.

The Share Incentives Offer is conditional upon the Scheme becoming effective and binding.

Each holder of Offeror Share Options as at the Record Date who accepts the Share Incentives Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive an Offeror Share Option Offer Price as set out in the respective Share Incentives Offer Letter that is sent to each holder of Offeror Share Options individually. The Offeror Share Option Offer Price will represent the "see-through" price of that Offeror Share Option, being the amount by which the Cancellation Price exceeds the relevant exercise price of that Offeror Share Option. If the exercise price of a holder's Offeror Share Option exceeds HK\$13.50, the "see-through" price is zero and a cash offer of a nominal amount (of HK\$0.05 per 500 Offeror Share Options or part thereof) will be made.

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All payments in respect of the Offeror Share Option Offer Price will be made in Hong Kong dollars. However, with regard to Share Incentive Holders based in Mainland China, subject to SAFE approval, payment of an equivalent amount will be made in Renminbi at the then prevailing exchange rate with reference to the mid point exchange rate published by the People's Bank of China at the time of payment. If the payment is made in Renminbi, the same exchange rate will be applied to holders whose Share Incentives vest at the same time. Given that the applicable Share Incentives vest over a period of time and the exchange rate may vary from time to time, the applicable exchange rate may be different for holders whose Share Incentives vest at different times.

Settlement of the Offeror Share Option Offer Price to which the holders of Offeror Share Options are entitled under the Share Incentives Offer will be implemented in full in accordance with the terms of the Share Incentives Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled to against any such holder of Offeror Share Options.

Below is a table setting out all the exercise prices and the corresponding “see-through” prices for all of the Offeror Share Options granted by the Offeror:

Exercise price (HK\$)	“See-through” price (HK\$)	Total outstanding options (vested and unvested)	Exercise period (Note 2) (MM/DD/YYYY)
0.130 (Note 1)	13.37	407,544	01/01/2004 - 01/01/2013
0.325 (Note 1)	13.18	136,799	08/01/2007 - 11/15/2014
3.250 (Note 1)	10.25	145,198	08/06/2007 - 11/22/2012
4.225 (Note 1)	9.28	1,214,350	11/02/2006 - 03/27/2013
4.810 (Note 1)	8.69	1,566,306	08/01/2007 - 03/27/2013
5.200 (Note 1)	8.30	126,000	04/02/2008 - 06/20/2013
5.540	7.96	67,000	04/07/2010 - 04/07/2016
5.710	7.79	364,425	04/07/2010 - 04/07/2016
5.772 (Note 1)	7.73	49,000	06/01/2008 - 07/10/2013
6.162 (Note 1)	7.34	67,500	04/06/2008 - 08/07/2013
6.422 (Note 1)	7.08	141,000	08/03/2008 - 09/13/2013
6.800 (Note 1)	6.70	2,359,500	09/24/2008 - 09/24/2013
6.890	6.61	126,300	09/07/2008 - 10/04/2013
7.250	6.25	269,000	03/06/2011 - 04/07/2016
9.490 (Note 1)	4.01	1,000	10/12/2008 - 10/17/2013
10.556 (Note 1)	2.94	127,500	10/18/2008 - 11/05/2013
12.740	0.76	10,000	04/07/2010 - 04/07/2016
16.120	0.00 (Note 3)	700,000	01/31/2011 - 03/31/2016
17.620	0.00 (Note 3)	130,000	09/01/2011 - 06/29/2016
19.860	0.00 (Note 3)	878,000	04/07/2010 - 04/07/2016
20.600	0.00 (Note 3)	40,000	03/20/2011 - 04/07/2016

Notes:

- (1) These represent share options initially granted by Offeror over shares in the Offeror, which were converted into options over Shares of the Company prior to the initial public offering of the Company on November 6, 2007 under an Employee Equity Exchange program.
- (2) Vesting of options generally spreads over a period of 4 years, and exercise period is from the later of the first vesting date and grant date to the expiration date of the outstanding options.
- (3) If the exercise price of the Offeror Share Option exceeds HK\$13.50, the “see-through” price is zero and a cash offer of a nominal amount of HK\$0.05 per 500 Offeror Share Options (or part thereof) will be made.

Offeror RSUs

In addition to the RSUs issued by the Company, the Offeror has granted Offeror RSUs, which entitle the holder to receive Shares held by the Offeror upon vesting, to employees of the Offeror Group and directors, employees, advisors and/or consultants of the Group. As at the Latest Practicable Date, there were 12,576,073 Offeror RSUs granted by the Offeror, each relating to one Share.

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Under the terms of grant of the Offeror RSUs, a holder of an Offeror RSU does not need to pay any exercise price to acquire the Shares underlying the Offeror RSU and automatically receives the relevant number of fully paid-up Shares when an Offeror RSU (or a portion thereof) vests.

As part of the Share Incentives Offer, the Offeror proposes to cancel the Offeror RSUs and provide a cash payment of HK\$13.50 for each Offeror RSU held to holders of Offeror RSUs. The cash will be paid on a staggered basis, in accordance with the respective vesting schedules under, and subject to the terms of the Offeror RSUs.

The Share Incentives Offer Letter to holders of Offeror RSUs setting out the terms and conditions of the Share Incentives Offer is being dispatched separately to holders of Offeror RSUs and is substantially in the form set out in Appendix VI to this Scheme Document. Each holder of Offeror RSUs who accepts the Share Incentives Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive a staggered cash payment as described above, in accordance with the vesting period under the terms of the Offeror RSU.

The Share Incentives Offer (and any cash payment pursuant to the Share Incentives Offer) is conditional upon the Proposal becoming effective and binding.

All payments in respect of the Offeror RSU Offer Price will be made in Hong Kong dollars. However, with regard to Share Incentive Holders based in Mainland China, subject to SAFE approval, payment of an equivalent amount will be made in Renminbi at the then prevailing exchange rate with reference to the mid point exchange rate published by the People's Bank of China at the time of payment. If the payment is made in Renminbi, the same exchange rate will be applied to holders whose Share Incentives vest at the same time. Given that the applicable Share Incentives vest over a period of time and the exchange rate may vary from time to time, the applicable exchange rate may be different for holders whose Share Incentives vest at different times.

Settlement of the Offeror RSU Offer Price to which the holders of Offeror RSUs are entitled under the Share Incentives Offer will be implemented in full in accordance with the terms of the Share Incentives Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled to against any such holder of Offeror RSUs.

Offeror RSUs vest over a period of time, typically over a period of four years in accordance with either of the following vesting schedules: (i) 25% of the Offeror RSUs vesting each year; or (ii) 50% of the Offeror RSUs vesting upon the second anniversary of the relevant grantee's employment or engagement and with 25% of the Offeror RSUs vesting each year thereafter.

12. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose Shares have been listed on the Main Board of the Hong Kong Stock Exchange since November 6, 2007 with the stock code 1688. The Company is a global leader in e-commerce for small businesses and the flagship company of the Offeror Group. Founded in 1999 in Hangzhou, China, the Company makes it easy for millions of buyers and suppliers around the world to do business online 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. The Company has offices in more than 70 cities across Greater China, India, Japan, Korea, Europe and the United States.

13. INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the Cayman Islands with limited liability, and the parent company of the Company. The Offeror Group is a family of internet-based businesses that includes online marketplaces that facilitate business-to-business international and domestic China trade, retail platforms, shopping search engine and data-centric cloud computing services. The Offeror Group was founded in 1999 by Mr. Jack Ma. The privately held Offeror Group reaches internet users in more than 240 countries and regions. The Offeror Group, including its affiliated entities, employs more than 25,000 people in over 70 cities in Greater China, India, Japan, Korea, Europe and the United States.

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14. INTENTIONS OF THE OFFEROR

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Hong Kong Stock Exchange for the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange to take effect immediately following the Effective Date of the Scheme. The Scheme Shareholders will be notified by way of announcement of, among other things, the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange will become effective. An indicative, or expected, timetable of the Scheme is included in Part III of this Scheme Document.

The Offeror has no plans to make any major changes to the business of the Group or to redeploy the fixed assets of the Group other than through the continued implementation of the Company's strategic transition (as described in the section headed "10. Background to, reasons for and benefit of the Proposal" above) and other previously announced business plans or as may be necessary or appropriate in order to optimize the operations of the Group in reaction to the rapidly changing business environment in which the Group operates. The Offeror and the Company also have no intention of making any significant changes to employees of the Group as a result of the implementation of the Proposal.

Following the privatization, the Offeror intends for the Group to continue to operate as a separate business unit within the Offeror Group. This is because the Group's website platforms are targeted at small and medium-sized enterprises that trade with each other, whereas the Offeror Group's other website marketplaces are targeted at retail consumers.

The Offeror does not, and notes that the Company does not, have any specific timetable for the spin-off of HiChina.

The Board is aware of the Offeror's intentions as set out in the section and the Independent Board Committee has taken these into account in making its recommendation as set out in Part V of this Scheme Document.

15. POSSIBLE TRANSACTION INVOLVING THE OFFEROR

The Offeror has been engaged in discussions with Yahoo! regarding the possibility of restructuring Yahoo!'s holdings in the Offeror. These discussions may or may not result in an agreement and accordingly, the Possible Yahoo! Transaction may or may not proceed.

The Scheme will not be conditional on completion of the Possible Yahoo! Transaction nor will the Offeror enter into any agreement relating to the Possible Yahoo! Transaction that is conditional on the Scheme becoming effective. A further announcement will be made by the Offeror and the Company if and when appropriate.

16. WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Hong Kong Stock Exchange for the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange to take effect immediately following the Effective Date.

17. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Hong Kong Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

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18. COSTS OF THE SCHEME

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Independent Financial Advisor as set out in Part VI of this Scheme Document, Rule 2.3 of the Hong Kong Takeovers Code is not applicable, and the Offeror and the Company have agreed that all costs, charges and expenses of the advisors and counsels appointed by Offeree, including the Independent Financial Advisor, will be borne by the Offeree, all costs, charges and expenses of the advisors and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be shared between the Offeror and the Offeree equally.

19. GENERAL

The Offeror has appointed Rothschild, Credit Suisse and Deutsche Bank as its joint financial advisors and the Company has appointed HSBC as its financial advisor, in connection with the Proposal.

The Board comprises 12 directors, three of whom (namely, Mr. Jonathan Lu, Ms. Maggie Wu and Mr. Ye Peng) are executive Directors, five of whom (namely, Mr. Jack Ma, Mr. Joseph Tsai, Ms. Rose Tsou, Mr. Satoshi Okada and Ms. Sabrina Peng) are non-executive Directors and the remaining four of whom (namely, Mr. Niu Gen Sheng, Mr. Walter Kwauk, Mr. Andrew Tsuei and Mr. Savio Kwan) are independent non-executive Directors.

As Mr. Jack Ma and Mr. Joseph Tsai are non-executive Directors and also directors of the Offeror, and Ms. Rose Tsou and Mr. Satoshi Okada are non-executive Directors nominated by Offeror Concert Parties (Yahoo! and Softbank, respectively) for appointment to the Board, all of the non-executive Directors (other than the independent non-executive Directors, Mr. Andrew Tsuei, Mr. Savio Kwan and Ms. Sabrina Peng as explained below) are regarded as being interested in the Proposal and therefore have not participated in any vote of the Board in relation to the Proposal and will not form part of the Independent Board Committee. As at the Latest Practicable Date, Mr. Andrew Tsuei held options to subscribe for 728,000 shares in the Offeror and Mr. Savio Kwan held 9,800,000 shares in the Offeror, representing approximately 0.03% and 0.4% of the issued share capital of the Offeror, respectively. In light of these interests in the Offeror, Mr. Andrew Tsuei and Mr. Savio Kwan will not form part of the Independent Board Committee. Ms. Sabrina Peng, who was re-designated as a non-executive Director on March 12, 2012, was an executive Director at the time when the Independent Board Committee was formed. Therefore she will also not form part of the Independent Board Committee either.

An Independent Board Committee, which comprises Mr. Niu Gen Sheng and Mr. Walter Kwauk, both of whom are independent non-executive Directors, has been established by the Board to make a recommendation to the Independent Shareholders and the Share Incentive Holders in connection with the Proposal and the Share Incentives Offer. In addition, an independent financial advisor, Somerley, approved by the Independent Board Committee, has been appointed to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Share Incentives Offer.

The Executive Directors and several non-executive Directors who do not have an interest in the Proposal, including Mr. Andrew Tsuei, Mr. Savio Kwan and Ms. Sabrina Peng (who was re-designated from executive Director to non-executive Director on March 12, 2012), all believe that the terms of the Proposal are fair and reasonable and in the interests of the Shareholders as a whole.

Save for the Proposal and the Scheme itself, there are no arrangements (whether by way of option, indemnity or otherwise) relating to relevant securities which may be an inducement to deal or refrain from dealing as described in Note 8 to Rule 22 of the Hong Kong Takeovers Code between the Offeror or any of the Offeror Concert Parties and any other person in relation to shares of the Offeror or the Shares which might be material to the Proposal.

There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

The Offeror and the Offeror Concert Parties have not borrowed or lent any Shares or any other securities of the Company as at the Latest Practicable Date.

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No irrevocable commitment to vote for or against the Scheme has been received by the Offeror or the Offeror Concert Parties, as at the Latest Practicable Date.

Associates of the Company or the Offeror (as defined in the Hong Kong Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company or the Offeror) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Hong Kong Takeovers Code.

20. SHARE CERTIFICATES, DEALINGS AND LISTINGS

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Hong Kong Stock Exchange for the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange to take effect immediately following the Effective Date. The Scheme Shareholders will be notified by way of an announcement of the exact dates of the Record Date, the Effective Date and the date of the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange.

The Proposal will lapse if it does not become effective on or before June 20, 2012 (or such later date as the Offeror and the Company may agree and the Cayman Islands Grand Court may allow), and the Scheme Shareholders will be notified by way of announcement accordingly. If the Scheme is not approved or the Proposal otherwise lapses, trading of the Shares on the Hong Kong Stock Exchange will resume. In such circumstances, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Hong Kong Stock Exchange in connection with the Proposal.

21. REGISTRATION AND PAYMENT

Assuming that the Record Date falls on June 19, 2012, it is proposed that the register of members of the Company will be closed from June 14, 2012 (or such other date as Shareholders may be notified by announcement) onwards in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that their Shares are lodged with the Hong Kong branch share registrar of the Company for registration in their names or in the names of their nominees before the closure of the register of members of the Company. The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, which is located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Payment of Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Record Date. On the basis that the Scheme becomes effective on or about June 19, 2012, checks for payment of the Cancellation Price payable under the Scheme are expected to be dispatched on or before June 28, 2012. In the absence of any specific instructions to the contrary received in writing by Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, checks will be sent by posting the same in pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in such registers in respect of the joint holding. All such checks will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company, Rothschild, Credit Suisse, Deutsche Bank or any of them will be responsible for any loss or delay in dispatch.

On or after the day being six calendar months after the posting of such checks, the Offeror shall have the right to cancel or countermand payment of any such check which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

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The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments therefrom of the sums to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about June 19, 2012 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

Payment of Share Incentive Holders

If the Share Incentives Offer becomes effective, monies due to the Share Incentive Holders who accept the Share Incentives Offer in accordance with the terms of the Share Incentives Offer will be ring-fenced by the Offeror in a separate account and would be retained in the account pending payment to the Share Incentive Holders as and when the payments are due in accordance with the vesting schedules of the Share Incentives granted to each Share Incentive Holder.

Settlement of the consideration to which the Share Incentive Holders are entitled under the Share Incentives Offer will be implemented in full in accordance with the terms of the Share Incentives Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Share Incentive Holders.

22. OVERSEAS SHAREHOLDERS AND SHARE INCENTIVE HOLDERS

The making of the Proposal to Scheme Shareholders and the Share Incentives Offer to Share Incentive Holders, who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and such Share Incentive Holders are located. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and overseas Share Incentive Holders wishing to take any action in relation to the Proposal and the Share Incentives offer, respectively, to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due from such overseas Scheme Shareholder or overseas Share Incentive Holder in such jurisdiction.

23. TAXATION

Hong Kong stamp duty and tax consequences

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Share Incentives Offer and the payment of the cash consideration for the cancellation of the Share Incentives does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance the Share Incentives Offer or the payment of the cash consideration under the Share Incentives Offer.

The Scheme Shareholders and the Share Incentive Holders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of the Proposal or the Share Incentives Offer and, in particular, whether the receipt of the Cancellation Price or of cash consideration under the Share Incentives Offer would make such Scheme Shareholder or Share Incentive Holder liable

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to taxation in Hong Kong or in other jurisdictions. Payments of the Cancellation Price or of cash consideration under the Share Incentives Offer to residents of the PRC will be liable to taxation in the PRC and Offeror (on behalf of its subsidiaries, including the Company) will withhold the relevant amount from the payments for the purpose of making the tax payment on behalf of employees who are PRC residents.

24. SCHEME SHARES

As at the Latest Practicable Date, the Offeror held 2,604,574,904 Shares representing approximately 52.04% of the issued share capital of the Company. Such Shares will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective. As the Offeror is not a Scheme Shareholder, it will not vote on the Scheme at the Court Meeting. The Offeror will undertake to the Cayman Islands Grand Court that it will be bound by the Scheme, so as to ensure that it will be subject to the terms and Conditions of the Scheme.

As at the Latest Practicable Date, Rothschild did not hold any Shares.

As at the Latest Practicable Date, and so far as the Offeror is aware, members of the Credit Suisse Group (except those which are exempt principal traders and exempt fund managers, in each case recognized by the Executive as such for the purposes of the Hong Kong Takeovers Code) which are presumed to be acting in concert with the Offeror in relation to the Proposal under the Hong Kong Takeovers Code held a long position in 2,254,500 Shares (approximately 0.05%).

As at the Latest Practicable Date, and so far as the Offeror is aware, members of the Deutsche Bank group (except those which are exempt principal traders and exempt fund managers, in each case recognized by the Executive as such for the purposes of the Hong Kong Takeovers Code) which are presumed to be acting in concert with the Offeror in relation to the Proposal under the Hong Kong Takeovers Code held a long position in 31,165 Shares (approximately 0.00%).

As at the Latest Practicable Date, 8,131,866 Shares were proprietarily held by and/or under the discretionary management authority of the HSBC Group, and HSBC Trustee (Hong Kong) Limited held 2,394,459 Shares.

As at the Latest Practicable Date, Alibaba Group Treasury Limited was interested in an aggregate of 1,000,000,000 Shares; Direct Solutions Management Limited was interested in an aggregate of 38,254,429 Shares; Mr. Jack Ma was interested in an aggregate of 15,369,053 Shares; and Mr. Joseph Tsai was interested in an aggregate of 3,120,000 Shares; they are all presumed to be parties acting in concert with the Offeror in relation to the Proposal under the Hong Kong Takeovers Code. By reason of their relationships with the Offeror, Yahoo!, Softbank, HSBC Group, HSBC Trustee (Hong Kong) Limited, Credit Suisse Group and Deutsche Bank are also deemed to be Offeror Concert Parties. Of these Offeror Concert Parties, the Shares held by Alibaba Group Treasury Limited and Direct Solutions Management Limited, which are wholly-owned subsidiaries of the Offeror, will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting. The Shares held by the remaining Offeror Concert Parties will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective, but such Offeror Concert Parties will abstain from voting on the Scheme at the Court Meeting. For the avoidance of doubt, Scheme Shareholders who may vote at the Court Meeting include any member of the HSBC Group which is a Registered Owner of Scheme Shares held on behalf of Beneficial Owners where the Beneficial Owners (i) control the voting rights attaching to these shares; (ii) give instructions as to how such shares are to be voted; and (iii) are not the Offeror or parties acting in concert with the Offeror.

All Shareholders will be entitled to attend the extraordinary general meeting of the Company and vote on the special resolution to, among other things, (i) approve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror. The Offeror has indicated that if the Scheme is approved at the Court Meeting, those Shares held by it will be voted in favor of the special resolution to be proposed at the extraordinary general meeting of the Company.

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25. COURT MEETING AND EXTRAORDINARY GENERAL MEETING

In accordance with the directions of the Cayman Islands Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Scheme Shareholders at the Court Meeting in the manner referred to in the section headed “3. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Statement of this Scheme Document.

For the avoidance of doubt, Scheme Shareholders who may vote at the Court Meeting include any member of the HSBC Group which is a Registered Owner of Scheme Shares held on behalf of Beneficial Owners where the Beneficial Owners (i) control the voting rights attaching to these shares; (ii) give instructions as to how such shares are to be voted; and (iii) are not the Offeror or parties acting in concert with the Offeror.

The Extraordinary General Meeting will be held after the Court Meeting for the purpose of the Shareholders to consider and if thought fit pass the special resolution to, among other things, (i) approve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) immediately restore the issued share capital of the Company to its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror.

Court Meeting

Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Independent Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their respective Scheme Shares in favor of the Scheme or against it. Alternatively, such Scheme Shareholders may vote some of their respective Scheme Shares in favor of the Scheme and any or all of the balance of their respective Scheme Shares against it (and vice versa).

The Scheme is conditional upon, among other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares present and voting in person or by proxy at the Court Meeting, provided that (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

In accordance with the Cayman Islands Companies Law, the “75% in value” requirement, as described above, will be met if the total value of Scheme Shares being voted in favor of the Scheme is at least 75% of the total value of the Scheme Shares voted at the Court Meeting. In accordance with the Cayman Islands Companies Law, the “majority in number” requirement, as described above, will be met if the number of Scheme Shareholders voting in favor of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted. For example, if such a Scheme Shareholder votes all of his/her/its Scheme Shares in favor of the Scheme, he/she/it will be counted as one Scheme Shareholder voting in favor of the Scheme for the purposes of the “majority in number” requirement, and the number of his/her/its Scheme Shares being so voted will count towards the “75% in value” requirement.

Extraordinary General Meeting

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Extraordinary General Meeting with respect to the special resolution to, among other things, (i) approve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) immediately restore the issued share capital of the Company its former amount by the issue of the same number of Shares as the number of Scheme Shares cancelled and extinguished, credited as fully paid, for issuance to the Offeror.

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The special resolution described in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders, present and voting in person or by proxy, at the Extraordinary General Meeting are in favor of the special resolution.

At the Extraordinary General Meeting, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favor of (or against) the special resolution. Alternatively, such Shareholder may vote some of their Shares in favor of the special resolution and any of the balance of their Shares against the special resolution (and vice versa).

Each of the Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited has indicated that if the Scheme is approved at the Court Meeting, those Shares held by each of them will be voted in favor of the special resolution to be proposed at the Extraordinary General Meeting of the Company.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 9:00 a.m. (Hong Kong time) on May 25, 2012 at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong.

Notice of the Extraordinary General Meeting is set out in Appendix V to this Scheme Document. The Extraordinary General Meeting will be held at 9:30 a.m. (Hong Kong time) (or immediately after the Court Meeting convened for the same day and place shall have been concluded or adjourned) on May 25, 2012 at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong.

Assuming that the conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before June 19, 2012 (Cayman Islands time). Further announcements will be made giving details of the results of the Court Meeting and the Extraordinary General Meeting and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for, among other things, the sanction of the Scheme by the Cayman Islands Grand Court, the Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Hong Kong Stock Exchange.

26. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Scheme Shareholders so that they can attend the Court Meeting in the capacity as members of the Company and to be represented by proxies to be appointed by them;
- (b) to enable the Company to properly classify members of the Company as Scheme Shareholders for the purposes of Section 86 of the Cayman Islands Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of checks to the most appropriate person when the Scheme becomes effective. All deliveries of checks required for making payment in respect of the Scheme Shares as aforesaid shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of the Company as at the Record Date.

No person shall be recognized by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting. Such instructions and/or arrangements should be given or made in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial

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Owner at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

27. POLL AT EXTRAORDINARY GENERAL MEETING

At the Extraordinary General Meeting, the special resolution will be put to the vote by way of poll as required under article 90 of the Company’s articles of association and Rule 13.39(4) of the Listing Rules.

28. SUMMARY OF ACTIONS TO BE TAKEN

Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Extraordinary General Meeting are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting, the Scheme Shareholders are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and Shareholders are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 9:00 a.m. (Hong Kong time) on May 23, 2012 or be handed to the Chairman of the Court Meeting at the Court Meeting, and the **white** form of proxy for use at the Extraordinary General Meeting should be lodged not later than 9:30 a.m. (Hong Kong time) on May 23, 2012. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting. The completion and return of a form of proxy for the Court Meeting or the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

In the case of any Beneficial Owner whose Shares are held by a Registered Owner (including a nominee, trustee, depository or authorized custodian or third party), such Beneficial Owner should contact the Registered Owner and provide instructions as to the manner in which Shares of the Beneficial Owner should be voted at the Court Meeting and/or Extraordinary General Meeting. Such instructions, subject to the express requirements of the Registered Owner, should be given in advance of the latest time for the lodgment of proxies in respect of the Court Meeting and Extraordinary General Meeting.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or Extraordinary General Meeting, you will still be bound by the outcome of such Court Meeting and/or Extraordinary General Meeting if, among other things, the resolutions are passed by the requisite majorities at the Court Meeting and the Extraordinary General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the Extraordinary General Meeting in person or by proxy.

PART VII – EXPLANATORY STATEMENT

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from May 11, 2012 to May 15, 2012 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4.30 p.m. (Hong Kong time) on May 10, 2012.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the Extraordinary General Meeting on May 25, 2012 and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for, among other things, the sanction of the Scheme by the Cayman Islands Grand Court, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Hong Kong Stock Exchange.

Petition Hearing in the Cayman Islands Grand Court

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GAVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTED AT THE COURT MEETING) SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR AT THE CAYMAN ISLANDS GRAND COURT HEARING EXPECTED TO BE ON JUNE 15, 2012 AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

Holder of Share Incentives

The Share Incentives Offer Letter is being sent to each Share Incentive Holder separately. Share Incentive Holders should refer to those letters, the form of which is set out in Appendix VI to this Scheme Document. Any Share Incentive Holder who wishes to accept the Share Incentives Offer must complete and return the duly completed and executed Form of Acceptance by 4.30 p.m. (Hong Kong time) on July 3, 2012 (or such later date and time as may be notified to the Share Incentive Holders by Rothschild, Credit Suisse, Deutsche Bank or the Offeror), delivered to the HR Department of the Offeror and marked "Alibaba.com Limited - Share Incentives Offer", care of Alibaba Group Services Limited at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. No acknowledgement of receipt of any Form of Acceptance or any other document will be given.

The Share Incentive Holders should also note the instructions and other terms and conditions of the Share Incentives Offer printed on the Share Incentives Offer Letter and the Form of Acceptance.

29. RECOMMENDATION

Your attention is drawn to the following:

- (i) the paragraph headed "Recommendation" in the "Letter from the Board" set out in Part IV of this Scheme Document;
- (ii) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (iii) the letter from Somerley set out in Part VI of this Scheme Document.

30. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, Rothschild, Credit Suisse, Deutsche Bank, HSBC or any of their respective affiliates has authorized anyone to provide you with information that is different from what is contained in this Scheme Document.

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

1. THREE-YEAR FINANCIAL SUMMARY

The following summary financial information for each of the three years ended December 31, 2009, 2010 and 2011 is extracted from the audited consolidated financial statements of Alibaba.com Limited and its subsidiaries (together, the “Group”) as set forth in the annual reports of Alibaba.com Limited for the three years ended December 31, 2009, 2010 and 2011. The auditor’s reports issued by PricewaterhouseCoopers in respect of the Group’s audited consolidated financial statements for each of the three years ended December 31, 2009, 2010 and 2011 did not contain any qualifications.

Consolidated Statement of Comprehensive Income

	Year ended December 31,		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Revenue			
International marketplace	2,406,804	3,238,243	3,752,616
China marketplace	1,414,897	1,893,899	2,217,401
Others	53,027	425,444	446,877
Total revenue	<u>3,874,728</u>	<u>5,557,586</u>	<u>6,416,894</u>
Cost of revenue	<u>(534,438)</u>	<u>(931,016)</u>	<u>(1,259,979)</u>
Gross profit	3,340,290	4,626,570	5,156,915
Sales and marketing expenses	(1,623,845)	(2,050,561)	(2,041,846)
Product development expenses	(384,333)	(580,173)	(784,667)
General and administrative expenses	(409,708)	(568,324)	(640,059)
Other operating income, net	<u>150,566</u>	<u>109,026</u>	<u>126,543</u>
Profit from operations	1,072,970	1,536,538	1,816,886
Finance income, net	140,941	176,398	319,118
Share of (losses)/profits of associated companies and jointly controlled entities, net of tax	<u>(37,492)</u>	<u>(6,479)</u>	<u>730</u>
Profit before income taxes	1,176,419	1,706,457	2,136,734
Income tax charges	<u>(163,393)</u>	<u>(236,445)</u>	<u>(427,896)</u>
Profit for the year	1,013,026	1,470,012	1,708,838
Other comprehensive income/(expense)			
Net fair value gains on available-for-sale investments	222	5,640	2,300
Release of investment revaluation reserve upon disposal of available-for-sale investments	–	–	(7,500)
Currency translation differences	<u>247</u>	<u>(21,533)</u>	<u>(33,024)</u>
Total comprehensive income for the year	<u><u>1,013,495</u></u>	<u><u>1,454,119</u></u>	<u><u>1,670,614</u></u>

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

	Year ended December 31,		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Profit/(Loss) for the year attributable to			
Equity owners of the Company	1,013,026	1,469,464	1,712,673
Non-controlling interests	–	548	(3,835)
	<u>1,013,026</u>	<u>1,470,012</u>	<u>1,708,838</u>
Profit for the year			
Total comprehensive income/(expense) attributable to			
Equity owners of the Company	1,013,495	1,453,571	1,674,449
Non-controlling interests	–	548	(3,835)
	<u>1,013,495</u>	<u>1,454,119</u>	<u>1,670,614</u>
Total comprehensive income for the year			
Dividend (HK\$)	<u>1,010,000</u>	<u>1,110,000</u>	<u>–</u>
Dividend per share			
Special cash dividend (HK\$)	<u>20.0 cents</u>	<u>22.0 cents</u>	<u>–</u>
Earnings per share, basic (HK\$)*	<u>22.8 cents</u>	<u>33.4 cents</u>	<u>41.0 cents</u>
Earnings per share, diluted (HK\$)*	<u>22.6 cents</u>	<u>33.2 cents</u>	<u>40.7 cents</u>

* 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. 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 years, 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. The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.8812 to HK\$1.0000 for the year ended December 31, 2009; RMB0.8714 to HK\$1.0000 for the year ended 2010 and RMB0.8300 to HK\$1.0000 for the year ended December 31, 2011. Please refer to Note 14 as set out in "2. Audited Consolidated Accounts for the year ended 31 December 2011" in this Appendix I.

No exceptional item because of size, nature or incidence was recorded in the financial statements of the Group for the three financial years ended December 31, 2009, 2010 and 2011.

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

2. AUDITED CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following financial information has been extracted from the audited consolidated accounts of the Group for the year ended December 31, 2011 as set forth in the annual report of the Company for the year ended December 31, 2011.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

	<i>Notes</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
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		<u>5,557,586</u>	<u>6,416,894</u>
Cost of revenue		<u>(931,016)</u>	<u>(1,259,979)</u>
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	<u>109,026</u>	<u>126,543</u>
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	<u>(6,479)</u>	<u>730</u>
Profit before income taxes		1,706,457	2,136,734
Income tax charges	12	<u>(236,445)</u>	<u>(427,896)</u>
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		<u>(21,533)</u>	<u>(33,024)</u>
Total comprehensive income for the year		<u><u>1,454,119</u></u>	<u><u>1,670,614</u></u>
Profit/(Loss) for the year attributable to			
Equity owners of the Company		1,469,464	1,712,673
Non-controlling interests		<u>548</u>	<u>(3,835)</u>
Profit for the year		<u><u>1,470,012</u></u>	<u><u>1,708,838</u></u>
Total comprehensive income/(expense) for the year attributable to			
Equity owners of the Company		1,453,571	1,674,449
Non-controlling interests		<u>548</u>	<u>(3,835)</u>
Total comprehensive income for the year		<u><u>1,454,119</u></u>	<u><u>1,670,614</u></u>
Dividend per share			
Special cash dividend (<i>HK\$</i>)	13	<u>22.0 cents</u>	<u>–</u>
Earnings per share, basic (<i>RMB</i>)	14	<u>29.1 cents</u>	<u>34.0 cents</u>
Earnings per share, diluted (<i>RMB</i>)	14	<u>28.9 cents</u>	<u>33.8 cents</u>
Earnings per share, basic (<i>HK\$</i>)	14	<u>33.4 cents</u>	<u>41.0 cents</u>
Earnings per share, diluted (<i>HK\$</i>)	14	<u>33.2 cents</u>	<u>40.7 cents</u>

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

Consolidated Balance Sheet As of December 31, 2011

	<i>Notes</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
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
		1,665,125	2,054,371
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
		11,040,015	13,241,097
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
		5,753,249	7,417,780
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

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

Consolidated Balance Sheet As of December 31, 2011

	<i>Notes</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
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

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

Balance Sheet

As of December 31, 2011

	<i>Notes</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
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		<u>2,430,985</u>	<u>1,816,472</u>
Total assets		<u><u>4,369,023</u></u>	<u><u>3,995,750</u></u>
EQUITY			
Share capital	24	485	481
Reserves		3,340,079	3,132,546
Total equity	26	<u>3,340,564</u>	<u>3,133,027</u>
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		<u>1,028,459</u>	<u>862,723</u>
Total equity and liabilities		<u><u>4,369,023</u></u>	<u><u>3,995,750</u></u>
Net current assets		<u><u>1,402,526</u></u>	<u><u>953,749</u></u>
Total assets less current liabilities		<u><u>3,340,564</u></u>	<u><u>3,133,027</u></u>

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

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

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

Consolidated Statement of Changes in Equity For the year ended December 31, 2011

	Attributable to equity owners of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Capital redemption reserve	Exchange reserve	Statutory reserve	Investment revaluation reserve	Shares held for share award scheme	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)		(Note 25(a))	(Note 24(b))		(Note 25(b))						
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

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

Consolidated Cash Flow Statement

For the year ended December 31, 2011

	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities		
Profit before income taxes	1,706,457	2,136,734
Adjustments for:		
Share-based compensation expense (<i>Note 27(c)</i>)	340,971	336,137
Depreciation expense of property and equipment (<i>Note 15</i>)	187,190	195,421
Amortization of intangible assets (<i>Note 16</i>)	39,133	57,271
Impairment of intangible assets (<i>Note 16</i>)	–	2,796
Losses on disposals of property and equipment, net (<i>Note 7</i>)	514	2,610
Amortization of lease prepayments (<i>Note 7</i>)	587	1,025
Share of losses/(profits) of associated companies and jointly controlled entities, net of tax (<i>Note 18</i>)	6,479	(730)
Gain on disposal of an associated company (<i>Note 6</i>)	–	(5,601)
Reversal of contingent consideration in relation to an acquisition (<i>Note 6</i>)	–	(10,822)
Exchange gains, net (<i>Note 8</i>)	(18,112)	(55,632)
Interest income, net (<i>Note 8</i>)	(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)
	3,136,175	2,403,637
Net cash provided by operating activities		
Income tax paid	(96,782)	(221,648)
	3,039,393	2,181,989
Net cash generated from operating activities	3,039,393	2,181,989

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

Consolidated Cash Flow Statement For the year ended December 31, 2011

	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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 (<i>Note 19</i>)	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 (<i>Note 19</i>)	(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	<u>(2,746,975)</u>	<u>(1,585,468)</u>
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	<u>51,263</u>	<u>(244,280)</u>
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 (<i>Note 23</i>)	<u><u>3,086,165</u></u>	<u><u>3,433,048</u></u>
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	<u><u>9,583,533</u></u>	<u><u>11,651,611</u></u>

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

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
<i>Amendment to IAS 1</i>	<i>Presentation of Financial Statements</i>	<i>January 1, 2011</i>
<i>Amendment to IAS 24</i>	<i>Related Party Disclosures</i>	<i>January 1, 2011</i>
<i>Amendment to IAS 34</i>	<i>Interim Financial Reporting</i>	<i>January 1, 2011</i>
<i>Amendment to IFRS 7</i>	<i>Financial Instruments: Disclosure</i>	<i>January 1, 2011</i>
<i>Amendment to IFRIC 13</i>	<i>Customer Loyalty Programmes</i>	<i>January 1, 2011</i>

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

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

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".

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

(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.

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.

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(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).

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

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.

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

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.

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.

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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.

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.

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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.

2.17 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.

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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.

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.

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(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.

(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.

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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.

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.

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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)).

(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.

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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	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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.

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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 (<i>Note 37 (f)</i>)	–	10,822
Others	13,506	22,101
	<u>109,026</u>	<u>126,543</u>

(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 (<i>Note 9</i>)	2,371,719	2,834,995
Depreciation expense of property and equipment (<i>Note 15</i>)	187,190	195,421
Operating lease rentals	69,790	86,449
Amortization of intangible assets (<i>Note 16</i>)	39,133	57,271
Auditors' remuneration	6,020	7,135
Amortization of lease prepayments	587	1,025
Impairment of intangible assets (<i>Note 16</i>)	–	2,796
Losses on disposals of property and equipment, net	514	2,610
	<u>2,995,773</u>	<u>3,513,680</u>

8. FINANCE INCOME, NET

	2010 RMB'000	2011 RMB'000
Interest income, net	158,286	263,486
Exchange gains, net	18,112	55,632
	<u>176,398</u>	<u>319,118</u>

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9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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 (<i>Note 27(c)</i>)	340,971	336,137
	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	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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
	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.

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

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)).

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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).

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

12. INCOME TAX CHARGES

	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Current tax charge	206,014	374,655
Deferred tax charge (<i>Note 31</i>)	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%).

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.

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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 <i>RMB'000</i>	2011 <i>RMB'000</i>
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
	<u>236,445</u>	<u>427,896</u>
Income tax charges	<u>236,445</u>	<u>427,896</u>

(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).

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 (<i>RMB'000</i>)	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 (<i>RMB</i>)	<u>29.1 cents</u>	<u>34.0 cents</u>
Earnings per share, basic (<i>HK\$</i>) ⁽ⁱ⁾	<u>33.4 cents</u>	<u>41.0 cents</u>

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.

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	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
<hr/>		
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	5,078,820	5,072,263
<hr/>		
Earnings per share, diluted (RMB)	<u>28.9 cents</u>	<u>33.8 cents</u>
<hr/>		
Earnings per share, diluted (HK\$) ⁽ⁱ⁾	<u>33.2 cents</u>	<u>40.7 cents</u>

(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	<u>313,854</u>	<u>148,783</u>	<u>49,632</u>	<u>240,897</u>	<u>27,979</u>	<u>781,145</u>
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	<u>313,854</u>	<u>148,783</u>	<u>49,632</u>	<u>240,897</u>	<u>27,979</u>	<u>781,145</u>
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	<u>304,686</u>	<u>139,761</u>	<u>32,333</u>	<u>181,289</u>	<u>74,690</u>	<u>732,759</u>
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	<u>304,686</u>	<u>139,761</u>	<u>32,333</u>	<u>181,289</u>	<u>74,690</u>	<u>732,759</u>

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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

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.

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

	Company	
	2010	2011
	RMB'000	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.

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%

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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 (Europe) Limited	United Kingdom October 13, 2008 Limited liability company	Marketing and administrative services	GBP1	100%
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%
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%

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Name	Place and date of incorporation/establishment and kind of legal entity	Principal activities	Particulars of issued share/registered capital	Effective interest held
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)	–
	12,723	12,970
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.

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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 # 浙江阿曠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. # 張家港保稅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.

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	<u>51,340</u>	<u>221,593</u>

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Available-for-sale investments include the following:

	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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)
	51,340	221,593
	51,340	221,593

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

	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Renminbi	352,862	217,378
Japanese Yen	2,099	1,997
Hong Kong Dollars	1,519	2,407
	356,480	221,782
	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	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion		
Rental and other deposits	46,731	60,305
Employee housing loan	–	29,952
	46,731	90,257
	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
	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.

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	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	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	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.

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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).

24. SHARE CAPITAL

	Notes	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares <i>RMB'000</i>
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				
Issuance of ordinary shares under share-based incentive schemes		5,039,701,540	HK\$503,970	485
Repurchase of issued ordinary shares	(a)	5,829,908 (1,800,000)	HK\$583 (HK\$180)	– –
As of December 31, 2010		5,043,731,448	HK\$504,373	485
As of January 1, 2011				
Issuance of ordinary shares under share-based incentive schemes		5,043,731,448	HK\$504,373	485
Repurchase of issued ordinary shares	(b)	18,271,149 (67,833,500)	HK\$1,827 (HK\$6,783)	2 (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 <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate price paid <i>HK\$'000</i>	Equivalent aggregate price paid <i>RMB'000</i>
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

(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.

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Month of repurchase	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate price paid <i>HK\$'000</i>	Equivalent aggregate price paid <i>RMB'000</i>
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
	<u>67,833,500</u>			<u>509,463</u>	<u>416,324</u>

- (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.

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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	<u>11.26</u>	<u>47,782</u>	<u>12.25</u>	<u>29,272</u>
Vested and exercisable as of December 31	<u>9.98</u>	<u>11,214</u>	<u>12.16</u>	<u>12,459</u>

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

Exercise price ⁽ⁱ⁾	2010		2011	
	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
	<u>47,782</u>	<u>4.3</u>	<u>29,272</u>	<u>3.5</u>

- (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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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.

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		2011	
	Weighted average grant date fair value ⁽ⁱ⁾ HK\$	Number of underlying shares (‘000)	Weighted average grant date fair value ⁽ⁱ⁾ HK\$	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	<u>13.58</u>	<u>37,647</u>	<u>12.37</u>	<u>52,641</u>

- (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		2011	
	Shares held for the Share Award Scheme (‘000)	Awarded shares (‘000)	Shares held for the Share Award Scheme (‘000)	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	<u>1,150</u>	<u>1,600</u>	<u>755</u>	<u>1,721</u>

- (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).

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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.

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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	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<hr/>	<hr/>
Total	<u>340,971</u>	<u>336,137</u>

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

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	2011
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<hr/>	<hr/>
Total	<u>15,981</u>	<u>16,430</u>

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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
	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
	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

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)

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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 (<i>Note 12</i>)	(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
	<u> </u>	<u> </u>
As of December 31	<u>(29,523)</u>	<u>(90,123)</u>

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 (<i>Note 12</i>)	15,430	3,821	10,261	29,512
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As of January 1, 2011	26,216	13,400	63,061	102,677
Credited to the consolidated statement of comprehensive income (<i>Note 12</i>)	48,104	2,134	17,087	67,325
Others	4,481	–	–	4,481
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As of December 31, 2011	<u>78,801</u>	<u>15,534</u>	<u>80,148</u>	<u>174,483</u>

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

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 (<i>Note 12</i>)	(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
	<u> </u>	<u> </u>	<u> </u>
As of January 1, 2011	(60,013)	(72,187)	(132,200)
Charged to the consolidated statement of comprehensive income (<i>Note 12</i>)	(121,321)	(1,568)	(122,889)
Deferred tax liabilities arising from the acquisition of One-Touch (<i>Note 36</i>)	–	(11,225)	(11,225)
Others	–	1,708	1,708
	<u> </u>	<u> </u>	<u> </u>
As of December 31, 2011	<u>(181,334)</u>	<u>(83,272)</u>	<u>(264,606)</u>

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- (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

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

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

34. COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for are analyzed as follows:

	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
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
	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 <i>RMB'000</i>	2011 <i>RMB'000</i>
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
	98,547	81,335
Total	98,547	81,335

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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 (<i>Note i</i>)	(52,976)	(60,249)
House brand head license fee paid or payable to the ultimate holding company (<i>Note ii</i>)	(2,000)	(2,000)
Purchase of advertising, promotion and technology services from (<i>Note iii</i>):		
– 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 (<i>Note iv</i>)	(1,934)	(11,086)
Cross-selling of promotion and related services with associated companies (<i>Note v</i>)	12,364	–
Reimbursement for the provision of administrative services (<i>Note vi</i>):		
– 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 (<i>Note vii</i>)	5,518	3,493
Purchase of administrative services from fellow subsidiaries (<i>Note viii</i>)	(9,613)	(15,803)
Purchase of customer support services from an associated company (<i>Note ix</i>)	(21,142)	(12,930)

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(b) **Non-recurring transactions**

	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Reimbursement from an associated company for costs incurred in relation to Japan website (<i>Note x</i>)	–	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.		

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.

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(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 (<i>Note 17</i>)	1,565,157	1,565,157
Current portion (<i>Note 17</i>)	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 (<i>Note 17</i>)	(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.

(d) **Key management personnel compensation**

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

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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:

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

APPENDIX I – FINANCIAL INFORMATION ON THE COMPANY

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.

(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 <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but not exceeding 2 years <i>RMB'000</i>	More than 2 years but not exceeding 5 years <i>RMB'000</i>
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

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	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.

(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

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- Level 3 (lowest level): fair values measured using valuation techniques, such as discounted cash flow analysis in which any significant input is not based on observable market data

	Group			Total amount RMB'000
	Fair value measurement as of December 31, 2011			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 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)	<u>90,571</u>

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.

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3. UNAUDITED CONSOLIDATED ACCOUNTS FOR THE FIRST QUARTER OF 2012

The Company's announcement of its unaudited consolidated financial results for the quarter ended March 31, 2012, is available on the website of the Hong Kong Stock Exchange and the Company's website at www.alibaba.com/about.

4. INDEBTEDNESS STATEMENT

As at the close of business of February 29, 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had total outstanding short-term bank borrowings of RMB1,271.5 million. Of the total bank borrowings, RMB80.7 million were secured by a pledge of the Group's bank deposits of the same amount. The rest of the bank borrowings were unsecured.

In addition, bank deposits of RMB25.2 million and RMB0.3 million were pledged as deposit for the construction of the Group's corporate campus in Hangzhou, PRC as well as office rental deposit in Europe, respectively.

Save as disclosed above, the Group had no other material contingent liabilities or outstanding mortgages, charges, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness as at the close of business on February 29, 2012.

5. MATERIAL CHANGES

The Directors confirm that there was no material change in the financial or trading position or outlook of the Company between December 31, 2011, the date to which the latest audited consolidated financial statements of the Company were made up, and the Latest Practicable Date.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

1. RESPONSIBILITY STATEMENTS

The information contained in the Scheme Document relating to the Group has been supplied by the Company. The issue of the Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

The information contained in the Scheme Document relating to the Offeror has been supplied by the Offeror. The issue of the Scheme Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorized share capital of the Company was HK\$800,000 divided into 8,000,000,000 Shares;
- (b) the issued share capital of the Company was approximately HK\$500,507 divided into 5,005,071,959 Shares;
- (c) the Company has issued 10,902,862 new Shares pursuant to the exercise of the Share Options and vesting of RSUs since December 31, 2011, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (d) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;
- (e) there were 27,177,725 Outstanding Share Options, 39,429,922 RSUs and 1,597,959 Share Awards granted under the Share Option Scheme, RSU Scheme and Share Award Scheme respectively. As set out in the table setting out the exercise price applicable to each Share Option in the section headed “2. Terms of the Proposal” in Part VII of this Scheme Document, the exercise price of the Share Options ranges from HK\$5.54 to HK\$20.60. In the event that any of the Share Options are exercised on or prior to the Latest Options Exercise Date in accordance with the relevant provisions of the Share Option Scheme, Shares issued, prior to the Record Date, as a result of the exercise of such outstanding Share Options will be subject to and eligible to participate in the Scheme. If all of the Share Options are exercised, a total of 27,177,725 new Shares will be issued; and
- (f) other than the Shares and the Share Incentives, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Shares which were issued by the Offeror or the Company as at the Latest Practicable Date.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

3. MARKET PRICE

The table below sets out the closing price of the Shares on the Hong Kong Stock Exchange on (i) the last business day of each of the calendar months during the period commencing six months preceding the Announcement Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

	Closing price for each Share
	<i>(HK\$)</i>
August 31, 2011	8.25
September 30, 2011	7.28
October 31, 2011	9.25
November 30, 2011	7.79
December 30, 2011	8.03
January 31, 2012	8.36
February 8, 2012 (Last Trading Day)	9.25
February 29, 2012	13.22
March 30, 2012	13.20
April 20, 2012 (Latest Practicable Date)	13.30

The lowest and highest closing prices of Shares as quoted on the Hong Kong Stock Exchange during the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date were HK\$6.42 per Share on September 26, 2011 and HK\$13.30 per Share on April 19, 2012 and April 20, 2012, respectively.

The Cancellation Price of HK\$13.50 per Scheme Share represents a premium of approximately 45.9% over the closing price of HK\$9.25 per Share as quoted on the Hong Kong Stock Exchange on February 8, 2012 (being the Last Trading Day).

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, (i) “interested” and “interests” have the same meanings as given to them in the appropriate part of the Securities and Futures Ordinance; (ii) the “Offer Period” means the period from February 21, 2012 (being the date on which the Company first announced the possibility of an offer by the Offeror which might lead to a privatization of the Company) to the Effective Date, both dates inclusive; and (iii) the “Disclosure Period” means the period beginning from the date which is six months prior to the commencement of the Offer Period (being from August 21, 2011) and ending with the Latest Practicable Date, both dates inclusive.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

(a) Interests and dealings in the Company's shares

- (i) As at the Latest Practicable Date, the Offeror held Shares and the directors of the Offeror and Offeror Concert Parties owned or controlled Shares as set out below:

Shareholder	Number of Shares	Approximate percentage of total issued share capital of the Company (%)
Offeror ⁽¹⁾	2,604,574,904	52.04
Alibaba Group Treasury Limited	1,000,000,000	19.98
Direct Solutions Management Limited ⁽²⁾	38,254,429	0.76
Mr. MA Yun, Jack	15,369,053	0.31
Mr. TSAI Chung, Joseph	3,120,000	0.06
Credit Suisse Group ⁽³⁾	2,254,500	0.05
Deutsche Bank Group ⁽⁴⁾	31,165	0.00
HSBC Group ⁽⁵⁾	8,131,866	0.16
HSBC Trustee (Hong Kong) Limited ⁽⁶⁾	2,394,459	0.05
Aggregate number of Shares held by the Offeror Concert Parties	1,069,555,472	21.37
Aggregate number of Shares held by the Offeror and the Offeror Concert Parties	3,674,130,376	73.41

Notes:

- The Offeror has granted Offeror Share Options that, upon full vesting and exercise, will entitle the holders to receive 8,926,422 Shares in aggregate from the Offeror. As such, the Offeror has a deemed short interest in the 8,926,422 Shares to which the Offeror Share Options relate. The Offeror has also granted Offeror RSUs that, upon full vesting, will entitle the holders to receive 12,576,073 Shares in aggregate from the Offeror. As such, the Offeror has a deemed short interest in the 12,576,073 Shares to which the Offeror RSUs relate.
- Direct Solutions Management Limited, a wholly-owned subsidiary of the Offeror, has issued redeemable preference shares to a small group of individuals that entitle the holders, on exercise of their redemption rights in full, to receive 5,085,151 Shares in aggregate from Direct Solutions Management Limited. On the basis of undertakings received by the Offeror and Direct Solutions Management Limited, none of the redemption rights under the preference shares can be exercised until after the Scheme has become effective or lapsed. Shares held by Direct Solutions Management Limited shall not form part of the Scheme Shares.
- Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Credit Suisse Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.
- Deutsche Bank and persons controlling, controlled by or under the same control as Deutsche Bank, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Deutsche Bank Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Codes.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

5. HSBC and persons controlling, controlled by or under the same control as HSBC, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal (“**HSBC Group**”), are treated as being in concert with the Offeror in accordance with class 5 of the definition of “acting in concert” in the Hong Kong Takeovers Code.

As at the Latest Practicable Date, 8,131,866 Shares (out of which 206,615 Shares were proprietarily held and 7,925,251 Shares were under discretionary management authority) were proprietarily held by and/or under the discretionary management authority of the HSBC Group. The 8,131,866 Shares do not include 2,394,459 Shares held by HSBC Trustee (Hong Kong) Limited as the trustee in relation to the Share Award Scheme.

6. HSBC Trustee (Hong Kong) Limited is the trustee in relation to the Share Award Scheme and currently holds 2,394,459 Shares. The Company does not issue any Shares to satisfy the Share Awards but provides sufficient funds by way of gift to enable HSBC Trustee (Hong Kong) Limited to purchase such number of Shares on the market as required to satisfy Share Awards that vest. Under the terms of the trust deed, HSBC Trustee (Hong Kong) Limited is prohibited from exercising any voting rights in respect of any Shares held under the trust.

- (ii) As at the Latest Practicable Date, none of the Offeror Concert Parties held any Share Incentives.
- (iii) During the Disclosure Period, the following Offeror Concert Parties have dealt for value in Shares as follows:

Party	Trade date	Transaction	Number of Shares	Execution price per Share (HK\$)
Credit Suisse Group				
Credit Suisse Fund Management S.A.	September 15, 2011	Buy	15,500	7.3066
Credit Suisse Fund Management S.A.	September 28, 2011	Sell	38,500	7.3167
Credit Suisse Fund Management S.A.	October 25, 2011	Sell	44,000	9.2572
Credit Suisse AG	December 7, 2011	Buy	173,000	7.9294
Credit Suisse AG	February 27, 2012	Re-delivery by client of borrowed Shares	100,000	N/A
Credit Suisse AG	February 28, 2012	Lending	200,000	N/A
Credit Suisse AG	March 1, 2012	Re-delivery by client of borrowed Shares	903,000	N/A
Credit Suisse AG	March 2, 2012	Re-delivery by client of borrowed Shares	100,000	N/A
Credit Suisse AG	March 6, 2012	Re-delivery by client of borrowed Shares	200,000	N/A
Credit Suisse AG	March 13, 2012	Re-delivery by client of borrowed Shares	150,000	N/A

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Party	Trade date	Transaction	Number of Shares	Execution price per Share (HK\$)
Deutsche Bank Group				
Deutsche Investment Management Americas Inc.	September 16, 2011	Buy	25,000	7.38
Deutsche Investment Management Americas Inc.	December 16, 2011	Buy	11,000	7.44
Deutsche Investment Management Americas Inc.	January 18, 2012	Buy	16,000	8.75
Deutsche Bank AG, Frankfurt Branch	January 19, 2012	Sell	37,500	9.10
Deutsche Bank AG, Frankfurt Branch	February 08, 2012	Sell	87,500	9.10
Deutsche Bank AG, Frankfurt Branch	February 28, 2012	Sell	375,000	13.18
HSBC Group				
HSBC	August 23, 2011	Sell	2,000	8.25
HSBC Bank Plc	August 31, 2011	Buy	4,000	8.25
HSBC	September 30, 2011	Buy	2,500	7.22
HSBC	September 30, 2011	Buy	5,500	7.23
HSBC Bank Plc	November 28, 2011	Buy	2,000	7.92
HSBC Bank Plc	November 28, 2011	Buy	1,500	7.92
HSBC Bank Plc	November 28, 2011	Buy	4,000	7.92
HSBC Bank Plc	November 30, 2011	Sell	500	7.79
HSBC Global Asset Management (Hong Kong) Limited	November 30, 2011	Sell	1,500	7.79
HSBC Bank Plc	December 09, 2011	Buy	3,500	7.59
HSBC Bank Plc	December 09, 2011	Buy	1,000	7.60
HSBC Bank Plc	December 09, 2011	Buy	5,500	7.60
HSBC Bank Plc	December 16, 2011	Sell	10,000	7.99
HSBC Bank Plc	January 09, 2012	Buy	1,000	8.27
HSBC Bank Plc	January 09, 2012	Buy	1,000	8.27
HSBC Bank Plc	January 09, 2012	Buy	1,500	8.27
HSBC Bank Plc	January 09, 2012	Buy	500	8.27
HSBC Bank Plc	January 09, 2012	Buy	1,500	8.28
HSBC Bank Plc	January 09, 2012	Buy	500	8.28
HSBC Bank Plc	January 09, 2012	Buy	32,000	8.29
HSBC	January 27, 2012	Buy	500	8.76
HSBC	January 27, 2012	Buy	19,500	8.74
HSBC	January 31, 2012	Sell	1,500	8.45
HSBC	January 31, 2012	Sell	6,000	8.45
HSBC	January 31, 2012	Sell	3,500	8.44
HSBC	January 31, 2012	Buy	8,500	8.34
HSBC	February 03, 2012	Buy	4,000	8.49
HSBC	February 03, 2012	Buy	2,000	8.49
HSBC	February 07, 2012	Buy	1,500	8.72
HSBC	February 07, 2012	Buy	500	8.73
HSBC	March 21, 2012	Sell	8,500	13.18

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Party	Trade Date	Transaction	Number of Shares	Execution price per Share (HK\$)
HSBC Trustee (Hong Kong) Limited	August 31, 2011	Transfer of Shares (upon vesting of Share Awards)	100,000	0.00
HSBC Trustee (Hong Kong) Limited	September 1, 2011	Transfer of Shares (upon vesting of Share Awards)	16,666	0.00
HSBC Trustee (Hong Kong) Limited	October 7, 2011	Transfer of Shares (upon vesting of Share Awards)	50,000	0.00
HSBC Trustee (Hong Kong) Limited	October 10, 2011	Transfer of Shares (upon vesting of Share Awards)	237,500	0.00
HSBC Trustee (Hong Kong) Limited	February 17, 2012	Transfer of Shares (upon vesting of Share Awards)	81,375	0.00

- (iv) During the Disclosure Period, the Offeror effected transfers of Shares pursuant to the vesting or exercise (as applicable) of Offeror Incentives as follows:

Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
22-08-2011	4.81	8,700	41,847.00
23-08-2011	4.23	3,000	12,675.00
24-08-2011	4.23	1,500	6,337.50
	4.81	9,000	43,290.00
26-08-2011	4.81	1,200	5,772.00
29-08-2011	2.28	2,000	4,550.00
	4.81	2,000	9,620.00
30-08-2011	4.81	400	1,924.00
	6.16	12,000	73,944.00
01-09-2011	3.25	8,500	27,625.00
05-09-2011	2.28	500	1,137.50
	4.23	3,802	16,063.45
06-09-2011	2.28	5,002	11,379.55

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Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
07-09-2011	4.23	2,750	11,618.75
	4.81	2,200	10,582.00
14-09-2011	4.81	1,000	4,810.00
15-09-2011	2.28	302	687.05
	4.81	2,400	11,544.00
16-09-2011	–	1,163	–
21-09-2011	2.28	3,300	7,507.50
	4.23	2,500	10,562.50
	4.81	12,000	57,720.00
23-09-2011	2.28	3,000	6,825.00
26-09-2011	2.28	402	914.55
	4.23	801	3,384.23
27-09-2011	2.28	1,601	3,642.28
	4.23	5,000	21,125.00
28-09-2011	2.28	6,006	13,663.65
	4.23	3,452	14,584.70
	4.81	3,000	14,430.00
03-10-2011	4.81	2,400	11,544.00
04-10-2011	4.23	4,500	19,012.50
10-10-2011	4.23	4,052	17,119.70
11-10-2011	4.23	3,300	13,942.50
	4.81	6,000	28,860.00
12-10-2011	2.28	3,201	7,282.28
	4.81	2,000	9,620.00
13-10-2011	4.81	3,800	18,278.00
14-10-2011	4.81	4,800	23,088.00
17-10-2011	2.28	3,000	6,825.00
	6.80	10,000	68,000.00
19-10-2011	–	15,525	–
	4.23	2,002	8,458.45
	4.81	4,800	23,088.00
	6.80	7,500	51,000.00
20-10-2011	2.28	5,000	11,375.00
21-10-2011	4.81	4,800	23,088.00
26-10-2011	4.23	2,500	10,562.50
	6.42	10,000	64,220.00
27-10-2011	4.23	2,502	10,570.95
28-10-2011	4.81	4,500	21,645.00
01-11-2011	2.28	2,590	5,892.25
	3.25	2,000	6,500.00
	6.80	5,000	34,000.00
02-11-2011	2.28	5,901	13,424.78
	4.23	20,004	84,516.90
	4.81	9,830	47,282.30
03-11-2011	2.28	202	459.55
	4.23	12,602	53,243.45
	4.81	217,700	1,047,137.00
04-11-2011	2.28	2,802	6,374.55
	3.25	5,000	16,250.00
	4.23	6,514	27,521.65
	4.81	2,400	11,544.00

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Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
07-11-2011	–	2,531,996	–
	2.28	3,201	7,282.28
	3.25	83,202	270,406.50
	4.81	27,700	133,237.00
	6.42	10,000	64,220.00
08-11-2011	6.89	6,000	41,340.00
	4.23	2,000	8,450.00
09-11-2011	4.23	3,000	12,675.00
	4.81	14,000	67,340.00
10-11-2011	2.28	3,402	7,739.55
	3.25	23,202	75,406.50
	4.23	1,501	6,341.73
11-11-2011	4.81	5,000	24,050.00
	2.28	3,402	7,739.55
	4.23	5,000	21,125.00
14-11-2011	4.81	480	2,308.80
	2.28	6,026	13,709.15
	4.23	2,000	8,450.00
	4.81	1,100	5,291.00
15-11-2011	6.80	4,500	30,600.00
	2.28	5,802	13,199.55
	4.23	18,500	78,162.50
16-11-2011	2.28	3,801	8,647.28
	2.28	4,707	10,708.43
17-11-2011	2.28	1,001	2,277.28
	4.23	3,000	12,675.00
	4.81	2,400	11,544.00
	2.28	1,800	4,095.00
21-11-2011	3.25	2,202	7,156.50
	6.80	10,000	68,000.00
	2.28	4,401	10,012.28
22-11-2011	4.23	11,552	48,807.20
	2.28	8,804	20,029.10
23-11-2011	3.25	3,201	10,403.25
	5.20	1,000	5,200.00
	2.28	1,500	3,412.50
	4.81	5,600	26,936.00
24-11-2011	2.28	3,102	7,057.05
	3.25	22,102	71,831.50
	4.23	4,191	17,706.98
	4.81	3,200	15,392.00
	5.77	2,000	11,544.00
25-11-2011	6.80	5,000	34,000.00
	2.28	8,404	19,119.10
	3.25	8,000	26,000.00
	4.23	5,500	23,237.50
	4.81	27,234	130,995.54
28-11-2011	6.80	15,000	102,000.00
	2.28	500	1,137.50
	3.25	8,500	27,625.00
	4.23	1,500	6,337.50
29-11-2011	2.28	1,500	3,412.50
	4.81	5,600	26,936.00
	2.28	3,102	7,057.05
	3.25	22,102	71,831.50
	4.23	4,191	17,706.98
30-11-2011	4.81	3,200	15,392.00
	5.77	2,000	11,544.00
	6.80	5,000	34,000.00
	2.28	8,404	19,119.10
	3.25	8,000	26,000.00

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
02-12-2011	4.81	10,000	48,100.00
03-12-2011	–	25,000	–
05-12-2011	2.28	4,343	9,880.33
	4.23	3,400	14,365.00
	4.81	2,400	11,544.00
06-12-2011	2.28	1,303	2,964.33
	4.23	5,000	21,125.00
	4.81	9,800	47,138.00
07-12-2011	2.28	100	227.50
	3.25	401	1,303.25
08-12-2011	2.28	1,500	3,412.50
	4.23	5,000	21,125.00
	4.81	7,000	33,670.00
09-12-2011	2.28	5,553	12,633.08
	5.20	6,000	31,200.00
12-12-2011	2.28	3,750	8,531.25
	4.81	2,000	9,620.00
13-12-2011	2.28	57,924	131,777.10
	3.25	15,201	49,403.25
	4.81	8,000	38,480.00
	5.77	2,000	11,544.00
	6.80	20,000	136,000.00
15-12-2011	2.28	10,607	24,130.93
	5.20	1,000	5,200.00
16-12-2011	2.28	7,859	17,879.23
	4.23	600	2,535.00
19-12-2011	2.28	46,403	105,566.83
	4.81	6,000	28,860.00
20-12-2011	2.28	12,906	29,361.15
	4.23	2,250	9,506.25
	4.81	2,400	11,544.00
21-12-2011	2.28	5,701	12,969.78
	4.23	3,350	14,153.75
22-12-2011	2.28	23,528	53,526.20
	3.25	3,201	10,403.25
	4.23	2,000	8,450.00
	4.81	12,149	58,436.69
23-12-2011	2.28	10,843	24,667.83
	4.23	1,901	8,031.73
28-12-2011	2.28	43,022	97,875.05
	4.23	13,001	54,929.23
	4.81	19,450	93,554.50
	6.80	165,000	1,122,000.00
29-12-2011	2.28	25,416	57,821.40
	3.25	6,354	20,650.50
	4.23	7,500	31,687.50
30-12-2011	2.28	27,241	61,973.28
	3.25	9,007	29,272.75
	4.23	250	1,056.25
	4.81	150	721.50
	6.80	130,000	884,000.00

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
05-01-2012	0.13	100,000	13,000.00
09-01-2012	0.13	100,000	13,000.00
	5.20	480,000	2,496,000.00
10-01-2012	6.80	25,000	170,000.00
11-01-2012	0.13	100,000	13,000.00
	3.25	200	650.00
	4.23	2,057	8,690.83
12-01-2012	6.80	25,000	170,000.00
13-01-2012	4.23	6,000	25,350.00
	4.81	3,000	14,430.00
16-01-2012	0.13	100,000	13,000.00
17-01-2012	4.81	4,900	23,569.00
18-01-2012	0.13	100,000	13,000.00
19-01-2012	3.25	6,402	20,806.50
	4.81	6,744	32,438.64
20-01-2012	0.13	96,980	12,607.40
	4.81	300	1,443.00
30-01-2012	4.23	900	3,802.50
	4.81	2,400	11,544.00
31-01-2012	–	130,750	–
02-02-2012	–	2,175	–
	4.23	1,002	4,233.45
03-02-2012	4.81	2,400	11,544.00
06-02-2012	4.81	9,000	43,290.00
07-02-2012	3.25	4,000	13,000.00
08-02-2012	3.25	1,000	3,250.00
10-02-2012	4.23	1,000	4,225.00
	4.81	5,500	26,455.00
13-02-2012	4.81	2,400	11,544.00
14-02-2012	4.81	9,600	46,176.00
15-02-2012	4.23	12,200	51,545.00
16-02-2012	4.23	10,000	42,250.00
	6.89	3,000	20,670.00
17-02-2012	4.23	7,000	29,575.00
	4.81	26,000	125,060.00
20-02-2012	4.23	22,000	92,950.00
	4.81	25,486	122,587.66
21-02-2012	3.25	2,800	9,100.00
	4.23	500	2,112.50
	4.81	12,300	59,163.00
	6.80	41,500	282,200.00
22-02-2012	4.23	46,852	197,949.70
	4.81	92,800	446,368.00
	6.80	15,000	102,000.00
	6.89	700	4,823.00
23-02-2012	4.23	11,250	47,531.25
	4.81	4,400	21,164.00
	5.71	15,000	85,650.00
	6.80	51,500	350,200.00

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Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
24-02-2012	4.23	5,501	23,241.73
	4.81	32,000	153,920.00
	5.71	6,000	34,260.00
	6.80	9,750	66,300.00
27-02-2012	3.25	2,000	6,500.00
	4.23	20,000	84,500.00
	4.81	10,500	50,505.00
	5.20	5,000	26,000.00
	6.16	61,000	375,882.00
	6.80	101,500	690,200.00
28-02-2012	10.56	9,000	95,004.00
	4.23	10,500	44,362.50
	4.81	57,500	276,575.00
	5.71	30,000	171,300.00
	6.42	3,000	19,266.00
29-02-2012	6.80	10,000	68,000.00
	4.23	27,401	115,769.23
	4.81	18,500	88,985.00
	5.77	6,000	34,632.00
01-03-2012	6.80	52,000	353,600.00
	6.89	15,000	103,350.00
	–	2,980,796	–
	4.23	31,800	134,355.00
	4.81	13,500	64,935.00
02-03-2012	6.80	100,000	680,000.00
	6.89	5,000	34,450.00
	9.49	15,000	142,350.00
	4.23	31,803	134,367.68
	4.81	12,900	62,049.00
05-03-2012	6.80	90,000	612,000.00
	6.89	10,000	68,900.00
	4.23	7,752	32,752.20
06-03-2012	4.81	57,000	274,170.00
	6.80	55,000	374,000.00
	3.25	25,202	81,906.50
07-03-2012	4.23	16,721	70,646.23
	4.81	4,700	22,607.00
	5.54	12,000	66,480.00
	5.77	5,000	28,860.00
	6.80	129,500	880,600.00
	12.74	30,000	382,200.00
	–	486,270	–
08-03-2012	0.33	50,500	16,412.50
	4.23	30,901	130,556.73
	4.81	8,400	40,404.00
	5.77	15,000	86,580.00
	6.16	16,500	101,673.00
08-03-2012	6.80	165,000	1,122,000.00
	4.23	5,000	21,125.00
	4.81	9,500	45,695.00
	10.56	6,000	63,336.00

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Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
09-03-2012	4.23	12,001	50,704.23
	4.81	22,188	106,724.28
	5.20	1,000	5,200.00
	6.16	12,000	73,944.00
	6.80	35,000	238,000.00
12-03-2012	3.25	25,000	81,250.00
	4.23	14,282	60,341.45
	4.81	48,100	231,361.00
	6.42	12,000	77,064.00
	6.80	20,000	136,000.00
13-03-2012	3.25	11,202	36,406.50
	4.23	4,500	19,012.50
	4.81	6,400	30,784.00
	5.54	12,000	66,480.00
14-03-2012	3.25	201	653.25
	4.81	19,400	93,314.00
	6.80	37,500	255,000.00
15-03-2012	3.25	200	650.00
	4.81	7,600	36,556.00
	6.42	25,500	163,761.00
16-03-2012	4.23	500	2,112.50
	4.81	14,050	67,580.50
19-03-2012	4.23	4,000	16,900.00
	4.81	32,555	156,589.55
	5.20	20,000	104,000.00
20-03-2012	4.23	9,000	38,025.00
	4.81	25,800	124,098.00
21-03-2012	–	1,250	–
	4.23	8,000	33,800.00
	4.81	400	1,924.00
22-03-2012	–	44,022	–
	4.81	17,800	85,618.00
	6.80	15,000	102,000.00
23-03-2012	4.23	2,202	9,303.45
	4.81	39,900	191,919.00
	5.71	18,500	105,635.00
	6.80	17,500	119,000.00
26-03-2012	3.25	6,500	21,125.00
	4.23	3,000	12,675.00
	4.81	500	2,405.00
	6.42	6,000	38,532.00
27-03-2012	4.23	5,453	23,038.93
	4.81	37,400	179,894.00
	6.80	47,500	323,000.00
28-03-2012	4.23	6,502	27,470.95
	4.81	4,700	22,607.00
	5.20	5,500	28,600.00
29-03-2012	4.23	801	3,384.23
	4.81	4,200	20,202.00
	5.71	9,000	51,390.00
	6.80	97,500	663,000.00

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

Date (DD/MM/YYYY)	Price (Note) (HK\$)	No. of Shares	Total price (HK\$)
30-03-2012	3.25	451	1,465.75
	4.23	106,100	448,272.50
	4.81	34,900	167,869.00
	6.16	180,000	1,109,160.00
	6.80	270,000	1,836,000.00
02-04-2012	–	132,875	–
	4.225	600	2,535.00
	4.810	7,400	35,594.00
03-04-2012	4.225	1,401	5,919.23
	4.810	62,400	300,144.00
05-04-2012	4.810	40,900	196,729.00
10-04-2012	4.225	15,000	63,375.00
	4.810	46,100	221,741.00
	6.800	2,500	17,000.00
11-04-2012	4.225	1,752	7,402.20
	4.810	24,400	117,364.00
12-04-2012	4.225	24,755	104,589.88
	4.810	400	1,924.00
	4.225	102	430.95
13-04-2012	4.810	4,000	19,240.00
	4.225	12,901	54,506.73
	4.810	27,600	132,756.00
16-04-2012	6.800	15,000	102,000.00
	4.225	3,401	14,369.23
	4.810	40,800	196,248.00
17-04-2012	5.710	6,000	34,260.00
	12.740	10,000	127,400.00
	4.225	9,002	38,033.45
18-04-2012	4.810	12,900	62,049.00

Note: The price represents, in the case of Offeror Share Options, the exercise price of each option paid by the holder in exercising these options and, in the case of Offeror RSUs, the consideration paid by the holder in respect of each RSU when these RSUs vest, which is zero.

- (v) Save as disclosed above, none of the Offeror, its directors and the Offeror Concert Parties in respect of the Proposal had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (vi) Below is a summary of the transfers that were made by the Offeror pursuant to the vesting or exercise (as applicable) of Offeror Incentives during the Disclosure Period:

Date range	Price range (Note) (HK\$)	No. of Shares	Total price (HK\$)
August 21, 2011 – September 20, 2011	0.00 - 6.16	67,419	295,406.80
September 21, 2011 – October 20, 2011	0.00 - 6.80	122,942	471,852.83

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Date range	Price range (Note) (HK\$)	No. of Shares	Total price (HK\$)
October 21, 2011 – November 20, 2011	0.00 - 6.89	3,092,770	2,429,158.95
November 21, 2011 – December 20, 2011	0.00 - 6.80	449,993	1,576,662.44
December 21, 2011 – January 20, 2012	0.13 - 6.80	1,665,647	5,687,166.53
January 21, 2012 – February 20, 2012	0.00 - 6.89	277,813	663,701.61
February 21, 2012 – March 20, 2012	0.00 - 12.74	5,645,478	12,538,336.48
March 21, 2012 – Latest Practicable Date	0.00 - 12.74	1,492,770	7,484,901.45
Total	0.00 - 12.74	12,814,832	31,147,187.09

Note: The price represents, in the case of Offeror Share Options, the exercise price of each option paid by the holder in exercising these options and, in the case of Offeror RSUs, the consideration paid by the holder in respect of each RSU when these RSUs vest, which is zero.

- (vii) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or advisor of the Company as specified in class (2) of the definition of associate under the Hong Kong Takeovers Code (but excluding any exempt principal trader) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, save as disclosed above with regard to HSBC Group. During the period from the commencement of the Offer Period up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, but excluding dealings on an agency or non-discretionary basis and save as disclosed above with regard to HSBC Group.
- (viii) As at the Latest Practicable Date, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code with the Offeror (or with any person acting in concert with the Offeror) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares or dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares during the Disclosure Period.
- (ix) Save as disclosed above with regard to HSBC Group, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of any Shares as at Latest Practicable Date or had dealt for value during the period from the commencement of the Offer Period up to the Latest Practicable Date in the Shares or convertible securities, warrants, options or derivatives in respect of any Shares.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

- (x) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code with the Company (or with any person who is an associate of the Company by virtue of class (1), (2), (3) or (4) of the definition of “associate” under the Hong Kong Takeovers Code).
- (xi) As at the Latest Practicable Date, the following Directors had the following interests in the Company:

Director	Number of Shares interested	Note	Approximate percentage of total issued share capital of the Company (%)
MA Yun, Jack	15,369,053		0.31%
LU Zhaoxi, Jonathan	2,759,105	(1)	0.06%
WU Wei, Maggie	7,156,746	(2)	0.14%
YE Peng	300,000	(3)	0.01%
TSAI Chung, Joseph	3,120,000	(4)	0.06%
TSOU Kai-Lien, Rose	94,000		0.002%
OKADA, Satoshi	130,000		0.003%
PENG Yi Jie, Sabrina	5,275,000	(5)	0.11%
NIU Gen Sheng	150,000	(6)	0.003%
KWAUK Teh Ming, Walter	100,000		0.002%
KWAN Ming Sang, Savio	6,700,000	(7)	0.13%

Notes:

- (1) These securities represent (a) 212,545 Shares held by Mr. Lu; (b) Share Options in respect of 2,000,000 underlying Shares granted by the Company to Mr. Lu; (c) RSUs in respect of 387,500 underlying Shares granted by the Offeror 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 the 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 the Offeror.
- (3) These securities represent 300,000 Share Awards granted by the Company to Mr. Ye pursuant to the 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 the 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 Enterprises Ltd. (a company ultimately owned by Ms. Peng) pursuant to the pre-IPO share incentive scheme of the Offeror.
- (6) These securities represent (a) 116,666 Shares held by Mr. Niu; and (b) 33,334 Share Awards granted by the Company to Mr. Niu pursuant to the 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).

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All the above-mentioned Directors intend, in respect of their own beneficial shareholdings to be bound by the Scheme and to vote in favour of the Scheme (with the exception of Mr. Jack Ma and Mr. Joseph Tsai, who are Offeror Concert Parties) and in respect of their interests in the Company, to accept the Share Incentives Offer.

- (xii) During the Disclosure Period, save as disclosed below, none of the Directors had dealt for value in Shares or any convertible securities, warrants, options or derivatives in respect of any Shares:

Party	Trade Date	Transaction	Number of Shares	Execution Price per Share (HK\$)
YE Peng	November 25, 2011	Grant of Share Awards by the Company	300,000	0.00
LU Zhaoxi, Jonathan	April 1, 2012	Vesting of Offeror RSUs	50,000	0.00

- (xiii) Save as disclosed, the Offeror did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (xiv) Save as disclosed above, none of the directors of the Offeror nor any Offeror Concert Party owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.

(b) Interests and dealings in the Offeror's securities

The Company had no interest in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of such shares as at the Latest Practicable Date. During the Disclosure Period, the Company had not dealt for value in any such securities.

As at the Latest Practicable Date, save as disclosed in the table below, none of the Directors had any interests in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares:

Director	Number of Offeror's shares interested	Note	Approximate percentage of total issued share capital of the Offeror(%)
MA Yun, Jack	185,970,673	(1)	7.41%
LU Zhaoxi, Jonathan	7,208,449	(2)	0.29%
WU Wei, Maggie	714,736	(3)	0.03%
YE Peng	650,000	(4)	0.03%
TSAI Chung, Joseph	53,729,896	(5)	2.14%
PENG Yi Jie, Sabrina	653,967	(6)	0.03%
TSUEI, Andrew Tien-Yuan	728,000	(7)	0.03%
KWAN Ming Sang, Savio	9,800,000	(8)	0.39%

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Notes:

- (1) These securities represent (a) 1,173,177 issued shares of the Offeror directly held by Mr. Ma; (b) 84,000,000 issued shares of the Offeror 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 the Offeror 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 the Offeror directly issued to Mr. Ma; (e) relevant interests in respect of 2,100,000 underlying shares of the Offeror 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 the Offeror; and (f) 50,000,000 issued shares of the Offeror held by APN Ltd. (a company controlled by Mr. Ma).
- (2) These securities represent (a) 90,000 issued shares of the Offeror directly held by Mr. Lu; (b) restricted share units in respect of 45,000 underlying shares of the Offeror granted by the Offeror to Mr. Lu; (c) 4,073,449 issued shares of the Offeror held by Eagletron Management Limited; and (d) relevant interests in respect of 3,000,000 underlying shares of the Offeror held by Alternate Solutions Management Limited, which were owned by Eagletron Management Limited pursuant to the senior management equity incentive scheme of the Offeror. Securities as mentioned in (a) to (d) have all been pledged by Mr. Lu to the Offeror to secure repayment of a loan granted to him by the Offeror for the purpose of exercising certain options in respect of the Offeror's shares.
- (3) These securities represent (a) 10,000 issued shares of the Offeror directly held by Ms. Wu; (b) restricted share units in respect of 52,500 underlying shares of the Offeror granted by the Offeror to Ms. Wu; (c) relevant interests in respect of 400,000 underlying shares of the Offeror 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 the Offeror; and (d) 252,236 shares of the Offeror held by the trust founded by Ms. Wu.
- (4) These securities represent (a) 300,000 issued shares of the Offeror directly held by Mr. Ye; and (b) 350,000 outstanding options to purchase shares of the Offeror directly issued to Mr. Ye.
- (5) These securities represent (a) 2,642,964 issued shares of the Offeror directly held by Mr. Tsai; (b) 160,000 issued shares of the Offeror directly held by Clara Wu Ming-Hua; (c) 4,020,980 issued shares of the Offeror 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 the Offeror held by Parufam Limited; (e) 21,000,000 issued shares of the Offeror 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 the Offeror directly issued to Mr. Tsai; and (g) relevant interests in respect of 1,200,000 underlying shares of the Offeror held by Alternate Solutions Management Limited, which were owned by Parufam Limited pursuant to the senior management equity incentive scheme of the Offeror.
- (6) These securities represent (a) 5,000 issued shares of the Offeror directly held by Ms. Peng; (b) restricted share units in respect of 15,000 underlying shares of the Offeror granted by the Offeror to Ms. Peng; (c) 333,967 issued shares of the Offeror held by a trust founded by Ms. Peng; and (d) relevant interests in respect of 300,000 underlying shares of the Offeror 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 the Offeror. Securities as mentioned in (b) and (c) had all been pledged by Ms. Peng to the Offeror to secure repayment of the loan granted to her by the Offeror in connection with her exercise in respect of the Offeror's shares in 2009.
- (7) These securities represent 728,000 outstanding options to purchase shares of the Offeror directly issued to Mr. Tsuei.
- (8) These securities represent 9,800,000 issued shares of the Offeror 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).

During the Disclosure Period, save as disclosed in the table below, none of the Directors had dealt for value in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares:

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

Party	Trade Date	Transaction	Number of Offeror's shares	Execution price per Offeror's share
MA Yun, Jack	October 21, 2011	Transfer to a controlled corporation	35,000,000	0.00
	October 21, 2011	Acquisition by a controlled corporation	15,000,000	0.00
	October 21, 2011	Pledge of shares	50,000,000	0.00
TSAI Chung, Joseph	October 27, 2011	Sell	10,800,000	US\$13.50
	December 9, 2011	Sell	1,200,000	US\$13.50
	October 21, 2011	Sell	15,000,000	0.00
	October 27, 2011	Sell	7,200,000	US\$13.50
LU Zhaoxi, Jonathan	December 9, 2011	Sell	800,000	US\$13.50
	October 27, 2011	Sell	1,545,319	US\$13.50
	October 31, 2011	Sell	1,248,076	US\$13.50
WU Wei, Maggie	January 31, 2012	Vesting of restricted share units	15,000	0.00
	October 27, 2011	Sell	204,832	US\$13.50
	October 31, 2011	Sell	165,432	US\$13.50
	January 31, 2012	Vesting of restricted share units	10,000	0.00
PENG Yi Jie, Sabrina	October 27, 2011	Sell	188,661	US\$13.50
	October 31, 2011	Sell	152,372	US\$13.50
	January 31, 2012	Vesting of restricted share units	5,000	0.00
TSUEI, Andrew Tien-Yuan	October 31, 2011	Exercise of option	72,000	US\$2.65
KWAN Ming Sang, Savio	October 31, 2011	Sell	392,000	US\$13.50
	October 31, 2011	Sell	3,000,000	US\$13.50

(c) Arrangements with the Offeror and its concert parties in respect of the Proposal

As at the Latest Practicable Date:

- (i) there were no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Hong Kong Takeovers Code exist between the Offeror or any person acting in concert with the Offeror and any other person;
- (ii) there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme;
- (iii) save for the Shares to be pledged in favour of the lenders in accordance with the terms of the loan documentation entered into, or to be entered into, in relation to the Proposal and the Share Incentives Offer (details of which are set out in the section headed "8. Total consideration" in Part VII – Explanatory Statement of this Scheme Document), the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme to any other person, and has no agreement, arrangement or understanding with any third party to do so; and
- (iv) none of the Offeror and the Offeror Concert Parties, the Company or the Directors had borrowed or lent any Shares or convertible securities, warrants, options or derivatives in respect of any Shares, save as disclosed at paragraph 4(a)(iii) above of this Appendix II and save for any borrowed shares, convertible securities, warrants, options or derivatives which have been either on-lent or sold.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

(d) Other interests

- (i) No benefit is or will be paid to any Director as compensation for loss of office or otherwise in connection with the Scheme.
- (ii) No agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror or any Offeror Concert Parties and any of the Directors, recent Directors, Shareholders or recent Shareholders, which has any connection with or dependence upon the Scheme.
- (iii) No agreement or arrangement exists between any Director and any other person, which is conditional upon the outcome of the Scheme or otherwise in connection with the Scheme.
- (iv) No material contract has been entered into by the Offeror in which any Director has a material personal interest.
- (iv) Save as disclosed below, as at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months preceding the Announcement Date; or (b) is a continuous contract with a notice period of 12 months or more; or (c) is a fixed term contract that has more than 12 months to run irrespective of the notice period:

Name of Director	Date of service contract	Term of service contract	Amount of remuneration
LU Zhaoxi, Jonathan	June 16, 2011	June 16, 2011 – May 9, 2012 (expected to be renewed upon expiry of the current term)	Monthly salary which is fixed at RMB171,000 (including allowance) as at the Latest Practicable Date
WU Wei, Maggie	July 28, 2010	July 28, 2010 – July 27, 2013	Monthly salary which is fixed at RMB220,900 (including allowance) as at the Latest Practicable Date
YE Peng	June 16, 2011	June 16, 2011 – September 20, 2013	Monthly salary which is fixed at RMB106,500 (including allowance) as at the Latest Practicable Date
PENG Yi Jie, Sabrina	March 2, 2009	March 2, 2009 – March 1, 2012	Monthly salary which was fixed at RMB67,400 (including allowance) at the time of expiry of the service contract
	March 2, 2012	March 2, 2012 – March 1, 2015 (Note 1)	Monthly salary which was fixed at RMB67,400 (including allowance) at the time of termination of the service contract
	March 12, 2012	March 2, 2012 – March 1, 2015 (Note 2)	Monthly salary which is fixed at RMB75,000 (including allowance) as at the Latest Practicable Date

Notes:

- (1) This service contract was terminated on March 12, 2012 upon Ms. Peng's transfer to the Offeror as vice president of business development.
- (2) This service contract was entered into between a wholly-owned PRC subsidiary of the Offeror and Ms. Peng upon Ms. Peng's transfer to the Offeror on March 12, 2012.

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

Neither the Company nor any of its subsidiaries has entered into any material contracts (not being contracts entered into in the ordinary course of business) after the date two years before the Announcement Date up to and including the Latest Practicable Date.

7. EXPERTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in the Scheme Document:

Name	Qualifications
Rothschild	A licensed corporation under the Securities and Futures Ordinance, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
Credit Suisse	A licensed corporation under the Securities and Futures Ordinance, licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the Securities and Futures Ordinance
Deutsche Bank	A Registered Institution with respect to Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management) under the Securities and Futures Ordinance, and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
Somerley	A licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

8. CONSENTS

Each of Rothschild, Credit Suisse, Deutsche Bank and Somerley has given and has not withdrawn its written consent to the issue of the Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

9. MISCELLANEOUS

- (a) The Directors are:

Chairman and Non-executive Director
MA Yun, Jack

Executive Directors
LU Zhaoxi, Jonathan
WU Wei, Maggie
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
KWAIK Teh Ming, Walter
TSUEI, Andrew Tien-Yuan
KWAN Ming Sang, Savio

- (b) The Company Secretary of the Company is WONG Lai Kin, Elsa.
- (c) The registered office of the Company is situated at Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 847GT Grand Cayman, Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (e) The principal share registrar of the Company is HSBC Trustee (Cayman) Limited, PO Box 484, HSBC House, 68 West Bay Road, Grand Cayman, KY1-1106, Cayman Islands.
- (f) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (g) The directors of the Offeror are:
- MA Yun, Jack
TSAI Chung, Joseph
MORSE, Timothy R.
SON, Masayoshi

APPENDIX II – GENERAL INFORMATION ON THE COMPANY AND THE OFFEROR

- (h) The registered office of the Offeror is Offices of Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands. The correspondence address of the Offeror in Hong Kong is c/o Alibaba Group Services Limited at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (i) The Offeror is a company incorporated in the Cayman Islands on June 28, 1999 with limited liability.
- (j) The principal place of business of Rothschild in Hong Kong is 16th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong.
- (k) The principal place of business of Credit Suisse in Hong Kong is Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.
- (l) The principal place of business of Deutsche Bank in Hong Kong is Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.
- (m) The registered office of HSBC in Hong Kong is 1 Queen's Road Central, Hong Kong.
- (n) The principal place of business of Somerley in Hong Kong is 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at (i) the office of the Company located at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday, (ii) on the website of the Company at <http://ir.alibaba.com> and (iii) the website of Securities and Futures Commission at www.sfc.hk from April 24, 2012 until the earlier of: (i) the Effective Date or the closing date of the Share Incentives Offer, whichever is later, and (ii) the date on which the Scheme or the Share Incentives Offer lapses or is withdrawn, whichever is later:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the years ended December 31, 2009, 2010 and 2011;
- (d) the letter from the Board, the text of which is set out in Part IV of the Scheme Document;
- (e) the letter from the Independent Board Committee, the text of which is set out in Part V of the Scheme Document;
- (f) the letter from the Independent Financial Advisor, the text of which is set out in Part VI of the Scheme Document;
- (g) written consents referred to in the section headed "8. Consents" in Appendix II – General Information on the Company and the Offeror to the Scheme Document;
- (h) the service contracts referred to in the section headed "4. Disclosure of Interests – (d) Other Interests" in Appendix II – General Information on the Company and the Offeror to the Scheme Document; and
- (i) the Scheme Document.

APPENDIX III – SCHEME OF ARRANGEMENT

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO: FSD 38 OF 2012

IN THE MATTER OF

ALIBABA.COM LIMITED

AND IN THE MATTER OF

SECTION 86 OF THE COMPANIES LAW (2011 REVISION) OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT

between

ALIBABA.COM LIMITED

and

THE HOLDERS OF SCHEME SHARES

(as hereinafter defined)

- (A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“Alibaba Group Treasury Limited”	Alibaba Group Treasury Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Offeror
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
“Cancellation Price”	the cancellation price of HK\$13.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“Companies Law”	the Companies Law (2011 Revision) of the Cayman Islands, as consolidated and revised
“Company”	Alibaba.com Limited, a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1688)

APPENDIX III – SCHEME OF ARRANGEMENT

“Direct Solutions Management Limited”	Direct Solutions Management Limited, a limited liability company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Offeror
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the Order of the Cayman Islands Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be June 19, 2012 (Cayman Islands time)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Latest Practicable Date”	April 20, 2012, being the latest practicable date for ascertaining certain information contained in the Scheme Document
“Offeror”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands with limited liability and a substantial shareholder of the Company
“Offeror Concert Parties”	parties acting or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Hong Kong Takeovers Code, which include Alibaba Group Treasury Limited, Direct Solutions Management Limited, Mr. MA Yun, Jack, Mr. TSAI Chung, Joseph, Credit Suisse Group, Deutsche Bank Group, HSBC Group, HSBC Trustee (Hong Kong) Limited, Softbank and Yahoo!
“Proposal”	the proposal for the privatization of the Company by the Offeror by way of the Scheme
“Record Date”	June 19, 2012, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
“Record Time”	4:30 p.m. (Hong Kong time) on the Record Date
“Register”	the principal or branch register of members of the Company (as the case may be)

APPENDIX III – SCHEME OF ARRANGEMENT

- “Scheme”** a scheme of arrangement under section 86 of the Companies Law involving the cancellation of all the Scheme Shares, and the subsequent issue of an equivalent number of new Shares to the Offeror
- “Scheme Document”** this composite document, including each of the letters, statements, appendices and notices in it
- “Scheme Shares”** Share(s) other than those held directly or indirectly by the Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited as at the Record Time on the Record Date
- “Scheme Shareholders”** holder(s) of Scheme Shares as at the Record Time on the Record Date
- “Share(s)”** ordinary share(s) of HK\$0.0001 each in the share capital of the Company
- (B) The Company was incorporated as an exempted company on September 20, 2006 in the Cayman Islands under the Companies Law.
- (C) The authorized share capital of the Company as at the Latest Practicable Date was HK\$800,000.00 divided into 8,000,000,000 Shares of HK\$0.0001 of which 5,005,071,959 shares were issued and fully paid, with the remainder being unissued.
- (D) the Offeror has proposed the privatisation of the Company by way of the Scheme.
1. The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished and that the Company should become a wholly-owned subsidiary of the Offeror (which holds 100% of the Company’s Shares by itself and via its wholly-owned subsidiaries, Alibaba Group Treasury Limited and Direct Solutions Management Limited).
 2. On the Latest Practicable Date, 3,642,829,333 Shares were legally owned by the Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited as follows:

Name	Shareholding
Offeror	2,604,574,904 Shares
Alibaba Group Treasury Limited	1,000,000,000 Shares
Direct Solutions Management Limited	38,254,429 Shares

APPENDIX III – SCHEME OF ARRANGEMENT

3. On the Latest Practicable Date, an aggregate of 1,069,555,472 Shares were legally and/or beneficially owned by the Offeror Concert Parties and registered as follows:

Offer Concert Party	Registered holder of Shares	Number of Shares
Mr. MA Yun, Jack	HKSCC Nominees Limited	15,369,053
Mr. TSAI Chung, Joseph	HKSCC Nominees Limited	3,120,000
Credit Suisse Group (<i>Note 1</i>)	HKSCC Nominees Limited	2,254,500
Deutsche Bank Group (<i>Note 2</i>)	HKSCC Nominees Limited	31,165
HSBC Group (<i>Note 3</i>)	HKSCC Nominees Limited	8,131,866
HSBC Trustee (Hong Kong) Limited (<i>Note 4</i>)	HKSCC Nominees Limited	2,394,459

Notes:

- (1) Credit Suisse and persons controlling, controlled by or under the same control as Credit Suisse, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Credit Suisse Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.
- (2) Deutsche Bank and persons controlling, controlled by or under the same control as Deutsche Bank, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**Deutsche Bank Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Codes.
- (3) HSBC and persons controlling, controlled by or under the same control as HSBC, other than persons holding the status of exempt fund manager on an ongoing basis or granted the status of exempt principal trader on an ad hoc basis in respect of the Proposal ("**HSBC Group**"), are treated as being in concert with the Offeror in accordance with class 5 of the definition of "Acting in concert" in the Hong Kong Takeovers Code.

As at the Latest Practicable Date, 8,131,866 Shares (out of which 206,615 Shares were proprietarily held and 7,925,251 Shares were under discretionary management authority) were proprietarily held by and/or under the discretionary management authority of the HSBC Group. The 8,131,866 Shares do not include 2,394,459 Shares held by HSBC Trustee (Hong Kong) Limited as the trustee in relation to the Share Award Scheme.

- (4) HSBC Trustee (Hong Kong) Limited is the trustee in relation to the Share Award Scheme and currently holds 2,394,459 Shares. The Company does not issue any Shares to satisfy the Share Awards but provides sufficient funds by way of gift to enable HSBC Trustee (Hong Kong) Limited to purchase sufficient Shares on the market to satisfy Share Awards that vest. Under the terms of the trust deed, HSBC Trustee (Hong Kong) limited is prohibited from exercising any voting rights in respect of any Shares held under the trust.
4. Each of the Offeror Concert Parties, being presumed to be acting in concert with the Offeror under the Hong Kong Takeovers Code, therefore will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Cayman Islands Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
5. The Offeror, Alibaba Group Treasury Limited and Direct Solutions Management Limited have undertaken to the Cayman Islands Grand Court to be bound by the Scheme, and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

APPENDIX III – SCHEME OF ARRANGEMENT

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing to the Offeror the same number of Shares as the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares issued to the Offeror, credited as fully paid.

PART II

Consideration for the cancellation and extinguishment of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III

General

3.
 - (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders checks in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
 - (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all such checks shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
 - (c) Checks shall be posted at the risk of the addressee and neither the Offeror nor the Company shall be responsible for any loss or delay in the transmission of the same.
 - (d) Each check shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such check shall be a good discharge to the Offeror for the monies represented thereby.

APPENDIX III – SCHEME OF ARRANGEMENT

- (e) On or after the day being six calendar months after the posting of the check pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such check which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Offeror with a licensed bank of Hong Kong selected by the Company. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the checks referred to in paragraphs (b) of this Clause 3 of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.
 5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 6. Subject to Clause 1, this Scheme shall become effective as soon as a copy of the order of the Cayman Islands Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been registered by the Registrar of Companies in the Cayman Islands.
 7. Unless this Scheme shall have become effective on or before June 20, 2012 or such later date, if any, as the Company and the Offeror may agree, or as the Cayman Islands Grand Court, on application of the Company and/or the Offeror may allow, this Scheme shall lapse.
 8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Cayman Islands Grand Court may think fit to approve or impose.
 9. All costs, charges and expenses of the advisors and counsels appointed by Offeree, including the Independent Financial Advisor, will be borne by the Offeree, all costs, charges and expenses of the advisors and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be shared between the Offeror and the Offeree equally.

April 24, 2012

APPENDIX IV – NOTICE OF COURT MEETING

IN THE GRAND COURT OF THE CAYMAN ISLANDS FINANCIAL SERVICES DIVISION

Cause No. FSD 38 of 2012

IN THE MATTER of section 86 of the Companies Law (2011 Revision)

AND IN THE MATTER of Alibaba.com Limited

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated April 20, 2012 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Alibaba.com Limited (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at, Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on May 25, 2012 at 9:00 a.m. at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated April 24, 2012 dispatched to members of the Company on April 24, 2012.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named shareholder being the senior.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 9:00 a.m. on May 23, 2012, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting.

APPENDIX IV – NOTICE OF COURT MEETING

By the Order, the Court has appointed KWAIK Teh Ming, Walter, a director of the Company, or failing him, KWAN Ming Sang, Savio, also a director of the Company, or failing him, TSUEI, Andrew Tien-Yuan, also a director of the Company, or failing him any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
Alibaba.com Limited

Dated April 24, 2012

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



ALIBABA.COM LIMITED

阿里巴巴網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1688)

NOTICE OF

EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Alibaba.com Limited (the “**Company**”) will be held at Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on May 25, 2012 at 9:30 a.m. (Hong Kong time) (or immediately after the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following special resolution:

SPECIAL RESOLUTION

THAT:

- (a) for the purposes of giving effect to the scheme of arrangement dated April 24, 2012 (the “**Scheme of Arrangement**”) between the Company and the holders of Scheme Shares (as defined in the Scheme of Arrangement), on the Effective Date (as defined in the Scheme of Arrangement):
 - (i) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon such reduction of share capital taking effect, the issued share capital of the Company shall be increased to its former amount by the issue of the same number of ordinary shares of HK\$0.0001 each in the capital of the Company as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (iii) the Company shall apply the credit arising in its books of account as a result of such capital reduction in paying up in full at par the new ordinary shares of HK\$0.0001 each in the capital of the Company issued as aforesaid, credited as fully paid, to Alibaba Group Holding Limited; and
- (b) the directors of the Company be and are hereby authorized to do all such acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of or addition to, the Scheme of Arrangement, which the Grand Court of the Cayman Islands may see fit to impose.

By Order of the Board
Alibaba.com Limited
Wong Lai Kin, Elsa
Company Secretary

Dated April 24, 2012

APPENDIX V – NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Notes:

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint another person (who must be an individual) to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the Scheme Document containing the Scheme of Arrangement dated April 24, 2012 dispatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at Computershare Hong Kong Investor Services Limited, the Hong Kong share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time for holding the extraordinary general meeting (or any adjournment thereof) at which the person named in the **white** form of proxy proposes to vote, failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting (or any adjournment thereof) and voting in person if he so wishes. In that event his form of proxy will be deemed to have been revoked.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding, the first named shareholder being the senior.
- (5) Pursuant to article 90 of the articles of association of the Company, a resolution put to the vote of the extraordinary general meeting shall be decided on a poll.
- (6) The register of members of the Company will be closed from May 11, 2012 to May 15, 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on May 10, 2012.

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

The following is a form of the Share Incentives Offer Letter being sent to holders of Share Options, RSUs, Share Awards, Offeror Share Options and Offeror RSUs in connection with the Share Incentives Offer.



Joint Financial Advisors to Alibaba Group Holding Limited

April 24, 2012

To the Share Incentive Holders

Dear Sir or Madam

SHARE INCENTIVES OFFER
IN RELATION TO
PROPOSED PRIVATIZATION OF
ALIBABA.COM LIMITED
BY ALIBABA GROUP HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS)
AT THE CANCELLATION PRICE OF HK\$13.50 PER SCHEME SHARE

A scheme document dated the same date as this letter issued jointly by the Offeror and the Company (the “**Scheme Document**”) and a form of acceptance is provided to you together with this letter. Terms used but not defined in this letter shall have the same meanings as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On February 21, 2012, the Offeror and the Company jointly announced that on February 12, 2012, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatization of the Company by way of the Scheme. As stated in the Announcement, the Offeror will make an appropriate offer to the holders of Share Options, RSUs, Share Awards, Offeror Share Options and Offeror RSUs (together, the “**Share Incentives**”), subject to and conditional upon the Scheme becoming effective and binding.

This letter explains the terms of the Share Incentives Offer and the actions you may take in relation to any Share Incentives held by you. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the documentation under which each of your Share Incentives was granted (including the terms of the Share Option Scheme, RSU Scheme and Share Award Scheme, and the terms of the award agreements in relation to the Offeror Share Options and the Offeror RSUs, as applicable).

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

TERMS OF THE SHARE INCENTIVES OFFER

On behalf of the Offeror, we offer to pay you, on a staggered basis in accordance with the existing vesting schedule and subject to the other terms of your Share Incentives, the amounts as set out in the table below for each of your: (i) unvested Share Incentives that you hold as at the Share Incentives Record Date; and (ii) vested Share Incentives that you hold as at the Share Incentives Record Date, in respect of which the underlying Shares are not registered in your name (or in the name of your nominee) before the Record Date.

Share Incentive	Cash consideration
For each Share Option	HK\$13.50 minus the exercise price of the relevant Share Option*
For each RSU	HK\$13.50
For each Share Award	HK\$13.50
For each Offeror Share Option	HK\$13.50 minus the exercise price of the relevant Offeror Share Option*
For each Offeror RSU	HK\$13.50

* The relevant exercise price applicable to each Share Option ranges from HK\$5.54 to HK\$20.60. The relevant exercise price applicable to each Offeror Share Option ranges from HK\$0.13 to HK\$20.60. Please refer to the tables in the section headed “2. Terms of the Proposal” in Part VII – Explanatory Statement of the Scheme Document for a list of all exercise prices applicable to the Share Options and Offeror Share Options and their corresponding “see-through” prices. If the exercise price of the relevant Share Option or Offeror Share Option granted to you exceeds HK\$13.50, the “see-through” price is zero and a cash offer of a nominal amount (of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof)) will be made.

In consideration for our agreement to pay you the cash consideration set out above (as applicable to your holdings of Share Incentives): (i) all rights and obligations under your Share Options, RSUs and Share Awards (in each case, if any) will be transferred to the Offeror and will be immediately cancelled by the Offeror; and (ii) all rights and obligations under your Offeror Share Options and Offeror RSUs (in each case, if any) will be cancelled by the Offeror.

Conditions of the Share Incentives Offer

The Share Incentives Offer is conditional upon the Scheme becoming effective. The Share Incentives Offer will become unconditional immediately upon the Scheme becoming effective and prior to Alibaba.com being de-listed from the Hong Kong Stock Exchange.

The Conditions of the Proposal and the Scheme are set out in the section headed “3. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Statement of the Scheme Document. You are further advised to refer to the sections headed “21. Registration and payment – Payment of Share Incentive Holders” and “22. Overseas Shareholders and Share Incentive Holders” in Part VII – Explanatory Statement of the Scheme Document.

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

Payments under the Share Incentives Offer

Any cash entitlements under the Share Incentives Offer will be paid in accordance with the existing vesting schedules of your Share Incentives, net of any applicable taxes. Payment in respect of Share Incentives that have vested before the Share Incentives Record Date (but in respect of which the underlying Shares have not been registered in the name of the relevant holder (or its nominee), before the Record Date), shall be made as soon as possible and in any event within seven Business Days of the Effective Date, or in the case of Forms of Acceptance received after the Effective Date, within seven Business Days of receipt of the relevant Form of Acceptance. Payment in respect of each unvested Share Incentive will be made by the Offeror within 60 days of the vesting date of the relevant Share Incentive. The vesting schedule for your Share Incentives is set out in the notice(s) of grant relating to your Share Incentives. Your cash entitlements under the Share Incentives Offer will continue to be subject to the conditions to entitlement under the terms of your Share Incentives, including the requirement to remain in employment or service of the Offeror Group or the Group.

Payment will be made either by way of (i) electronic bank transfer into a bank or brokerage account as customarily used by you to receive Shares or other compensation from the Company or the Offeror, or (ii) physical delivery to you of a check. Payments will be made in Hong Kong dollars (with regard to Share Incentive Holders based in Mainland China, subject to SAFE approval, payment of an equivalent amount will be made in Renminbi at the then prevailing exchange rate with reference to the mid point exchange rate published by the People's Bank of China at the time of payment). You may face delays or obstacles in changing Hong Kong dollars or Renminbi to other currency or cashing such checks in certain locations or situations. Not all banks in the PRC will readily exchange HKD for Renminbi or cash HKD checks and likewise banks that are outside the PRC may not readily exchange Renminbi to another currency or cash Renminbi checks.

COURSES OF ACTION AVAILABLE TO HOLDERS OF SHARE INCENTIVES

The choices available to you in respect of your Share Incentives are set out below.

(A) Accept the Share Incentives Offer

The Share Incentives Offer shall be in respect of (i) all vested Share Incentives that you hold as at the Share Incentives Record Date (being June 19, 2012) and for which you (or your nominee) have not been registered as the holder of the underlying Shares before the Record Date (being June 19, 2012) and (ii) all unvested Share Incentives as at the Share Incentives Record Date (being June 19, 2012).

You may choose to accept the Share Incentives Offer on the terms (including all declarations and undertakings) as set out in this letter and the enclosed Form of Acceptance, by ticking the "Accept" box on the Form of Acceptance and returning it in accordance with the instructions set out below. Such acceptance of the Share Incentives Offer will be in respect of all Share Incentives held by you on the Share Incentives Record Date, including any Share Options or Offeror Share Options that have an exercise price greater than HK\$13.50.

(B) Reject the Share Incentives Offer

If you choose to reject the Share Incentives Offer, please tick the "Reject" box on the enclosed Form of Acceptance and return it in accordance with the instructions set out below. Such rejection of the Share Incentives Offer will be in respect of all Share Incentives held by you on the Share Incentives Record Date including any Share Options or Offeror Share Options that have an exercise price lower than HK\$13.50.

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

If you reject the Share Incentives Offer, any RSUs that you may hold will still be automatically cancelled upon the Record Date under the terms of the RSU Scheme.

Under the terms of the Share Options, Share Awards, Offeror Share Options and Offeror RSUs, these Share Incentives will not be automatically cancelled upon the Record Date. Please note, however, that the Offeror intends the Company to become and to remain a wholly-owned subsidiary of the Offeror (whether directly or indirectly) on and from the Effective Date. In view of that intention, the Offeror may take steps to ensure that the Company remains a wholly-owned subsidiary by, for example, amending the terms of the Share Incentives schemes and/or amending the terms of the articles of association of the Company to ensure that Share Incentive Holders are not entitled to receive any Shares. Accordingly, you should note that there is no certainty that you will receive any consideration for your Share Incentives if you reject the Share Incentives Offer.

If you reject the Share Incentives Offer, you will not be entitled to receive the cash consideration offered in respect of any of your Share Incentives.

Following receipt of this letter, if you (i) choose to do nothing (including not returning a Form of Acceptance) or (ii) fail to tick either an “Accept” or “Reject” box on a returned Form of Acceptance, and the Scheme becomes effective, you will be treated as if you had returned a duly executed Form of Acceptance with the “Accept” box ticked in respect of all Share Incentives held by you on the Share Incentives Record Date.

(C) Become a Scheme Shareholder

If any of your Share Options or Offeror Share Options are or become exercisable, you may choose to pay the exercise price and applicable taxes and exercise your Share Options or Offeror Share Options under their terms prior to the Latest Options Exercise Date. If, as a result, you are a registered holder of the underlying Shares as at the Record Date (being June 19, 2012), such Shares will form part of the Scheme Shares and will be cancelled if the Scheme becomes effective. You will then be entitled to receive the Cancellation Price for your Scheme Shares.

Similarly, if any of your RSUs, Share Awards or Offeror RSUs vest prior to the Latest Incentives Vesting Date and, as a result, you are a registered holder of the underlying Shares as at the Record Date (being June 19, 2012), such Shares will form part of the Scheme Shares and will be cancelled if the Scheme becomes effective. You will then be entitled to receive the Cancellation Price for your Scheme Shares.

Please note, however, that as the cash consideration offered for each Share Incentive under the Share Incentives Offer is based on a “see-through price” equal to the Cancellation Price of HK\$13.50 minus any applicable exercise price, there is no monetary benefit in taking this course of action. Nonetheless, holders of Scheme Shares as at the Meeting Record Date will be entitled, subject to the Hong Kong Takeovers Code, to attend and vote at the Court Meeting and the Extraordinary General Meeting, whereas you will not have such right to attend and vote if you are only a Share Incentive Holder.

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

HOW TO RETURN THE FORM OF ACCEPTANCE

You should return the completed Form of Acceptance to the Offeror, care of Alibaba Group Services Limited at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, for the attention of the HR Department of the Offeror and marked “Alibaba.com Limited – Share Incentives Offer”, by no later than 4:30 p.m. on July 3, 2012 (or such other date and time as may be notified to you by Rothschild, Credit Suisse, Deutsche Bank or the Offeror).

Before forwarding the Form of Acceptance to the HR Department of the Offeror, please ensure that you have completed and signed the Form of Acceptance and that your signature has been witnessed.

No acknowledgment of receipt of the Form of Acceptance or any other documents will be given.

SHARE INCENTIVES HELD AS AT MARCH 31, 2012

Information on the Share Incentives held by you as at March 31, 2012 can be obtained through the HR platform on your PeopleSoft online portal. Such information will be updated on a regular basis. If you require further information or have any enquiries, you may send an email to option@alibaba-inc.com.

LAPSED SHARE INCENTIVES

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Incentive which lapses, will lapse, or has already lapsed, under the terms of its applicable scheme or grant. You cannot accept the Share Incentives Offer in respect of a Share Incentive which has lapsed or will have lapsed by the Share Incentives Record Date.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the Share Incentive Holders set out in Part V of the Scheme Document and the letter from Somerley, the Independent Financial Advisor, set out in Part VI of the Scheme Document which contain the recommendation of the Independent Board Committee and of the Independent Financial Advisor, respectively, in relation to the Proposal, the Scheme and the Share Incentives Offer.

INDEPENDENT FINANCIAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional advisor.

DECLARATION

By signing and returning the Form of Acceptance, you:

- (a) confirm that you have read, understood and agreed to the terms and conditions of the Share Incentives Offer (including without limitation those set out in this letter and the Form of Acceptance), and that you have received the Scheme Document and this letter;

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

- (b) confirm that all the Share Incentives held by you in respect of which you accept the Share Incentives Offer are valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
- (c) acknowledge that you cease to have any rights or obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of all the Share Incentives (including any Share Option or Offeror Share Option for which you are only entitled to receive a nominal amount of cash consideration, of HK\$0.05 per 500 Share Options (or part thereof) or 500 Offeror Share Options (or part thereof), because the exercise price of the relevant Share Option or Offeror Share Option exceeds the Cancellation Price) you hold in respect of which you accept the Share Incentives Offer, and you agree that all rights and obligations under all Share Incentives held by you in respect of which you accept the Share Incentives Offer will be cancelled;
- (d) confirm that any acceptance of the Share Incentives Offer cannot be withdrawn or altered;
- (e) authorize the Company and the Offeror, jointly and severally, or any director or officer of the Company or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to or in consequence of your acceptance of the Share Incentives Offer, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance (including consenting to the Company, the Board or the Offeror, as applicable, exercising its rights to amend the terms of your Share Incentives such that they may be transferred to the Offeror); and
- (f) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney or agent appointed by or pursuant to this letter or the Form of Acceptance.

GENERAL

All communications, notices, Forms of Acceptance, checks, certificates and other documents of any nature to be delivered by or sent to or from holders of Share Incentives will be delivered by or sent to or from them, or their designated agents, at their risk, and none of Rothschild, Credit Suisse, Deutsche Bank, the Offeror or the Company accepts any liability for any loss or any other liabilities whatsoever which may arise as a result. This letter shall be taken as having been received by you within two Business Days of its dispatch.

The provisions set out in the Form of Acceptance form part of the terms of the Share Incentives Offer.

The Share Incentives Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

Due execution of the Form of Acceptance in respect of the Share Incentives Offer will constitute an authority to Rothschild, Credit Suisse, Deutsche Bank, the Offeror, any director of the Offeror, the board of directors of the Offeror or their respective agents to complete and execute any document on behalf of the accepting holder of Share Incentives and to do any other act, that may be necessary or expedient for the purpose of transferring to the Offeror or such person(s) as the Offeror shall direct, all rights of the holders of Share Incentives in respect of the Share Incentives which are the subject of such acceptance.

APPENDIX VI – FORM OF SHARE INCENTIVES OFFER LETTER

The delivery of the Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the instructions set out in the Form of Acceptance and this letter, including the date specified for receipt.

By accepting the Share Incentives Offer in respect of a particular Share Incentive, you irrevocably and at your own risk elect to authorize the Offeror to send to you, or procure the sending to you of, the cash to which you are entitled.

Any acceptance of the Share Incentives Offer and the receipt of cash consideration may trigger taxes subject to withholding obligations of the Offeror. Cash consideration under the Share Incentives Offer will be paid to you net of such applicable taxes, if any. All Share Incentive Holders are recommended to consult their professional advisors if in any doubt as to the taxation implications of the Share Incentives Offer.

RESPONSIBILITY STATEMENTS

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this letter (other than those expressed by the directors of the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

Yours truly,
For and on behalf of
**Rothschild (Hong Kong)
Limited**

Catherine Yien
Director

Yours truly,
For and on behalf of
**Credit Suisse (Hong Kong)
Limited**

Karen Wong
Director

Yours truly,
For and on behalf of
**Deutsche Bank AG
Hong Kong Branch**

Gordon Paterson
Managing Director

James Thomson
Director