

Global Offering



Alibaba Group

阿里巴巴集团

Stock Code: 9988

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)

CICC Credit Suisse

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Citigroup J.P. Morgan Morgan Stanley

Joint Bookrunners and Joint Lead Managers

HSBC ICBCI

Senior Joint Lead Managers

Deutsche Bank DBS Mizuho

Joint Lead Managers

ABCI BOCI BOCOMI CCBI CLSA CMBI YFS

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Alibaba Group Holding Limited 阿里巴巴集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 500,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 12,500,000 Shares (subject to adjustment)
Number of International Offer Shares	: 487,500,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Public Offer Price	: HK\$188.00 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Par value	: US\$0.000003125 per Share
Stock code	: 9988

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)

CICC

Credit Suisse

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Citigroup

J.P. Morgan

Morgan Stanley

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Delivered to the Registrar of Companies" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

We expect to determine the pricing of the Offer Shares by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters) on or about Wednesday, November 20, 2019 and, in any event, not later than Monday, November 25, 2019. The Public Offer Price will be not more than HK\$188.00 per Offer Share, unless otherwise announced. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, November 25, 2019, the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process. If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) if certain events occur prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

Our ADSs, each of which represents eight ordinary shares, are listed for trading on the NYSE under the symbol "BABA." The last reported sale price of the ADSs on the NYSE on November 12, 2019 was US\$186.97 per ADS. In connection with the Global Offering, we have filed a registration statement on Form F-3ASR and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the U.S. Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We have one class of Shares, and each holder of our Shares is entitled to one vote per Share. As the Alibaba Partnership's director nomination rights are categorized as a weighted voting rights structure, or WVR structure, under the Hong Kong Listing Rules, we are deemed as a company with a WVR structure. Prospective investors should be aware of the potential risks of investing in a company with a WVR structure. For further information about the risks associated with our WVR structure, see the section headed "Risk Factors — Risks Related to Our Corporate Structure." Prospective investors should make the decision to invest in us only after due and careful consideration.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.alibabagroup.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

November 15, 2019

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.alibabagroup.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 3426 9988 on the following dates:

Friday, November 15, 2019 – 9:00 a.m. to 9:00 p.m.
Saturday, November 16, 2019 – 9:00 a.m. to 6:00 p.m.
Sunday, November 17, 2019 – 9:00 a.m. to 6:00 p.m.
Monday, November 18, 2019 – 9:00 a.m. to 9:00 p.m.
Tuesday, November 19, 2019 – 9:00 a.m. to 9:00 p.m.
Wednesday, November 20, 2019 – 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

If you are an **intermediary, broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

IMPORTANT

Your application must be for a minimum of 100 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
100	18,989.45	3,500	664,630.67	70,000	13,292,613.32	3,000,000	569,683,428.00
200	37,978.90	4,000	759,577.90	80,000	15,191,558.08	4,000,000	759,577,904.00
300	56,968.34	4,500	854,525.14	90,000	17,090,502.84	5,000,000	949,472,380.00
400	75,957.79	5,000	949,472.38	100,000	18,989,447.60	6,250,000 ⁽¹⁾	1,186,840,475.00
500	94,947.24	6,000	1,139,366.86	200,000	37,978,895.20		
600	113,936.69	7,000	1,329,261.33	300,000	56,968,342.80		
700	132,926.13	8,000	1,519,155.81	400,000	75,957,790.40		
800	151,915.58	9,000	1,709,050.28	500,000	94,947,238.00		
900	170,905.03	10,000	1,898,944.76	600,000	113,936,685.60		
1,000	189,894.48	20,000	3,797,889.52	700,000	132,926,133.20		
1,500	284,841.71	30,000	5,696,834.28	800,000	151,915,580.80		
2,000	379,788.95	40,000	7,595,779.04	900,000	170,905,028.40		
2,500	474,736.19	50,000	9,494,723.80	1,000,000	189,894,476.00		
3,000	569,683.43	60,000	11,393,668.56	2,000,000	379,788,952.00		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences 9:00 a.m. on Friday,
November 15, 2019

Latest time for completing electronic applications
under **White Form eIPO** service through
the designated website www.eipo.com.hk⁽²⁾ 11:30 a.m. on Wednesday,
November 20, 2019

Application lists open⁽³⁾ 11:45 a.m. on Wednesday,
November 20, 2019

Latest time for (a) completing payment for
White Form eIPO applications by effecting internet
banking transfer(s) or PPS payment transfer(s) and
(b) giving **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Wednesday,
November 20, 2019

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close⁽³⁾ 12:00 noon on Wednesday,
November 20, 2019

Expected Price Determination Date⁽⁵⁾ Wednesday, November 20, 2019

Announcement of the Public Offer Price and
the International Offer Price on our website
at www.alibabagroup.com and the website of
the Hong Kong Stock Exchange
at www.hkexnews.hk on or around Wednesday, November 20, 2019

Announcement of the level of indications of interest in the
International Offering, the level of applications
in the Hong Kong Public Offering and the basis
of allocation of the Hong Kong Offer Shares on
our website at www.alibabagroup.com and
the website of the Hong Kong Stock Exchange
at www.hkexnews.hk on or before Monday, November 25, 2019

The results of allocations in the
Hong Kong Public Offering (with successful applicants'
identification document numbers, where appropriate)
to be available through a variety of channels,
including:

- in the announcement to be posted on our website and
the website of the Hong Kong Stock Exchange
at www.alibabagroup.com and
www.hkexnews.hk, respectively Monday, November 25, 2019

EXPECTED TIMETABLE⁽¹⁾

- from the designated results of allocations website at www.iporeresults.com.hk (alternatively: English <http://www.eipo.com.hk/en/Allotment>; Chinese <http://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function from 8:00 a.m. on Monday, November 25, 2019 to 12:00 midnight on Sunday, December 1, 2019
- from the allocation results telephone enquiry by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, November 25, 2019 to Thursday, November 28, 2019

Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before⁽⁷⁾⁽⁹⁾ Monday, November 25, 2019

White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or around⁽⁸⁾⁽⁹⁾ Monday, November 25, 2019

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on Tuesday, November 26, 2019

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, November 20, 2019, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker** or **custodian** to apply on your behalf via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — A. Applications for the Hong Kong Offer Shares — 6. Applying Through CCASS EIPO Service” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Wednesday, November 20, 2019 and, in any event, not later than Monday, November 25, 2019. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, November 25, 2019, the Global Offering will not proceed and will lapse.
- (6) None of the websites set out in this section or any of the information contained on the websites forms part of this prospectus.

EXPECTED TIMETABLE⁽¹⁾

- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.
- (9) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, November 25, 2019 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through CCASS EIPO service should refer to the section headed “How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks — Personal Collection — If you apply through CCASS EIPO service” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed “How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks” in this prospectus.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, Joint Global Coordinators, Joint Bookrunners, Senior Joint Lead Managers and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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The Gartner Report(s) described herein, (the “Gartner Report(s)”) represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (“Gartner”), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

LETTER FROM CHAIRMAN AND CEO

Dear Alibaba Investors,

Thank you for your interest in and support for Alibaba Group. Today we are launching our listing in Hong Kong. As a young company that is only 20 years old, it is a new starting point for Alibaba.

The world is transforming into a digital economy. We are living through an extraordinary era – one full of changes, challenges and opportunities. Against this backdrop, how will Alibaba remain true to our mission and continue to innovate and create value for society, our merchants and consumers, and our shareholders? I would like to share with you our philosophy, our plans and our course of action.

Be a Good Company that Lasts for 102 Years

Alibaba is a company driven by mission, vision and values. The essence of Alibaba's culture comes from our belief in the good of humanity and society. With the advent of the digital economy, we think about what can change and what will remain constant. Upon celebrating our 20th anniversary celebration recently, we took a fresh look at our mission, vision and values.

Our original mission – “to make it easy to do business anywhere” – remains unchanged, but we updated our “102-year” vision to say that we want to be a *good company* that lasts for 102 years. Alibaba does not seek to be the biggest or the strongest. Rather, we aspire to be a company that does good: brings positive energy to society; takes on greater social responsibility; serves small businesses; and brings appreciation and satisfaction to our employees and shareholders.

At the same time, we refreshed Alibaba's six core values. We replaced the original six concepts with six vintage colloquial phrases, each of which represents a slice of Alibaba's history, with stories that reflect Alibaba's distinctive cultural outlook and the difficult choices we have made along the way. These values are captured in six phrases:

- Customers first, employees second, shareholders third
- Trust makes everything simple
- Change is the only constant
- Today's best performance is tomorrow's baseline
- If not now, when? If not me, who?
- Live seriously, work happily

Alibaba's culture is grounded in our core values, and these have led us from being just a dream to where we are today. No matter how the world changes around us, the only way for us to move forward is to stay true to our mission, vision and values.

LETTER FROM CHAIRMAN AND CEO

A New Business Paradigm in the Digital Economy Era

The hallmark of the digital economy is the ongoing integration between the internet and manufacturing, agricultural, services and the public sector across multiple dimensions. This has prompted the emergence of a new business paradigm that is grounded in the principles of openness, sharing, collaboration and mutual success. It is a departure from the traditional zero-sum business model with a renewed focus on the interests of customers and shared value creation. Digital technology will bring about more inclusive opportunities and more sustainable developments across society. Alibaba is eager to make its own unique contributions in shaping the new business paradigm of the digital economy.

After 20 years of development, Alibaba has transformed from an e-commerce company to the basic infrastructure for the digital economy with an ecosystem that encompasses digital commerce, financial technology, intelligent logistics, cloud computing and big data. With many partners and service providers across the digital economy serving both consumers and enterprises, we have created and stimulated new consumption patterns and at the same time helped enterprises across industries to accomplish their digital transformation. We hope to help tens of thousands of small businesses to blossom, as well as supporting the development of new unicorns and companies on their way to becoming giants.

Our Overall Goal and Strategy for the Future

As we celebrated Alibaba's 20th anniversary in September, we shared our strategic goals for the next five years: serve global consumers, of which more than 1 billion will be Chinese consumers, and facilitate more than RMB10 trillion of consumption on our platforms. Our longer-term goals by the year 2036 are to serve 2 billion consumers globally, create 100 million jobs, and provide the necessary infrastructure to support 10 million small businesses to become profitable on our platforms.

To realize these goals, we must continue to pursue three strategic pillars: globalization, domestic consumption, and big data powered by cloud computing.

1. Globalization is the future of Alibaba Group. We firmly believe the marriage of digital technology and commerce will bring about unprecedented change that will not be limited by borders. The pervasive application of digital technology in areas such as commerce, finance and logistics will significantly improve the efficiency of trade between different countries and different markets. It will truly help make it easy to do business *anywhere* in the most literal way.

We will continue to leverage our go-to-market approach of “Global Buy, Global Sell, Global Pay, Global Delivery and Global Fun” to drive growth and prosperity across the global digital economy.

LETTER FROM CHAIRMAN AND CEO

2. Domestic consumption is the future of China's economy, which is in the process of transitioning from an investment-and export-driven economy into a consumption-led economy. Today on Alibaba's China retail marketplaces, we have 785 million mobile monthly active users. These users are incredibly active and young and represent China's future consumption power.

The substantial growth potential of domestic consumption is being propelled by China's urbanization, emergence of hundreds of millions of middle-class consumers and the conversion of all consumers into internet users. These trends will provide opportunities for digital technology to create new consumption possibilities.

Through bringing about diverse supply of products and services, we hope to fulfill the needs of all consumers in all segments. Further, we hope to re-model the supply side through big data and leverage innovation to connect supply directly to the market, thereby stimulating new demand among consumers.

3. Big data and cloud computing are respectively the fuel and engine of the digital economy. The Alibaba digital economy not only generates a continuous flow of data, the application of data intelligence in all aspects of our business enables our ecosystem to grow and prosper. We believe that in the era of the digital economy, productivity will be defined by computing power.

In the future, all businesses will look like internet companies as big data drive their business decisions and operations. The vast opportunity for Alibaba is not just the upgrade of a particular industry, but rather the transformation of all industries. Therefore, we are fully invested in the development of the Alibaba Business Operating System, which will offer our capabilities in digital commerce, financial technology, intelligent logistics and cloud computing to our customers and partners. Through this, we hope to help them to successfully carry out their digital transformation.

Preservation of Culture and Our Future

Culture is the bedrock of Alibaba, while innovation is in our DNA. In the past ten years, we have developed and practiced a corporate governance model based on a partnership structure. We stand by our partnership system in order to achieve continuity of our culture founded on mission, vision and values.

On September 10th, we completed a comprehensive upgrade of our management team, an important step in our future development. In this fast-changing world, we need to keep innovating and constantly challenge and even disrupt ourselves, and we use the same approach in developing our talent. This is why we seek to identify and promote future shapers, encourage our young people to create and experiment, enable women to take on senior roles within our company, and nurture diversity to advance our globalization.

We will shape an environment that encourages our employees to be socially-conscious and be always curious about the future. We want the world to experience more compassion and optimism because of Alibaba.

LETTER FROM CHAIRMAN AND CEO

Back to Hong Kong

When Alibaba Group went public in 2014, we missed out on Hong Kong with regret. Hong Kong is one of the world's most important financial centers. Over the last few years, there have been many encouraging reforms in Hong Kong's capital market. During this time of ongoing change, we continue to believe that the future of Hong Kong remains bright. We hope we can contribute, in our small way, and participate in the future of Hong Kong.

Thank you once again for supporting and participating in Alibaba's development. We have a saying at Alibaba: "Believing is seeing," and the future belongs to those who "believe in belief." Alibaba will continue to persevere!

Daniel Zhang

Alibaba Group Chairman and Chief Executive Officer

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

Our Mission

Our mission is to make it easy to do business anywhere.

Our founders started our company to champion small businesses, in the belief that the Internet would level the playing field by enabling small enterprises to leverage innovation and technology to grow and compete more effectively in domestic and global economies. Our decisions are guided by how they serve our mission over the long-term, not by the pursuit of short-term gains.

Our Vision

We aim to build the future infrastructure of commerce. We envision that our customers will meet, work and live at Alibaba. We do not pursue size or power; we aspire to be a good company that will last for 102 years.

As we continue to expand our businesses from commerce to cloud computing, digital media and entertainment, among other sectors, Alibaba has evolved into a digital economy that is unique, energetic and innovative. We have set five-year goals to serve global consumers, of which more than 1 billion will be Chinese consumers, and facilitate more than RMB10 trillion of consumption on our platforms. We believe the five-year goals put us closer to achieving our vision for 2036: to be serving 2 billion global consumers, empowering 10 million profitable businesses and to have created 100 million jobs.

Our Values

Our values are fundamental to the way we operate and how we recruit, evaluate and compensate our people. Our six values are:

- Customers first, employees second, shareholders third
- Trust makes everything simple
- Change is the only constant
- Today’s best performance is tomorrow’s baseline
- If not now, when? If not me, who? and
- Live seriously, work happily

SUMMARY

Company Overview

To fulfill our mission “to make it easy to do business anywhere,” we enable businesses to transform the way they market, sell and operate and improve their efficiencies. We provide the technology infrastructure and marketing reach to help merchants, brands and other businesses to leverage the power of new technology to engage with their users and customers and operate in a more efficient way.

Our businesses are comprised of core commerce, cloud computing, digital media and entertainment, and innovation initiatives. In addition, Ant Financial, an unconsolidated related party, provides payment and financial services to consumers and merchants on our platforms. A digital economy has developed around our platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses.

Core Commerce

Retail commerce in China

We are the largest retail commerce business in the world in terms of GMV in the twelve months ended March 31, 2019, according to Analysys. We operate Taobao Marketplace, China’s largest mobile commerce destination with a large and growing social community, and Tmall, the world’s largest third-party online and mobile commerce platform for brands and retailers, in each case in terms of GMV in the twelve months ended March 31, 2019, according to Analysys.

We have introduced New Retail initiatives to reengineer the fundamentals of retail operations and transform the retail landscape. New Retail represents the convergence of online and offline retail by leveraging digitalized operating systems, in-store technology, supply chain systems, consumer insights and the mobile ecosystem to provide a seamless shopping experience for consumers. For example, Freshippo (known as “Hema” in Chinese), our proprietary grocery retail chain, creates a new shopping experience through converging online and offline activities by using retail stores to warehouse and fulfill online orders, in addition to offering a rich and fun experience for customers who shop in-store.

Retail commerce – cross-border and global

We operate Lazada’s leading e-commerce platform across Southeast Asia. AliExpress, one of our global retail marketplaces, enables global consumers to buy directly from manufacturers and distributors in China and around the world. Tmall Global is the largest import e-commerce platform in China based on GMV in the twelve months ended March 31, 2019, according to Analysys. In September 2019, we acquired Kaola, an import e-commerce platform in China, to further broaden our offerings and strengthen our leadership in cross-border retail commerce. Additionally, Tmall World, a Chinese-language e-commerce platform, enables overseas Chinese consumers to shop directly from Chinese domestic brands and retailers. We also operate Trendyol in Turkey, and Daraz, which primarily operates in Pakistan and Bangladesh. Both Trendyol and Daraz operate leading e-commerce platforms in their respective markets.

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Wholesale commerce in China

We operate 1688.com, China's leading integrated domestic wholesale marketplace in 2018 by revenue, according to Analysys, and Lingshoutong (零售通), a digital sourcing platform that connects FMCG brand manufacturers and their distributors directly to local mom-and-pop stores in China.

Wholesale commerce – cross-border and global

We operate Alibaba.com, China's largest integrated international online wholesale marketplace in 2018 by revenue, according to Analysys. As of March 31, 2019, buyers on Alibaba.com were located in over 190 countries.

Logistics services

We operate Cainiao Network's logistics data platform and global fulfillment network that primarily leverages the capacity and capabilities of logistics partners. It offers domestic and international one-stop-shop logistics services and supply chain management solutions, fulfilling various logistics needs of merchants and consumers at scale, serving our digital economy and beyond. We use Cainiao Network's data insights and technology to facilitate the digitalization of the entire warehousing, fulfillment and delivery process, thereby improving efficiency across the logistics value chain. In addition, we also operate Ele.me's local on-demand delivery network, known as Fengniao Logistics, to deliver food, beverages, groceries, among other products, to consumers on a timely basis.

Consumer services

We operate Ele.me, a leading on-demand delivery and local services platform, and Koubei, a leading restaurant and local services guide platform for in-store consumption. Ele.me and Koubei operate under a single management team, and they leverage our user base and data technology to expand our offerings from shopping to services. We also operate Fliggy, a leading online travel platform.

Cloud Computing

We operate Alibaba Cloud, the world's third largest, and Asia Pacific's largest, IaaS and Infrastructure Utility Services provider by revenue in 2018 in U.S. dollars, according to Gartner. Alibaba Cloud is also China's largest provider of public cloud services by revenue in 2018, including PaaS and IaaS services, according to IDC. Alibaba Cloud offers a complete suite of cloud services, including elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform, and IoT services, serving our digital economy and beyond.

Digital Media and Entertainment

Digital media and entertainment is a natural extension of our strategy to capture our users' consumption beyond core commerce, creating significant synergies across our digital economy. We leverage on insights from our core commerce businesses to deliver relevant digital media and entertainment content to consumers to create a superior entertainment experience. Our two key distribution platforms are Youku, the third largest online video platform in China in terms of monthly active users in March 2019, according to QuestMobile, and UC Browser, one of the top mobile browsers in the world in terms of page views in March 2019, according to StatCounter (<http://gs.statcounter.com>). We also

SUMMARY

operate Alibaba Pictures, an Internet-driven integrated platform for the entertainment industry, and other content platforms, such as news feeds, literature and music. Our platforms enable users to discover and consume content as well as interact with each other.

Innovation Initiatives

We continue to innovate and develop new service offerings and products with the goals of meeting the needs and improving efficiency in the daily lives of our customers and creating synergies among our digital economy participants. Amap, the largest provider of mobile digital map, navigation and real-time traffic information in China by monthly active users in March 2019, according to QuestMobile, empowers our businesses and third-party mobile apps through its map data technology. DingTalk, the largest business efficiency app in China by monthly active users in March 2019, according to QuestMobile, enables communication in multiple formats, workflow management and network collaboration among team members and enterprises, all through a single interface. Tmall Genie, the No. 1 smart speaker in China by shipments in 2018, according to IDC, provides a new and interactive interface for our customers to easily access services offered by our digital economy participants.

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Our Digital Economy

A digital economy has developed around our platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses. At the nexus of this digital economy are our technology platform, our marketplace rules and the role we play in connecting these participants to make it possible for them to discover, engage and transact with each other and manage their businesses anytime and anywhere. Our digital economy has strong self-reinforcing network effects benefitting its various participants, who are in turn invested in our digital economy's growth and success.

The following chart sets forth the key businesses and services provided by us and Ant Financial, our major cooperation partner.



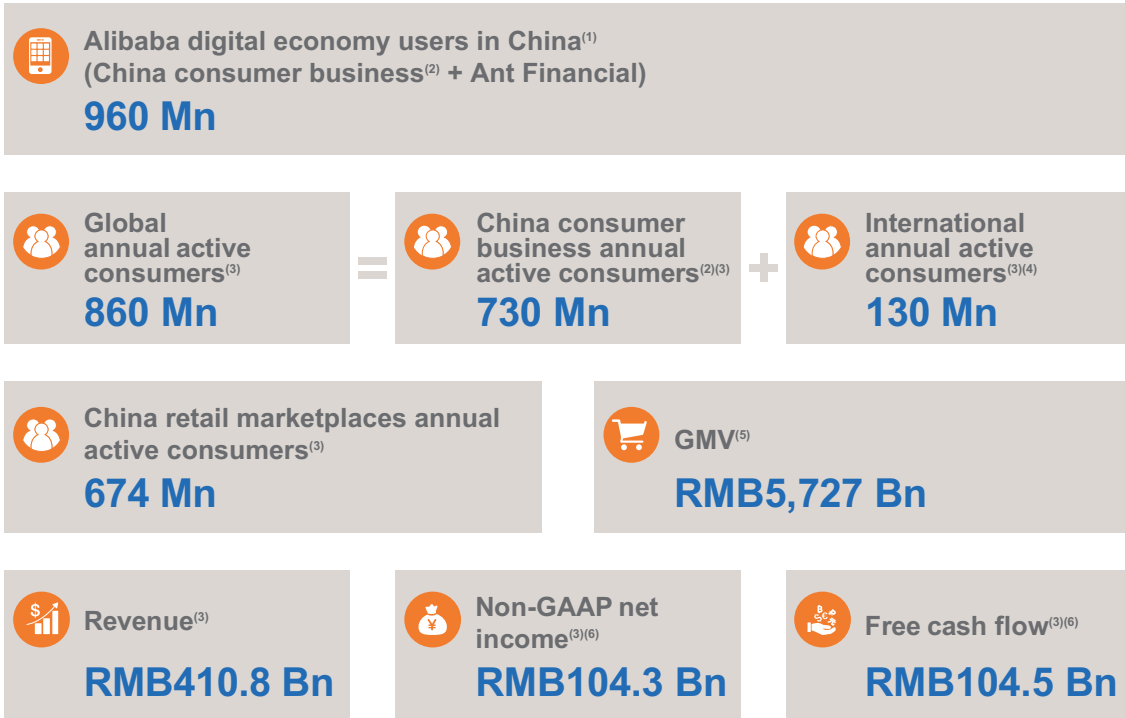
Infrastructural Elements of Alibaba Digital Economy

* We do not consolidate Ant Financial in our financial statements.

SUMMARY

Our Scale

Our business and digital economy as a whole have achieved significant scale:



Notes:

- (1) Deduplicated sum of annual active consumers from our China consumer business and Ant Financial's annual active users in China for the twelve months ended June 30, 2019.
- (2) Our China consumer business refers to our consumer-facing businesses in China, primarily including our China retail marketplaces, local consumer services and Youku, collectively.
- (3) For the twelve months ended June 30, 2019.
- (4) Deduplicated sum of annual active consumers from Lazada and AliExpress.
- (5) For our China retail marketplaces, for the twelve months ended March 31, 2019.
- (6) See "Financial Information — Non-GAAP Measures" for the definitions and reconciliation of these non-GAAP measures to the nearest comparable U.S. GAAP measures.

Our Strengths

We believe that our following strengths contribute to our success and are differentiating factors that set us apart from our peers:

- Innovative culture and capabilities;
- Management team with owner mentality and proven track record;

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- Trusted brands;
- Consumer insights;
- Reliable, scalable and cost-effective proprietary technology; and
- Thriving digital economy with powerful network effects.

Our Strategies

We will continue to innovate in the areas of business models, products and services, and technology to create value for both consumers and businesses. We formulate and evolve strategies that aim to best serve the interests of consumers and businesses. Our strategies include a focus on:

- Driving user growth and engagement;
- Empowering businesses to facilitate digital transformation and improve operational efficiency; and
- Continuing to innovate.

Summary of Historical Financial Information

The selected consolidated income statements data for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2019, and the selected consolidated balance sheet data as of March 31, 2017, 2018 and 2019 and June 30, 2019 have been derived from our audited consolidated financial statements contained in the Accountant's Report in Appendix IA to this prospectus. The selected consolidated income statements data for the three months ended June 30, 2018 have been derived from our unaudited interim condensed consolidated financial information included in this prospectus and have been prepared on the same basis as our audited consolidated financial statements. Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

The following selected consolidated financial data for the periods and as of the dates indicated are qualified by reference to and should be read in conjunction with the Accountant's Report in Appendix IA to this prospectus and the section titled "Financial Information" in this prospectus.

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB6.8650 to US\$1.00, the exchange rate on June 28, 2019 set forth in the H.10 statistical release of the Federal Reserve Board.

Our historical results for any prior period do not necessarily indicate our results to be expected for any future period.

Factors Affecting Our Results of Operations

The following are the primary factors affecting our results of operations:

- Our ability to create value for our users and generate revenue;
- The operating leverage of our business model;

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- Our investment in user base, technology, people, infrastructure, and innovative business model; and
- Our strategic investments and acquisitions.

For additional information, see “Financial Information — Factors Affecting Our Results of Operations.”

Selected Consolidated Income Statements Data

The following table sets out our selected consolidated income statements data for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018 ⁽¹⁾	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in millions, except per share data)					
Revenue						
Core commerce	133,880	214,020	323,400	69,188	99,544	14,500
Cloud computing	6,663	13,390	24,702	4,698	7,787	1,134
Digital media and entertainment	14,733	19,564	24,077	5,975	6,312	920
Innovation initiatives and others	2,997	3,292	4,665	1,059	1,281	187
Total	158,273	250,266	376,844	80,920	114,924	16,741
Income from operations ⁽²⁾	48,055	69,314	57,084	8,020	24,375	3,551
Net income	41,226	61,412	80,234	7,650	19,122	2,785
Diluted earnings per share ⁽³⁾	2.12	3.06	4.17	0.41	1.01	0.15
Diluted earnings per ADS ⁽³⁾	16.97	24.51	33.38	3.30	8.06	1.17
Supplemental Information —						
Non-GAAP measures⁽⁴⁾:						
Adjusted EBITDA	74,456	105,792	121,943	29,359	39,238	5,716
Adjusted EBITA	69,172	97,003	106,981	26,502	34,556	5,034
Marketplace-based core commerce adjusted EBITA	N/A ⁽⁵⁾	122,883	161,589	36,956	46,800	6,817
Non-GAAP net income	57,871	83,214	93,407	20,101	30,949	4,508
Non-GAAP diluted earnings per share ⁽³⁾ ...	2.93	4.11	4.80	1.01	1.57	0.23
Non-GAAP diluted earnings per ADS ⁽³⁾ ...	23.44	32.86	38.40	8.04	12.55	1.83
Free cash flow	71,318	99,996	104,478	26,358	26,361	3,840

(1) The financial information for the three months ended June 30, 2018 was unaudited.

(2) For details concerning income (loss) from operations on a segmental basis, see “Financial Information — Segment Information.”

(3) Effective on July 30, 2019, we subdivided each of our issued and unissued ordinary shares into eight Shares. Following the simultaneous adjustment of the ADS-to-Share ratio, each ADS represents eight Shares.

(4) See “Financial Information — Non-GAAP Measures” for the definitions and reconciliation of these non-GAAP measures to the nearest comparable U.S. GAAP measures. Marketplace-based core commerce adjusted EBITA represents adjusted EBITA for core commerce excluding the effects of (i) local consumer services, (ii) Lazada, (iii) New Retail and direct import and (iv) Cainiao Network.

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- (5) We introduced marketplace-based core commerce adjusted EBITA as a non-GAAP measure as of the date we announced our financial results for the three months ended June 30, 2018, and accordingly commenced preparing and disclosing this non-GAAP measure since then, while providing the metric for the immediately preceding comparable periods.

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018 ⁽¹⁾	2019
	%	%	%	%	%
	(as percentage of revenue)				
Revenue					
Core commerce	85	86	86	86	87
Cloud computing	4	5	7	6	7
Digital media and entertainment ...	9	8	6	7	5
Innovation initiatives and others ...	2	1	1	1	1
Total	100	100	100	100	100
Income from operations	30	28	15	10	21
Net income	26	25	21	9	17
Supplemental Information — Non-GAAP measures⁽²⁾:					
Adjusted EBITDA	47	42	32	36	34
Adjusted EBITA	44	39	28	33	30
Non-GAAP net income	37	33	25	25	27

(1) The financial information for the three months ended June 30, 2018 was unaudited.

(2) See “Financial Information — Non-GAAP Measures” for the definitions and reconciliation of these non-GAAP measures to the nearest comparable U.S. GAAP measures.

We achieved significant growth and strong operating results during the Track Record Period. For a discussion and analysis of the reasons for the changes in our key financial statement line items across periods, please refer to “Financial Information — Components of Results of Operations,” “— Non-GAAP Measures” and “— Results of Operations.”

Selected Consolidated Balance Sheet Data

The table below sets forth our selected consolidated balance sheet data as of the dates indicated:

	As of March 31,			As of June 30,	
	2017	2018	2019	2019	
	RMB	RMB	RMB	RMB	US\$
	(in millions)				
Cash and cash equivalents and short-term investments	146,747	205,395	193,238	212,189	30,909
Investment securities and investments in equity investees ⁽¹⁾	155,874	182,707	251,471	262,736	38,272
Property and equipment, net	20,206	66,489	92,030	94,184	13,719
Goodwill and intangible assets, net	139,528	189,614	333,211	332,913	48,494
Total assets	506,812	717,124	965,076	1,018,854	148,413

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	As of March 31,			As of June 30,	
	2017	2018	2019	2019	
	RMB	RMB	RMB	RMB	US\$
	(in millions)				
Accrued expenses, accounts payable and other liabilities ⁽²⁾	48,269	83,210	123,898	143,161	20,854
Deferred tax liabilities	10,361	19,312	22,517	21,874	3,187
Bank borrowings ⁽³⁾	36,907	40,181	42,783	45,801	6,672
Unsecured senior notes ⁽⁴⁾	54,825	85,372	91,517	93,588	13,632
Total liabilities	182,691	277,685	349,674	373,797	54,450
Total Alibaba Group Holding Limited shareholders' equity	278,799	365,822	492,257	521,033	75,897
Total equity	321,129	436,438	608,583	637,966	92,930

(1) Includes both current and non-current investment securities and investments in equity investees.

(2) Includes both current and non-current other liabilities.

(3) Includes both current and non-current portion of bank borrowings.

(4) Includes both current and non-current portion of unsecured senior notes.

We recorded net current assets of RMB88,300 million, RMB121,045 million, RMB62,604 million, RMB79,932 million (US\$11,643 million), respectively, as of March 31, 2017, 2018 and 2019 and June 30, 2019. For a detailed discussion on our cash position, being the balance sheet items that have material impact on our liquidity, as well as material changes in the various working capital items, see “Financial Information — Liquidity and Capital Resources.”

Selected Operating Data

Annual active consumers

The table below sets forth the number of annual active consumers on our China retail marketplaces for the periods indicated:

	Twelve months ended							
	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
	(in millions)							
Annual active consumers . . .	488	515	552	576	601	636	654	674

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Mobile MAUs

The table below sets forth the mobile MAUs on our China retail marketplaces for the periods indicated:

	The month ended							
	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
	(in millions)							
Mobile MAUs . . .	549	580	617	634	666	699	721	755

GMV

The table below sets forth the GMV in respect of our China retail marketplaces for the periods indicated:

	Year ended March 31,		
	2017	2018	2019
	RMB	RMB	RMB
	(in billions)		
Taobao Marketplace GMV	2,202	2,689	3,115
Tmall GMV	1,565	2,131	2,612
Total GMV	3,767	4,820	5,727

Our Shareholding and Corporate Structure

Our Major Shareholders

SoftBank beneficially owned approximately 25.8% of our issued share capital as of the Latest Practicable Date, and is our largest shareholder. Following completion of the Global Offering, SoftBank will continue to be our largest shareholder. As of the Latest Practicable Date, Jack Ma and Joe Tsai beneficially owned approximately 6.1% and approximately 2.0% of our issued share capital, respectively. As of the Latest Practicable Date, our directors and executive officers, including Jack Ma and Joe Tsai, owned approximately 9.0% of our issued share capital in aggregate.

Alibaba Partnership

Since our founders first gathered in Jack Ma's apartment in 1999, they and our management have acted in the spirit of partnership. We view our culture as fundamental to our success and our ability to serve our customers, develop our employees and deliver long-term value to our shareholders. In July 2010, in order to preserve this spirit of partnership and to ensure the sustainability of our mission, vision and values, we decided to formalize our partnership as Lakeside Partners, named after the Lakeside Gardens residential community where Jack and our other founders started our company. We refer to the partnership as the Alibaba Partnership. The Alibaba Partnership currently has 38 members.

We have one class of Shares, and each holder of our Shares is entitled to one vote per Share. Pursuant to our Articles of Association, the Alibaba Partnership has the exclusive right to nominate or, in limited situations, appoint, up to a simple majority of the members

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of our board of directors. These rights are categorized as a weighted voting rights structure, or WVR structure, under the Hong Kong Listing Rules. As a result, we are deemed as a company with WVR structure. For additional information, see “Alibaba Partnership” and “Risk Factors — Risks Related to Our Corporate Structure.”

Voting Agreement

We have entered into a voting agreement with Jack Ma, Joe Tsai, SoftBank and Alibaba, pursuant to which SoftBank and Alibaba have agreed to vote their Shares in favor of the Alibaba Partnership director nominees at each annual general shareholders meeting for so long as SoftBank owns at least 15% of our outstanding Shares. The voting agreement also provides that SoftBank has the right to nominate one director to our board until SoftBank owns less than 15% of our outstanding Shares, and that right is also reflected in our Articles of Association. Pursuant to the voting agreement, Alibaba, Jack Ma and Joe Tsai have agreed to vote their Shares (including any other Shares over which they have voting power) in favor of the election of the SoftBank director nominee at each annual general shareholders meeting in which the SoftBank nominee stands for election. For additional information, see “Related Party Transactions — Transactions and Agreements with SoftBank and Alibaba — Voting Agreement.”

Our VIE Structure

Due to legal restrictions on foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of ICPs, we, similar to all other entities with foreign-incorporated holding company structures operating in our industries in China, operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited in the PRC through various contractual arrangements with variable interest entities that are incorporated in the PRC and 100% owned by PRC citizens or by PRC entities owned and/or controlled by PRC citizens. The relevant variable interest entities hold the ICP licenses and other regulated licenses and operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited. We have entered into certain contractual arrangements, as described in more detail in “Our History and Corporate Structure — Contractual Arrangements Among Our Wholly-Owned Entities, Variable Interest Entities and the Variable Interest Entity Equity Holders,” which collectively enable us to exercise effective control over the variable interest entities and realize substantially all of the economic risks and benefits arising from the variable interest entities. As a result, we include the financial results of each of the variable interest entities in our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries.

During the Track Record Period, our wholly-owned entities generated the significant majority of our revenue and held the significant majority of our operational assets.

Risk Factors

There are certain risks involved in our business and industries, our corporate structure, our business operations in China, investing in our Shares and ADSs, the Listing and the Global Offering, many of which are beyond our control. For example, these risks include, among others, the following risks relating to our business:

- Any failure to maintain the trusted status of our digital economy could severely damage our reputation and brand;

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- Sustained investment in our business, strategic acquisitions and investments, as well as our focus on long-term performance, and on maintaining the health of our digital economy, may negatively affect our margins and our net income;
- We may not be able to maintain or grow our revenue or our business;
- If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected; and
- We may not be able to maintain and improve the network effects of our digital economy, which could negatively affect our business and prospects.

Use of Proceeds

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$93,542 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$188.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK\$107,605 million if the Over-allotment Option is exercised in full. We plan to use the net proceeds we will receive from the Global Offering for the implementation of our strategies of:

- Driving user growth and engagement;
- Empowering businesses to facilitate digital transformation and improve operational efficiency; and
- Continuing to innovate.

See “Use of Proceeds” for further details.

The Listing

Our ADSs have been listed and traded on the NYSE since September 19, 2014. Dealings in our ADSs on the NYSE have been conducted in U.S. dollars. We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) as well as Chapter 8A (Weighted Voting Rights) of the Hong Kong Listing Rules. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Shares will be traded on the Hong Kong Stock Exchange in board lots of 100 Shares. For additional information, see “Information about the Listing.”

Exceptions and Waivers

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance and the SFO and a ruling under the Takeovers Codes. For additional information, see “Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

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We enjoy exemptions from certain obligations under U.S. securities laws and the NYSE rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when investing in our Shares and/or ADSs. See “Information about the Listing — Summary of Exemptions as a Foreign Private Issuer in the U.S.”

Our Articles of Association

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Articles of Association, the Cayman Companies Law, as well as the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders and the minimum shareholding required to requisition an extraordinary general meeting is one-third of the shareholding. See “Risk Factors — Risks Related to our Shares, ADSs and the Listing — Our shareholders may face difficulties in protecting their interests, and their ability to protect their rights through the U.S. federal courts or Hong Kong courts may be limited because we are incorporated under Cayman Islands law, our Articles of Association include certain provisions that may be different from common practices in Hong Kong, we conduct substantially all of our operations in China and most of our directors and substantially all of our executive officers reside outside the United States and Hong Kong,” “Information about the Listing” and “Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Shareholder Protection” for further details.

Share Split

Our shareholders approved a share split at the annual general meeting held on July 15, 2019, which we refer to as the Share Split. The Share Split became effective on July 30, 2019, on which date each Share was divided into eight Shares, and the par value of our Shares was correspondingly changed from US\$0.000025 per Share to US\$0.000003125 per Share. Immediately after the Share Split became effective, our authorized share capital became US\$100,000 divided into 32,000,000,000 Shares of par value US\$0.000003125 per Share. As of the Latest Practicable Date, after having accounted for the Share Split, our issued share capital was 20,886,784,264 Shares. Following the simultaneous adjustment of the ADS-to-Share ratio, each ADS represents eight Shares.

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Offering Statistics

**Based on the indicative
offer price per Offer
Share of HK\$188.00 for
Both Hong Kong Public
Offering and
International Offering**

Our market capitalization ⁽¹⁾	HK\$4,020,715 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	RMB17.25 or HK\$19.30

Notes:

- (1) The calculation of market capitalization is based on 21,386,784,264 Shares that will be in issue immediately following the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.
- (2) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 21,336,609,360 Shares that will be in issue assuming that the Global Offering have been completed on June 30, 2019 and after having accounted for the Share Split, but without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares that we may make.

Listing Expenses

We expect to incur listing expenses of approximately RMB410 million after June 30, 2019 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$188.00 and the Over-allotment Option is not exercised). We expect to recognize RMB70 million as general and administrative expenses in the fiscal year ending March 31, 2020 and RMB340 million as a deduction in equity directly.

No Material Adverse Change

After due and careful consideration, our directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2019, and there is no event since June 30, 2019 which would materially affect the information shown in the Accountant's Report in Appendix IA to this prospectus.

RECENT DEVELOPMENTS

Selected Investments and Acquisitions

In September 2019, we acquired a 100% equity interest in HQG, Inc., or Kaola, an import e-commerce platform in China, for an aggregate purchase price of US\$1,825 million in cash and shares. With this acquisition, we aim to further elevate our import service and experience for Chinese consumers through synergies across the Alibaba digital economy.

In September 2019, we received a newly-issued 33% equity interest in Ant Financial, and accounted for it under the equity method, following the satisfaction of the closing conditions set forth in the 2014 transaction agreements and the relevant amendments to those agreements. Upon closing of the issuance, the profit-sharing arrangement with Ant Financial terminated.

In October 2019, we, together with Ant Financial, agreed to acquire new and existing shares of Meinian Onehealth Healthcare Holdings Co Ltd, or Meinian, representing a minority stake in Meinian for a total consideration of RMB6,700 million (US\$937 million). The completion of the transaction is subject to customary closing conditions including receipt of the required regulatory approval.

In November 2019, we subscribed for newly issued ordinary shares of Cainiao Network together with certain of Cainiao Network's existing shareholders in connection with its equity financing transaction and to purchase certain equity interest from an existing Cainiao Network shareholder, for a total consideration of US\$3,325 million. Upon the completion of these transactions, our equity interest in Cainiao Network increased from approximately 51% to approximately 63%.

Financial and Operational Highlights

On November 11, 2019, our China retail marketplaces, Lazada, AliExpress, Kaola and new retail and consumer services platforms generated GMV of RMB268.4 billion settled within a 24-hour period.

There were 693 million annual active consumers on our China retail marketplaces for the twelve months ended September 30, 2019. There were 785 million mobile MAUs on our China retail marketplaces for the month ended September 30, 2019.

On November 1, 2019, we announced our financial results for the three months ended September 30, 2019.

Selected Unaudited Consolidated Income Statements Data

The table below sets forth our selected unaudited financial data (including non-GAAP measures) for the three months ended September 30, 2018 and 2019. Our unaudited condensed interim financial information for the three months ended September 30, 2019 is included in Appendix IB to this prospectus. The unaudited condensed interim financial

RECENT DEVELOPMENTS

information for the three months ended September 30, 2019 was prepared on the same basis as our audited consolidated financial statements for the preceding fiscal year. Our selected unaudited financial data for the three months ended September 30, 2019 may not be indicative of our financial results for future interim periods or for the year ending March 31, 2020. Please refer to “Financial Information,” “Risk Factors” and “Our Business” included elsewhere in this prospectus for information regarding trends and other factors that may affect our results of operations.

	Three months ended September 30,			
	2018	2019		
	RMB	RMB	US\$ ⁽¹⁾	YoY % Change
	(in millions, except percentages and per share data)			
Revenue	85,148	119,017	16,651	40%
Income from operations	13,501	20,364	2,849	51%
Operating margin	16%	17%		
Net income	18,241	70,748	9,898	288% ⁽²⁾
Diluted earnings per share ⁽⁴⁾	0.95	3.44	0.48	262% ⁽²⁾
Diluted earnings per ADS ⁽⁴⁾	7.62	27.51	3.85	261% ⁽²⁾
Supplemental Information – Non-GAAP measures⁽³⁾:				
Adjusted EBITDA	26,710	37,101	5,191	39%
Adjusted EBITDA margin	31%	31%		
Adjusted EBITA	23,155	32,091	4,490	39%
Adjusted EBITA margin	27%	27%		
Non-GAAP net income	23,453	32,750	4,582	40%
Non-GAAP diluted earnings per share ⁽⁴⁾	1.20	1.64	0.23	37%
Non-GAAP diluted earnings per ADS ⁽⁴⁾	9.60	13.10	1.83	36%
Free cash flow	16,033	30,488	4,265	90%

- (1) Unless otherwise stated, all translations of RMB into U.S. dollars in this “Recent Developments” section were made at RMB7.1477 to US\$1.00, the exchange rate on September 30, 2019 as set forth in the H.10 statistical release of the Federal Reserve Board. Percentages are calculated based on the RMB amounts and there may be minor differences due to rounding.
- (2) The year-over-year increase was primarily due to a one-time gain of RMB69.2 billion (US\$9.7 billion) recognized upon the receipt of the 33% equity interest in Ant Financial, partly offset by impairment charges and net losses from changes in fair value relating to certain investments and goodwill.
- (3) See “Financial Information — Non-GAAP measures” for definitions of these non-GAAP measures and “—Reconciliations of Non-GAAP Measures to Nearest Comparable U.S. GAAP Measures” for reconciliation of these non-GAAP measures to the nearest comparable U.S. GAAP measures.
- (4) Effective on July 30, 2019, we subdivided each of our issued and unissued ordinary shares into eight Shares. Following the simultaneous adjustment of the ADS-to-Share ratio, each ADS represents eight Shares.

Revenue

Revenue for the three months ended September 30, 2019 was RMB119,017 million (US\$16,651 million), an increase of 40% compared to RMB85,148 million in the same period in 2018. The increase was mainly driven by the robust revenue growth of our China commerce retail business and Alibaba Cloud.

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The following table sets forth a breakdown of our revenue by segment for the periods indicated:

	Three months ended September 30,					
	2018		2019			
	RMB	% of Revenue	RMB	US\$	% of Revenue	YoY% Change
	(in millions, except percentages)					
Core commerce:						
China commerce retail						
– Customer management	32,920	39%	41,301	5,778	35%	25%
– Commission	13,136	15%	16,275	2,277	14%	24%
– Others*	8,095	10%	18,210	2,548	15%	125%
	54,151	64%	75,786	10,603	64%	40%
China commerce wholesale	2,497	3%	3,283	459	3%	31%
International commerce retail	4,464	5%	6,007	840	5%	35%
International commerce wholesale	2,022	2%	2,434	341	2%	20%
Cainiao logistics services	3,206	4%	4,759	666	4%	48%
Local consumer services	5,021	6%	6,835	956	6%	36%
Others	1,114	1%	2,116	296	1%	90%
Total core commerce	72,475	85%	101,220	14,161	85%	40%
Cloud computing	5,667	7%	9,291	1,300	8%	64%
Digital media and entertainment	5,940	7%	7,296	1,021	6%	23%
Innovation initiatives and others	1,066	1%	1,210	169	1%	14%
Total	85,148	100%	119,017	16,651	100%	40%

* “Others” revenue under China commerce retail is primarily generated by our New Retail and direct sales businesses, mainly Freshippo, Tmall Supermarket, direct import and Intime.

Core commerce segment

China commerce retail

Revenue from our China commerce retail business in the three months ended September 30, 2019 was RMB75,786 million (US\$10,603 million), an increase of 40% compared to RMB54,151 million in the same period in 2018. Revenue from our China retail marketplaces continued to see strong growth. Combined customer management and commission revenues grew 25% year-over-year, which represents an increase of 25% in customer management revenue and an increase of 24% in commission revenue. The growth of customer management revenue was primarily the result of increases in the average unit price per click and to a lesser extent the volume of paid clicks. The growth of commission revenue was primarily due to the strong 26% year-over-year growth of Tmall physical goods GMV (excluding unpaid orders). “Others” revenue under China commerce retail business was RMB18,210 million (US\$2,548 million), a significant increase compared to RMB8,095 million in the same period in 2018, primarily driven by contributions from direct sales businesses, including Tmall Supermarket and Freshippo, as well as our consolidation of Kaola starting in September 2019.

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China commerce wholesale

Revenue from our China commerce wholesale business in the three months ended September 30, 2019 was RMB3,283 million (US\$459 million), an increase of 31% compared to RMB2,497 million in the same period in 2018. The increase was primarily due to an increase in revenue from customer management services on 1688.com as well as an increase in revenue from Lingshoutong.

International commerce retail

Revenue from our international commerce retail business in the three months ended September 30, 2019 was RMB6,007 million (US\$840 million), an increase of 35% compared to RMB4,464 million in the same period in 2018. The increase was primarily due to the growth in revenue generated from AliExpress and Lazada.

International commerce wholesale

Revenue from our international commerce wholesale business in the three months ended September 30, 2019 was RMB2,434 million (US\$341 million), an increase of 20% compared to RMB2,022 million in the same period in 2018. The increase was primarily due to increases in the number of paying members and the average revenue from paying members on Alibaba.com.

Cainiao logistics services

Revenue from Cainiao logistics services was RMB4,759 million (US\$666 million) in the three months ended September 30, 2019, an increase of 48% compared to RMB3,206 million in the same period in 2018, mainly due to the increase in the volume of orders fulfilled.

Local consumer services

Revenue from local consumer services was RMB6,835 million (US\$956 million) in the three months ended September 30, 2019, an increase of 36% compared to RMB5,021 million in the same period in 2018, primarily due to the increase in the volume of orders delivered.

Cloud computing segment

Revenue from our cloud computing business in the three months ended September 30, 2019 was RMB9,291 million (US\$1,300 million), an increase of 64% compared to RMB5,667 million in the same period in 2018, primarily driven by an increase in average revenue per customer.

Digital media and entertainment segment

Revenue from our digital media and entertainment business in the three months ended September 30, 2019 was RMB7,296 million (US\$1,021 million), an increase of 23% compared to RMB5,940 million in the same period in 2018. The increase was mainly due to our consolidation of Alibaba Pictures starting in March 2019.

Innovation initiatives and others segment

Revenue from innovation initiatives and others in the three months ended September 30, 2019 was RMB1,210 million (US\$169 million), an increase of 14% compared to RMB1,066 million in the same period in 2018. The increase was mainly due to an increase in revenue from Amap.

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Costs and Expenses

The following tables set forth a breakdown of our costs and expenses, share-based compensation expense and costs and expenses excluding share-based compensation expense by function for the periods indicated.

	Three months ended September 30,					% of Revenue YoY change
	2018		2019			
		% of			% of	
	RMB	Revenue	RMB	US\$	Revenue	
(in millions, except percentages)						
Costs and expenses:						
Cost of revenue	46,786	55%	65,546	9,170	55%	0%
Product development expenses	8,365	10%	10,938	1,530	9%	(1)%
Sales and marketing expenses	9,106	10%	11,996	1,679	10%	0%
General and administrative expenses	4,779	6%	6,591	922	6%	0%
Amortization of intangible assets	2,611	3%	3,006	420	3%	0%
Impairment of goodwill	–	–	576	81	0%	0%
Total costs and expenses	71,647	84%	98,653	13,802	83%	(1)%
Share-based compensation expense:						
Cost of revenue	1,566	2%	2,033	284	2%	0%
Product development expenses	3,078	4%	3,517	492	3%	(1)%
Sales and marketing expenses	746	0%	990	139	1%	1%
General and administrative expenses	1,653	2%	1,605	225	1%	(1)%
Total share-based compensation expense	7,043	8%	8,145	1,140	7%	(1)%
Costs and expenses excluding share-based compensation expense:						
Cost of revenue	45,220	53%	63,513	8,886	53%	0%
Product development expenses	5,287	6%	7,421	1,038	6%	0%
Sales and marketing expenses	8,360	10%	11,006	1,540	9%	(1)%
General and administrative expenses	3,126	4%	4,986	697	5%	1%
Amortization of intangible assets	2,611	3%	3,006	420	3%	0%
Impairment of goodwill	–	–	576	81	0%	0%
Total costs and expenses excluding share-based compensation expense	64,604	76%	90,508	12,662	76%	0%

Cost of revenue

Cost of revenue in the three months ended September 30, 2019 was RMB65,546 million (US\$9,170 million), or 55% of revenue, compared to RMB46,786 million, or 55% of revenue, in the same period in 2018. Without the effect of share-based compensation expense, cost of revenue as a percentage of revenue would have remained stable at 53% in the three months ended September 30, 2019 compared to the same period last year. This reflected an increase in the cost of inventory from our direct sales and New Retail businesses offset by a decrease in content spending by Youku and efficiency gained from our logistics infrastructure and technology.

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Product development expenses

Product development expenses in the three months ended September 30, 2019 were RMB10,938 million (US\$1,530 million), or 9% of revenue, compared to RMB8,365 million, or 10% of revenue, in the same period in 2018. Without the effect of share-based compensation expense, product development expenses as a percentage of revenue would have remained stable at 6% in the three months ended September 30, 2019 compared to the same period last year.

Sales and marketing expenses

Sales and marketing expenses in the three months ended September 30, 2019 were RMB11,996 million (US\$1,679 million), or 10% of revenue, compared to RMB9,106 million, or 10% of revenue, in the same period in 2018. Without the effect of share-based compensation expense, sales and marketing expenses as a percentage of revenue would have decreased from 10% in the three months ended September 30, 2018 to 9% in the three months ended September 30, 2019.

General and administrative expenses

General and administrative expenses in the three months ended September 30, 2019 were RMB6,591 million (US\$922 million), or 6% of revenue, compared to RMB4,779 million, or 6% of revenue, in the same period in 2018. Without the effect of share-based compensation expense, general and administrative expenses as a percentage of revenue would have increased from 4% in the three months ended September 30, 2018 to 5% in the three months ended September 30, 2019.

Amortization of Intangible Assets

Amortization of intangible assets in the three months ended September 30, 2019 was RMB3,006 million (US\$420 million), an increase of 15% from RMB2,611 million in the same period in 2018.

Income from Operations and Operating Margin

Income from operations in the three months ended September 30, 2019 was RMB20,364 million (US\$2,849 million), or 17% of revenue, an increase of 51% compared to RMB13,501 million, or 16% of revenue, in the same period in 2018.

Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA increased 39% to RMB37,101 million (US\$5,191 million) in the three months ended September 30, 2019, compared to RMB26,710 million in the same period in 2018. Adjusted EBITA increased 39% to RMB32,091 million (US\$4,490 million) in the three months ended September 30, 2019, compared to RMB23,155 million in the same period in 2018. See “—Reconciliations of Non-GAAP Measures to the Nearest Comparable U.S. GAAP Measures” for a reconciliation of net income to adjusted EBITDA and adjusted EBITA.

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Adjusted EBITA and Adjusted EBITA margin by segments

The following tables set forth Adjusted EBITA and adjusted EBITA margin by segments for the periods indicated.

	Three months ended September 30,				
	2018		2019		
	RMB	% of Segment Revenue	RMB	US\$	% of Segment Revenue
	(in millions, except percentages)				
Core commerce	29,807	41%	38,574	5,397	38%
Cloud computing	(232)	(4)%	(521)	(73)	(6)%
Digital media and entertainment	(3,802)	(64)%	(2,207)	(309)	(30)%
Innovation initiatives and others	(1,241)	(116)%	(1,917)	(268)	(158)%

Core commerce segment

Adjusted EBITA increased by 29% to RMB38,574 million (US\$5,397 million) in the three months ended September 30, 2019, compared to RMB29,807 million in the same period in 2018. Marketplace-based core commerce adjusted EBITA increased 28% to RMB45,610 million (US\$6,381 million). Adjusted EBITA margin decreased from 41% in the three months ended September 30, 2018 to 38% in the three months ended September 30, 2019 primarily due to a continuing revenue mix shift towards self-operated New Retail and direct sales businesses where revenue is recorded on a gross basis including the cost of inventory. See “—Reconciliations of Non-GAAP Measures to the Nearest Comparable U.S. GAAP Measures” for a reconciliation of adjusted EBITA for core commerce to marketplace-based core commerce adjusted EBITA.

Cloud computing segment

Adjusted EBITA in the three months ended September 30, 2019 was a loss of RMB521 million (US\$73 million), compared to a loss of RMB232 million in the same period in 2018. Adjusted EBITA margin decreased to negative 6% in the three months ended September 30, 2019 from negative 4% in the three months ended September 30, 2018 primarily due to our investments in talent and technology infrastructure.

Digital media and entertainment segment

Adjusted EBITA in the three months ended September 30, 2019 was a loss of RMB2,207 million (US\$309 million), compared to a loss of RMB3,802 million in the same period in 2018. Adjusted EBITA margin improved to negative 30% in the three months ended September 30, 2019 from negative 64% in the three months ended September 30, 2018, primarily due to the measured content spending by Youku.

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Innovation initiatives and others segment

Adjusted EBITA in the three months ended September 30, 2019 was a loss of RMB1,917 million (US\$268 million), compared to a loss of RMB1,241 million in the same period in 2018. The increase in adjusted EBITA loss was primarily due to our investments in research and innovation, as well as investments in other business initiatives.

Interest and Investment Income, Net

Interest and investment income, net in the three months ended September 30, 2019 was RMB63,348 million (US\$8,862 million), compared to RMB6,635 million in the same period in 2018. The increase was primarily due to a one-time gain of RMB69.2 billion (US\$9.7 billion) recognized upon the receipt of the 33% equity interest in Ant Financial, which was partly offset by impairment charges of RMB7,689 million (US\$1,076 million) in relation to certain investments, as well as net losses arising from changes in the fair value of our equity investments.

The gain related to the 33% equity interest in Ant Financial resulted from the transfer of certain intellectual property rights and assets to Ant Financial as set forth under the 2014 transaction agreements and the basis difference determined based on our share of Ant Financial's net assets, net of its corresponding deferred tax effect. This gain was not determined on the basis of Ant Financial's current equity valuation.

The above-mentioned gains or losses were excluded from our non-GAAP net income.

Other Income, Net

Other income, net in the three months ended September 30, 2019 was RMB3,171 million (US\$444 million), compared to other loss, net of RMB1,532 million in the same period in 2018. The increase in other income, net was primarily due to an increase in royalty fees and software technology service fees from Ant Financial and a decrease in exchange loss. Royalty fees and software technology service fees under our profit sharing arrangement with Ant Financial amounted to RMB2,208 million (US\$309 million) in the three months ended September 30, 2019, as compared to a reversal of income in the amount of RMB910 million in the same period last year. The profit sharing arrangement was terminated in September 2019 upon our receipt of the 33% equity interest in Ant Financial.

Income Tax Expenses

Income tax expenses in the three months ended September 30, 2019 were RMB2,815 million (US\$394 million), compared to RMB277 million in the same period in 2018. Our effective tax rate was 3% in the three months ended September 30, 2019, compared to 2% in the same period in 2018. The relatively low effective tax rate reflected the recognition of tax credits of approximately RMB4.1 billion (US\$574 million) during the quarter ended September 30, 2019, compared to RMB4.7 billion in the same quarter last year, as certain key subsidiaries were notified this quarter of the renewal of their Key Software Enterprise status for calendar year 2018 by the relevant tax authorities. Excluding the one-time gain in relation to the receipt of the 33% equity interest in Ant Financial, impairment of investments and goodwill, share-based compensation expense, revaluation and disposal gains/losses of investments, as well as the above-mentioned tax credits from the renewal of the Key Software Enterprise status, our effective tax rate would have been 21% in the three months ended September 30, 2019.

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Share of Results of Equity Investees

Share of results of equity investees in the three months ended September 30, 2019 was a loss of RMB11,960 million (US\$1,673 million), compared to a profit of RMB1,254 million in the same quarter of 2018. Share of results of equity investees in the three months ended September 30, 2019 and the comparative periods consisted of the following:

	Three months ended			
	September 30, 2018	June 30, 2019	September 30, 2019	
	RMB	RMB	RMB	US\$
	(in millions)			
Share of profit (loss) of equity investees ⁽¹⁾	1,735	941	(2)	—
Impairment loss	—	—	(11,590)	(1,621)
Dilution loss	(41)	(5)	(20)	(3)
Others ⁽²⁾	(440)	(419)	(348)	(49)
Total	<u>1,254</u>	<u>517</u>	<u>(11,960)</u>	<u>(1,673)</u>

(1) We record our share of profit (loss) of equity investees one quarter in arrears.

(2) Others mainly include amortization of intangible assets of equity investees and share-based compensation expense.

The year-over-year decrease in share of results of equity investees was mainly due to an impairment loss of RMB11,590 million (US\$1,621 million) with respect to certain equity investees as a result of their prolonged decline in market values against our carrying values.

Net Income

Our net income in the three months ended September 30, 2019 was RMB70,748 million (US\$9,898 million), an increase of 288% compared to RMB18,241 million in the same period in 2018. The increase was primarily due to a one-time gain of RMB69.2 billion (US\$9.7 billion) recognized upon the receipt of the 33% equity interest in Ant Financial, partly offset by impairment charges and net losses from changes in fair value relating to certain investments and goodwill.

Non-GAAP net income

Excluding the one-time gain of RMB69.2 billion (US\$9.7 billion) in relation to the receipt of the 33% equity interest in Ant Financial, impairment of investments and goodwill, share-based compensation expense, revaluation and disposal gains/losses of investments and certain other items, non-GAAP net income in the three months ended September 30, 2019 was RMB32,750 million (US\$4,582 million), an increase of 40% compared to RMB23,453 million in the same period in 2018. See “—Reconciliations of Non-GAAP Measures to the Nearest Comparable U.S. GAAP Measures” for a reconciliation of net income to non-GAAP net income.

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Cash, cash equivalents and short-term investments

As of September 30, 2019, cash, cash equivalents and short-term investments were RMB235,251 million (US\$32,913 million), compared to RMB212,189 million as of June 30, 2019. The increase in cash, cash equivalents and short-term investments during the three months ended September 30, 2019 was primarily due to free cash flow generated from operations of RMB30,488 million (US\$4,265 million), partly offset by net cash used in investment and acquisition activities of RMB9,925 million (US\$1,389 million).

Cash flow from operating activities and free cash flow

Net cash provided by operating activities in the three months ended September 30, 2019 was RMB47,326 million (US\$6,621 million), an increase of 51% compared to RMB31,407 million in the same period in 2018. Free cash flow, a non-GAAP measurement of liquidity, in the three months ended September 30, 2019 increased by 90% to RMB30,488 million (US\$4,265 million), from RMB16,033 million in the same period in 2018, which was primarily due to our robust profitability growth as well as the timing of capital expenditure spending and licensed copyright acquisition. See “— Reconciliation of Non-GAAP Measures to the Nearest Comparable U.S. GAAP Measures” for a reconciliation of net cash provided by operating activities to free cash flow.

Net cash used in investing activities

During the three months ended September 30, 2019, net cash used in investing activities of RMB21,353 million (US\$2,987 million) primarily reflected (i) cash outflow of RMB12,877 million (US\$1,802 million) for investment and acquisition activities, including those relating to STO Express and the acquisition of Kaola, (ii) capital expenditures of RMB9,826 million (US\$1,375 million), which included cash outflow for the acquisition of land use rights and construction in progress relating to office campus of RMB650 million (US\$91 million), as well as (iii) the acquisition of licensed copyrights and other intangible assets of RMB2,451 million (US\$343 million). These cash outflows were partly offset by cash inflow of RMB2,952 million (US\$413 million) from the disposal of various investments. In addition, in connection with the receipt of the 33% equity interest in Ant Financial, the net cash impact was minimal because the consideration paid was fully funded by the amount we received for the transfer of certain intellectual property and assets to Ant Financial.

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Selected Unaudited Consolidated Balance Sheet Data

	As of September 30,	
	2019	
	RMB	US\$
	(in millions)	
Cash and cash equivalents and short-term investments .	235,251	32,913
Investment securities and investments in equity investees ⁽¹⁾	336,710	47,108
Property and equipment, net	100,907	14,118
Goodwill and intangible assets, net	342,733	47,950
Total assets	1,159,577	162,231
Accrued expenses, accounts payable and other liabilities ⁽²⁾	170,799	23,896
Deferred tax liabilities	41,892	5,861
Bank borrowings ⁽³⁾	48,696	6,813
Unsecured senior notes ⁽⁴⁾	96,981	13,568
Total liabilities	431,840	60,417
Total Alibaba Group Holding Limited shareholders' equity	602,799	84,335
Total equity	720,231	100,764

(1) Includes both current and non-current investment securities and investments in equity investees.

(2) Includes both current and non-current other liabilities.

(3) Includes both current and non-current portion of bank borrowings.

(4) Includes both current and non-current portion of unsecured senior notes.

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Segment Information

The table below sets forth selected unaudited financial information of our operating segments for the periods indicated:

Three months ended September 30, 2019							
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	Consolidated	
	RMB	RMB	RMB	RMB	RMB	RMB	US\$
(in millions, except percentages)							
Revenue	101,220	9,291	7,296	1,210	–	119,017	16,651
Income (loss) from operations	32,069	(1,928)	(3,327)	(3,073)	(3,377)	20,364	2,849
Add: Share-based compensation expense	3,901	1,400	790	1,136	918	8,145	1,140
Add: Amortization of intangible assets	2,604	7	330	20	45	3,006	420
Add: Impairment of goodwill	–	–	–	–	576	576	81
Adjusted EBITA	38,574 ⁽²⁾	(521)	(2,207)	(1,917)	(1,838)	32,091	4,490
Adjusted EBITA margin	38%	(6)%	(30)%	(158)%		27%	

Three months ended September 30, 2018							
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	Consolidated	
	RMB	RMB	RMB	RMB	RMB	RMB	
(in millions, except percentages)							
Revenue	72,475	5,667	5,940	1,066	–	85,148	
Income (loss) from operations	24,290	(1,165)	(4,805)	(2,201)	(2,618)	13,501	
Add: Share-based compensation expense	3,292	928	710	952	1,161	7,043	
Add: Amortization of intangible assets	2,225	5	293	8	80	2,611	
Adjusted EBITA	29,807	(232)	(3,802)	(1,241)	(1,377)	23,155	
Adjusted EBITA margin	41%	(4)%	(64)%	(116)%		27%	

(1) Unallocated expenses are primarily related to corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

(2) Marketplace-based core commerce adjusted EBITA increased 28% to RMB45,610 million (US\$6,381 million). A reconciliation of adjusted EBITA for core commerce to marketplace-based core commerce adjusted EBITA is included below.

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Reconciliations of Non-GAAP Measures to the Nearest Comparable U.S. GAAP Measures

The table below sets forth a reconciliation of our net income to adjusted EBITA and adjusted EBITDA for the periods indicated:

	Three months ended September 30,		
	2018	2019	
	RMB	RMB	US\$
	(in millions)		
Net income	18,241	70,748	9,898
Less: Interest and investment income, net . . .	(6,635)	(63,348)	(8,862)
Add: Interest expense	1,340	1,360	190
Less: Other (loss) income, net	1,532	(3,171)	(444)
Add: Income tax expenses	277	2,815	394
Add: Share of results of equity investees . . .	(1,254)	11,960	1,673
Income from operations	13,501	20,364	2,849
Add: Share-based compensation expense . . .	7,043	8,145	1,140
Add: Amortization of intangible assets	2,611	3,006	420
Add: Impairment of goodwill	–	576	81
Adjusted EBITA	23,155	32,091	4,490
Add: Depreciation and amortization of property and equipment, and operating lease cost relating to land use rights	3,555	5,010	701
Adjusted EBITDA	26,710	37,101	5,191

The table below sets forth a reconciliation of adjusted EBITA for core commerce to marketplace-based core commerce adjusted EBITA for the periods indicated:

	Three months ended September 30,		
	2018	2019	
	RMB	RMB	US\$
	(in millions)		
Adjusted EBITA for core commerce	29,807	38,574	5,397
Less: Effects of local consumer services, Lazada, New Retail and direct import and Cainiao Network	5,835	7,036	984
Marketplace-based core commerce adjusted EBITA	35,642	45,610	6,381

RECENT DEVELOPMENTS

The table below sets forth a reconciliation of our net income to non-GAAP net income for the periods indicated:

	Three months ended September 30,		
	2018	2019	
	RMB	RMB	US\$
	(in millions)		
Net income	18,241	70,748	9,898
Add: Share-based compensation expense	7,043	8,145	1,140
Add: Amortization of intangible assets	2,611	3,006	420
Add: Impairment of investments and goodwill	358	19,855	2,778
Less: Gain (Loss) on deemed disposals/disposals/revaluation of investments and others	(5,297)	291	41
Less: Gain in relation to the receipt of the 33% equity interest in Ant Financial	–	(69,225)	(9,685)
Add: Amortization of excess value receivable arising from the restructuring of commercial arrangements with Ant Financial	66	31	4
Adjusted for tax effects on non-GAAP adjustments ⁽¹⁾	431	(101)	(14)
Non-GAAP net income	23,453	32,750	4,582

(1) Tax effects on non-GAAP adjustments primarily comprised of tax effects relating to the amortization of intangible assets and certain gains and losses from investments.

RECENT DEVELOPMENTS

The table below sets forth a reconciliation of our diluted earnings per share/ADS to non-GAAP diluted earnings per share/ADS for the periods indicated:

	Three months ended September 30,		
	2018	2019	
	RMB	RMB	US\$
	(in millions, except per share data)		
Net income attributable to ordinary shareholders – basic	20,033	72,540	10,149
Dilution effect on earnings arising from option plans operated by equity investees and subsidiaries	(12)	(4)	(1)
Net income attributable to ordinary shareholders – diluted	20,021	72,536	10,148
Add: Non-GAAP adjustments to net income ⁽¹⁾	5,212	(37,998)	(5,316)
Non-GAAP net income attributable to ordinary shareholders for computing non-GAAP diluted earnings per share/ADS	25,233	34,538	4,832
Weighted average number of shares on a diluted basis (million shares)⁽⁵⁾	21,023	21,093	
Diluted earnings per share⁽²⁾⁽⁵⁾	0.95	3.44	0.48
Add: Non-GAAP adjustments to net income per share ⁽³⁾⁽⁵⁾	0.25	(1.80)	(0.25)
Non-GAAP diluted earnings per share⁽⁴⁾⁽⁵⁾	1.20	1.64	0.23
Diluted earnings per ADS⁽²⁾⁽⁵⁾	7.62	27.51	3.85
Add: Non-GAAP adjustments to net income per ADS ⁽³⁾⁽⁵⁾	1.98	(14.41)	(2.02)
Non-GAAP diluted earnings per ADS⁽⁴⁾⁽⁵⁾	9.60	13.10	1.83

(1) See the table above for the reconciliation of net income to non-GAAP net income for more information of these non-GAAP adjustments.

(2) Diluted earnings per share is derived from net income attributable to ordinary shareholders for computing diluted earnings per share divided by weighted average number of shares on a diluted basis. Diluted earnings per ADS is derived from the diluted earnings per share after adjustment to the ordinary share-to-ADS ratio.

(3) Non-GAAP adjustments to net income per share is derived from non-GAAP adjustments to net income divided by weighted average number of shares on a diluted basis. Non-GAAP adjustments to net income per ADS is derived from the non-GAAP adjustments to net income per share after adjustment to the ordinary share-to-ADS ratio.

(4) Non-GAAP diluted earnings per share is derived from non-GAAP net income attributable to ordinary shareholders for computing non-GAAP diluted earnings per share divided by weighted average number of shares on a diluted basis. Non-GAAP diluted earnings per ADS is derived from the non-GAAP diluted earnings per share after adjustment to the ordinary share-to-ADS ratio.

(5) Each ADS represents eight ordinary shares.

RECENT DEVELOPMENTS

The table below sets forth a reconciliation of net cash provided by operating activities to free cash flow for the periods indicated:

	Three months ended September 30,		
	2018	2019	
	RMB	RMB	US\$
	(in millions)		
Net cash provided by operating activities . .	31,407	47,326	6,621
Less: Purchase of property and equipment (excluding land use rights and construction in progress relating to office campus)	(11,632)	(9,176)	(1,284)
Less: Acquisition of licensed copyrights and other intangible assets	(3,742)	(2,451)	(343)
Less: Changes in the consumer protection fund deposits	–	(5,211)	(729)
Free cash flow	16,033	30,488	4,265

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2019 PRC Foreign Investment Law”	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), promulgated by the National People’s Congress in March 2019, which will become effective on January 1, 2020
“ADS(s)”	American Depositary Shares (each representing eight Shares)
“Alibaba,” “Company,” “our Company,” “we,” “our” or “us”	Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), a company incorporated in the Cayman Islands with limited liability on June 28, 1999 and, where the context requires, its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries, from time to time
“Alibaba Group”	our Company, our consolidated subsidiaries and our affiliated consolidated entities, including our variable interest entities and their subsidiaries, from time to time
“Alibaba Health”	Alibaba Health Information Technology Limited (阿里健康信息技術有限公司), a company incorporated in Bermuda on March 11, 1998 and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 0241), and, except where the context otherwise requires, its consolidated subsidiaries
“Alibaba Investment”	Alibaba Investment Limited, a company incorporated with limited liability on March 31, 2000 under the laws of the British Virgin Islands and our direct wholly-owned subsidiary
“Alibaba Pictures”	Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司), a company incorporated in Bermuda with limited liability on January 6, 1994 and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1060), which also has a secondary listing on the Singapore Exchange Securities Trading Limited (Stock Code: S91), and, except where the context otherwise requires, its consolidated subsidiaries

DEFINITIONS

“Alipay”	Alipay.com Co., Ltd. (支付寶(中國)網絡技術有限公司), a company incorporated under the laws of the PRC on December 8, 2004, with which we have a long-term contractual relationship and which is a wholly-owned subsidiary of Ant Financial or, where the context requires, its predecessor entities
“Altaba”	Altaba Inc. (formerly known as Yahoo! Inc.) and where the context requires, its consolidated subsidiaries
“Amap”	AutoNavi Holdings Limited, a company incorporated under the laws of the Cayman Islands on June 2, 2006 and our indirect wholly-owned subsidiary, and, except where the context otherwise requires, all of its consolidated subsidiaries and (if applicable) its affiliated consolidated entities, including its variable interest entities and their subsidiaries; where the context requires, also refers to our business in providing mobile digital map, navigation and real time traffic information under the Amap brand
“Analysys”	Analysys, an independent third party research institution
“Ant Financial”	Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團股份有限公司), a company organized under the laws of the PRC on October 19, 2000 and, as context requires, its consolidated subsidiaries; starting from September 2019, we have held a 33% equity interest in Ant Financial
“Articles” or “Articles of Association”	our Articles of Association (as amended from time to time), adopted on September 2, 2014, a summary of which is set out in Appendix III
“board” or “board of directors”	our board of directors
“BrandZ”	BrandZ, an independent third party research institution
“Bulletin 7”	the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), issued by the STA on February 3, 2015

DEFINITIONS

“Bulletin 37”	Announcement on Issues Concerning the Withholding of Enterprise Income Tax at Source on Non-PRC Resident Enterprises (《關於非居民企業所得稅源泉扣繳有關問題的公告》), issued by the STA on October 17, 2017
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong or other relevant jurisdictions are generally open for business
“BVI”	British Virgin Islands
“Cainiao Network”	Cainiao Smart Logistics Network Limited, a company incorporated on May 20, 2015 under the laws of the Cayman Islands and our consolidated subsidiary, together with its subsidiaries
“Cayman Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “the PRC”	the People’s Republic of China, excluding, for the purposes of this prospectus only, Taiwan and the special administrative regions of Hong Kong and Macau, except where the context otherwise requires
“CICC”	China International Capital Corporation Hong Kong Securities Limited, which is a licensed corporation under the SFO for 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) of the regulated activities as defined under the SFO
“Circular 82”	the Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the basis of de facto management bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), issued on April 22, 2009 and further amended on December 29, 2017
“CNNIC”	China Internet Network Information Center (中國互聯網絡信息中心), administrative agency responsible for Internet affairs under the Cyberspace Administration of China
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“connected person(s)”	has the meaning given to it under the Hong Kong Listing Rules

DEFINITIONS

“Credit Suisse”	Credit Suisse (Hong Kong) Limited, which is a licensed corporation under the SFO for 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 9 (asset management) of the regulated activities as defined under the SFO
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Damai”	Pony Media Holdings Inc., a company incorporated under the laws of the British Virgin Islands on December 17, 2004 and our indirect wholly-owned subsidiary, and, except where the context otherwise requires, all of its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries; where the context requires, Damai also refers to our online ticketing platform under the Damai brand
“Deposit Agreement”	the deposit agreement, dated as of September 24, 2014, as amended, among us, Citibank, N.A. and our ADS holders and beneficial owners from time to time
“director(s)”	member(s) of our board
“DTC”	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the United States and the clearance system for our ADSs
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》)
“Ele.me”	Rajax Holding, a company incorporated under the laws of the Cayman Islands on June 8, 2011 and our consolidated subsidiary, and, except where the context otherwise requires, its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries; where the context requires, also refers to our on-demand delivery and local services platform under the Ele.me brand

DEFINITIONS

“Encouraged Catalog”	the Catalog of Industries Encouraged for Foreign Investment jointly promulgated by the MOFCOM and the NDRC on June 30, 2019 and which became effective on July 30, 2019, as amended, supplemented or otherwise modified from time to time
“Equity Incentive Plans”	the 2011 Equity Incentive Plan and the 2014 Post-IPO Equity Incentive Plan
“EU”	the European Union
“Euromonitor International”	Euromonitor International, an independent third party research institution
“Extreme Conditions”	any extreme conditions or events, the occurrence of which causes interruption to ordinary course business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date
“foreign private issuer”	as such term is defined in Rule 3b-4 under the U.S. Exchange Act
“Gartner”	Gartner, an independent third party research institution; for the purpose of this prospectus only, when referring to Gartner, where the context requires, refers to Gartner’s April 2019 report (Source: Gartner, Market Share: IT Services, 2018, Dean Blackmore et al., April 8, 2019)
“GDP”	gross domestic product
“GDPR”	the European Union General Data Protection Regulation
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Hong Kong Offer Shares”	the Shares offered pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Public Offer Price on the terms and conditions described in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated November 14, 2019, relating to the Hong Kong Public Offering and entered into by, among others, the Hong Kong Underwriters and us
“ICP(s)”	Internet content provider(s)
“IDC”	International Data Corporation, an independent third party research institution; for the purpose of this prospectus only, when referring to rankings published by IDC, where the context requires, refers to the IDC Semiannual Public Cloud Services Tracker, 2018 or IDC China Quarterly Smart Home Device Tracker, Fourth Quarter 2018
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company
“International Offer Price”	the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)

DEFINITIONS

“International Offer Shares”	the Shares offered pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
“International Offering”	the offer of the International Offer Shares at the International Offer Price pursuant to a prospectus supplement and the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on November 13, 2019
“International Underwriters”	the group of underwriters, led by the Joint Representatives, that expects to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Joint Representatives, the International Underwriters and us on or about November 20, 2019
“Internet Advertising Measures”	the Interim Administrative Measures on Internet Advertising (《互聯網廣告管理暫行辦法》), promulgated by the SAIC on July 4, 2016
“Intime”	Intime Retail (Group) Company Limited (銀泰商業(集團)有限公司), a company incorporated under the laws of the Cayman Islands on November 8, 2006 and our consolidated subsidiary and, except where the context otherwise requires, its consolidated subsidiaries
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“Joint Global Coordinators”	the joint global coordinators as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“Joint Representatives”	the joint representatives as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus

DEFINITIONS

“Joint Sponsors”	the joint sponsors of the listing of the Shares on the Main Board of the Hong Kong Stock Exchange, being CICC and Credit Suisse (in alphabetical order)
“Junao”	Hangzhou Junao Equity Investment Partnership (杭州君澳股權投資合夥企業(有限合夥)), a limited liability partnership incorporated under the laws of the PRC
“Junhan”	Hangzhou Junhan Equity Investment Partnership (杭州君瀚股權投資合夥企業(有限合夥)), a limited liability partnership incorporated under the laws of the PRC
“Koubei”	Koubei Holding Limited, a company incorporated under the laws of the Cayman Islands on March 29, 2006 and our consolidated subsidiary, and, except where the context otherwise requires, its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries; where the context requires, Koubei also refers to our restaurant and local services guide platform for in-store consumption
“Latest Practicable Date”	November 5, 2019, being the latest practicable date prior to the date of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Lazada”	Lazada Group S.A., a company incorporated under the laws of Luxembourg on March 6, 2015 and our consolidated subsidiary, and, except where the context otherwise requires, its consolidated subsidiaries and its affiliated consolidated entities
“Listing”	the listing we are seeking on the Hong Kong Stock Exchange under Chapter 19C and Chapter 8A of the Hong Kong Listing Rules
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about November 26, 2019, on which the Shares are listed on the Main Board of the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Main Board of the Hong Kong Stock Exchange

DEFINITIONS

“M&A Rules”	the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by MOFCOM, SASAC, STA, CSRC, SAIC and SAFE on August 8, 2006, effective on September 8, 2006 and further amended on June 22, 2009 by the MOFCOM
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Major Subsidiaries”	our subsidiaries and affiliated consolidated entities as identified in “Our History and Corporate Structure — Our Major Subsidiaries and Operating Entities”
“Memorandum” or “Memorandum of Association”	our memorandum of association (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“MIIT”	the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部)
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“National Security Law”	the PRC National Security Law (《中華人民共和國國家安全法》), promulgated by the PRC National People’s Congress Standing Committee on July 1, 2015
“NBS”	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“Negative List”	the Special Administrative Measures (Negative List) for Foreign Investment Access, most recently jointly promulgated by the MOFCOM and the NDRC on June 30, 2019 and which became effective on July 30, 2019, as amended, supplemented or otherwise modified from time to time
“NYSE”	the New York Stock Exchange

DEFINITIONS

“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which we may issue pursuant to the exercise of the Over-allotment Option
our “China consumer business”	our consumer-facing businesses in China, primarily including our China retail marketplaces, local consumer services and Youku, collectively
our “China retail marketplaces”	Taobao Marketplace and Tmall, collectively
our “wholesale marketplaces”	1688.com and Alibaba.com, collectively
“Over-allotment Option”	the option we expect to grant to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement, which may require us to allot and issue up to an aggregate of 75,000,000 additional Shares at the International Offer Price to, among other things, cover over-allocations in the International Offering, if any
“PBOC”	People’s Bank of China (中國人民銀行)
“PCAOB”	the Public Company Accounting Oversight Board
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time
“PCIP I”	PCIP I Limited, a company incorporated under the laws of Cayman Islands on June 11, 2013 and our wholly-owned subsidiary
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	Fangda Partners, our legal adviser as to the laws of the PRC

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of the Underwriters) and us on the Price Determination Date to record and fix the pricing of the Offer Shares
“Price Determination Date”	the date, expected to be on or about Wednesday, November 20, 2019, on which the International Offer Price and Public Offer Price will be determined, or such later time as the Joint Representatives (for themselves and on behalf of the Underwriters) and we may agree, but in any event, not later than Monday, November 25, 2019
“Principal Share Registrar”	Maples Fund Services (Cayman) Limited
“Public Offer Price”	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“Qualifying Issuer”	has the meaning given to it under chapter 19C of the Hong Kong Listing Rules
“QuestMobile”	QuestMobile, an independent third party research institution
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Persons”	the Joint Sponsors, the Joint Representatives, Joint Global Coordinators, the Joint Bookrunners, the Senior Joint Lead Managers, the Joint Lead Managers, the Underwriters, any of their or the Company’s respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share unit(s)
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable

DEFINITIONS

“SAFE Circular 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as SAMR
“SAMR”	the PRC State Administration for Market Regulation (中華人民共和國國家市場監督管理總局), formerly known as the SAIC
“SAPA”	a share and asset purchase agreement by and among us, Ant Financial, Alibaba, SoftBank and the other parties named therein, dated August 12, 2014, together with all subsequent amendments
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SEC”	the United States Securities and Exchange Commission
“Senior Joint Lead Managers”	the senior joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share Split”	the subdivision of each ordinary share into eight Shares, pursuant to which the par value of our Shares was correspondingly changed from US\$0.000025 per Share to US\$0.000003125 per Share, with effect from July 30, 2019
“shareholder(s)”	holder(s) of Shares and, where the context requires, ADSs
“Share(s)”	ordinary share(s) in our capital with par value of US\$0.000003125 each
“SMEs”	small and medium-sized enterprises

DEFINITIONS

“SoftBank”	SoftBank Group Corp. (formerly known as SoftBank Corp. before July 2, 2015), and, except where the context otherwise requires, its consolidated subsidiaries
“STA”	State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
“Stabilizing Manager”	Credit Suisse (Hong Kong) Limited
“StatCounter”	StatCounter, an independent third party research institution
“State Council”	the PRC State Council (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or around the Price Determination Date between PCIP I and the Stabilizing Manager pursuant to which the Stabilizing Manager may borrow up to 75,000,000 Shares from PCIP I to facilitate the settlement of over-allocations
“subsidiaries”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Sun Art”	Sun Art Retail Group Limited (高鑫零售有限公司), a company incorporated under the laws of Hong Kong on December 13, 2000 with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 6808)
“Syndicate Members”	the underwriters of the Hong Kong Public Offering and the International Offering
“Takeovers Codes”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Taobao Holding”	Taobao Holding Limited, a company incorporated under the laws of the Cayman Islands on June 17, 2003 and our direct wholly-owned subsidiary, which is the indirect holding company of our PRC subsidiaries relating to Taobao Marketplace and Tmall
“Track Record Period”	the years ended March 31, 2017, 2018 and 2019, and the three months ended June 30, 2019

DEFINITIONS

“UCWeb”	UCWeb Inc., a company incorporated under the laws of the Cayman Islands on March 6, 2008 and our indirect wholly-owned subsidiary, and, except where the context otherwise requires, its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries; where the context requires, also refers to our mobile browser under the UCWeb brand
“UK”	the United Kingdom of Great Britain and Northern Ireland
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. GAAP”	accounting principles generally accepted in the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“USTR”	the Office of the U.S. Trade Representative
“variable interest entities,” “VIE” or “VIEs”	our variable interest entities that are 100% owned by PRC citizens or by PRC entities owned by PRC citizens, where applicable, that hold the ICP licenses, or other business operation licenses or approvals, and generally operate the various websites for our Internet businesses or other businesses in which foreign investment is restricted or prohibited, and are consolidated into our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries
“VAT”	value-added tax; all amounts are exclusive of VAT in this prospectus except where indicated otherwise

DEFINITIONS

“VIE structure” or “Contractual Arrangements”	variable interest entity structure
“VIE Structure Enhancement”	the process of enhancing the structure of our material variable interest entities and certain other variable interest entities
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider, <u>www.eipo.com.hk</u>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Youku”	Youku Tudou Inc., a company incorporated under the laws of the Cayman Islands on September 20, 2005 and our consolidated subsidiary, and, except where the context otherwise requires, its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries; where the context requires, Youku also refers to our online video platform under the Youku brand
“Yunfeng Fund(s)”	one or more Yunfeng investment funds established by Yunfeng Capital Limited or its affiliates, in which Jack Ma currently holds minority interest in the general partners

In this prospectus, the terms “associate(s),” “close associate(s),” “controlling shareholder(s),” “core connected person(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Chinese names of entities incorporated outside of China, if provided, are actual registered names.

We use adjusted EBITDA, adjusted EBITA, marketplace-based core commerce adjusted EBITA, non-GAAP net income, non-GAAP diluted EPS and free cash flow, each a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes. See “Financial Information — Non-GAAP Measures” for the definitions and reconciliation of these non-GAAP measures to the nearest comparable U.S. GAAP measures.

GLOSSARY

The following is a glossary of certain terms used in this prospectus in connection with us and/or our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“AI”	artificial intelligence
“annual active consumers”	user accounts that had one or more confirmed orders on the relevant platform during the previous twelve months, regardless of whether or not the buyer and seller settle the transaction
“annual active users” or “AAUs”	for Ant Financial are the user accounts that used one or more services provided by Ant Financial and its investees, such as digital payment services and financial technology platform services, during the previous twelve months
“Bn”	billion
“CAGR”	compound annual growth rate
“CRM”	customer relationship management
“ERP”	enterprise resource planning
“FMCG”	fast-moving consumer goods
“GMV”	the value of confirmed orders of products and services on our marketplaces, regardless of how, or whether, the buyer and seller settle the transaction; unless otherwise stated, GMV in reference to our marketplaces includes only GMV transacted on our China retail marketplaces; our calculation of GMV for our China retail marketplaces includes shipping charges paid by buyers to sellers; as a prudential matter aimed at eliminating any influence on our GMV of potentially fraudulent transactions, we exclude from our calculation of GMV transactions in certain product categories over certain amounts and transactions by buyers in certain product categories over a certain amount per day
“IaaS”	infrastructure-as-a-service
“IoT”	Internet of things
“IT”	information technology
“Mn”	million

GLOSSARY

“mobile MAUs”	in a given month, the number of unique mobile devices that were used to visit or access certain of our mobile apps at least once during that month
“orders”	unless the context otherwise requires, each confirmed order from a transaction between a buyer and a seller for products and services on the relevant platform, even if these orders include multiple items, during the specified period, whether or not the transaction is settled
“P4P”	pay-for-performance
“PaaS”	platform-as-a-service
“SaaS”	software-as-a-service
“Tn”	trillion

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us, our industries and the regulatory environment in which we and companies integral to our digital economy operate. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “target,” “goal,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. The forward-looking statements included in this prospectus relate to, among others:

- our growth strategies;
- our future business development and goals, results of operations and financial condition;
- trends in commerce, the overall technology and the other industries in which we operate, both in China and globally;
- competition in our industries;
- fluctuations in general economic and business conditions in China and globally;
- expected changes in our revenues and certain cost and expense items and our operating margins;
- the completion of our investment transactions, as well as regulatory approvals and other conditions that must be satisfied or waived in order to complete the investment transactions;
- the completion of the process of enhancing the structure of our material variable interest entities and certain other variable interest entities, or the VIE Structure Enhancement;
- international trade policies, protectionist policies and other policies that could place restrictions on economic and commercial activity;
- the regulatory environment in which we and companies integral to our digital economy operate; and
- assumptions underlying or related to any of the foregoing.

The global and China Internet, retail, wholesale, online and mobile commerce, cloud computing, and digital media and entertainment industries or markets may not grow at the rates projected by market data, or at all. The failure of these industries or markets to grow at the projected rates may have a material adverse effect on our business, financial condition and results of operations and the market price of our Shares and/or ADSs. If any one or more of the assumptions underlying the industry or market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

FORWARD-LOOKING STATEMENTS

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus and the documents that we have referred to in this prospectus completely and with the understanding that our actual future results may be materially different from what we expect.

RISK FACTORS

You should carefully consider all of the information set out in this prospectus before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

Risks Related to Our Business and Industry

Maintaining the trusted status of our digital economy is critical to our success and growth, and any failure to do so could severely damage our reputation and brand, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

We have established a strong brand name and reputation for our digital economy. Any loss of trust in our digital economy or platforms could harm our reputation and the value of our brand, and could result in consumers, merchants, brands, retailers and other participants reducing their levels of activity in our digital economy, which could materially reduce our revenue and profitability. Our ability to maintain trust in our digital economy and platforms is based in large part upon:

- the quality and functionality of products and services as well as the quality and appeal of content available through our digital economy;
- the reliability and integrity of our Company and our platforms, as well as of the merchants, software developers, logistics providers, service providers and other participants in our digital economy;
- our commitment to high levels of service;
- the safety, security and integrity of the data on our systems, and those of other participants in our digital economy;
- the effectiveness and fairness of rules governing our marketplaces, various platforms and overall digital economy;
- the strength of our measures to protect consumers and intellectual property rights owners; and
- our ability to provide reliable and trusted payment and escrow services through our arrangements with Alipay.

Sustained investment in our business, strategic acquisitions and investments, as well as our focus on long-term performance, and on maintaining the health of our digital economy, may negatively affect our margins and our net income.

We focus on the long-term interests of the participants in our digital economy. We continue to increase our spending and investments in our business, strategic acquisitions and certain initiatives. Many of our newly invested businesses have lower or negative margins, and

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others are in the early stages of exploring, establishing and optimizing appropriate monetization models, many of which are less efficient in attracting and converting paying merchants, subscribers or other participants as compared with certain of the marketplaces and other businesses we operate. We believe these investments and initiatives are crucial to our success and future growth, but they will have the effect of increasing our costs and lowering our margins and profit, and this effect may be significant in the short term and potentially over longer periods. We expect our margins will decrease as we continue to make these and similar investments. From fiscal year 2018 to fiscal year 2019, our adjusted EBITDA margin, a non-GAAP measure, declined from 42% to 32%. These investments and initiatives include:

- expanding and enhancing our core commerce offerings, including our logistics network and capacities, local consumer services business, our New Retail initiatives, direct sales and cross-border and international businesses;
- strengthening and expanding various facilities and increasing our employee headcount;
- researching and developing new technologies and improving our technological infrastructure and cloud computing capacity;
- developing and acquiring content for our digital media and entertainment business; and
- incubating new innovation initiatives.

We have made, and intend to continue to make, strategic investments and acquisitions to further strengthen our digital economy. We may make strategic investments and acquisitions in a range of areas either directly related to one or more of our businesses, or related to the infrastructure, technology, services or products that support our businesses and digital economy. Our strategic investments and acquisitions may adversely affect our financial results, at least in the short term. For example, acquisitions of, and continued investments in, businesses with lower margins or which are loss-making, such as our acquisitions of a controlling stake in Lazada and Cainiao Network, and our newly integrated local consumer services business, have negatively affected our margins and net income. Acquired businesses that are loss-making may continue to sustain losses and may not become profitable in the near future or at all. In addition, we expect that our margin will continue to be affected by the continuing revenue mix shift to self-operated New Retail and direct sales businesses. Investments made to expand our business, facilities and workforce will also involve costs and risks, such as potential labor disputes and compliance costs and risks. The performance of our current and future equity investees and investment areas may also adversely affect our net income. There can be no assurance that we will be able to grow our acquired or invested businesses, or realize returns, benefits of synergies and growth opportunities we expect in connection with these investments and acquisitions. Also refer to “— We face risks relating to our acquisitions, investments and alliances.”

We may not be able to maintain or grow our revenue or our business.

We have experienced significant growth in revenue and in our business in recent years. Our ability to continue to grow our revenue depends on a number of factors. See “Financial Information — Factors Affecting Our Results of Operations — Our Ability to Create Value for Our Users and Generate Revenue” and “— Our Monetization Model.”

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Our revenue growth also depends on our ability to continue to grow our core businesses as well as businesses we have acquired or which we consolidate. We are exploring and will continue to explore in the future new business initiatives, including in industries and markets in which we have limited or no experience, as well as new business models, that may be untested. Developing new businesses, initiatives and models requires significant investments of time and resources, and may present new and difficult technological, operational and compliance challenges. Particularly in the commerce space, we expect to face various challenges while facilitating the convergence of online and offline retail and digitalization of offline business operations. Many of these challenges may be specific to business areas we do not have sufficient experience with. We may encounter difficulties or setbacks in the execution of various growth strategies, including our New Retail initiatives, which we expect to be an important driver of our future growth, and this and the other growth strategies may not generate the returns we expect within the timeframe we anticipate, or at all.

In addition, our overall or segment revenue growth may slow or our revenues may decline for other reasons, including decreasing consumer spending, increasing competition and slowing growth of China's retail industry, as well as changes in the geopolitical landscape, government policies or general economic conditions. As our revenue grows to a higher base level, our revenue growth rate may slow in the future. Furthermore, due to the size and scale we have achieved, our user base may not continue to grow as quickly or at all.

If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected.

We face increasingly intense competition, principally from established Chinese Internet companies, such as Tencent, and their respective affiliates, as well as global and regional e-commerce players, such as Amazon, other providers of local consumer services, and in the cloud computing and digital media and entertainment areas. These areas of our business are subject to rapid market change, the introduction of new business models, and the entry of new and well-funded competitors. Increased investments made and lower prices offered by our competitors may require us to divert significant managerial, financial and human resources in order to remain competitive, and ultimately may reduce our market share and negatively impact the profitability of our business. We mainly compete to:

- attract, engage and retain consumers and increase their spending based on the variety, quality and value of products, services and content offered within our digital economy, the overall user experience and the effectiveness of our consumer protection measures;
- attract and retain merchants, brands and retailers based on the effectiveness of the various technologies, infrastructure, products and services we offer to them;
- attract and retain marketers, publishers and agency-operated demand-side platforms;
- maintain and grow local delivery capabilities to provide convenient and efficient delivery services;
- attract and retain a wide range of businesses as users of our cloud service offerings;

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- attract other participants to our digital economy based on access to business opportunities created by the large scale of economic activity, infrastructure and technologies in our digital economy and on our platforms;
- optimize the usefulness of the data and technologies we provide and maintain high-quality customer service;
- identify, bid for, and execute strategic investments and thrive in new industries as we acquire new businesses and expand, bringing us into competition with major players in these and other industries;
- innovate and develop new growth initiatives and technologies; and
- attract motivated and capable employees, including engineers and product developers.

Our ability to compete depends on a number of other factors as well, some of which may be beyond our control, including alliances, acquisitions or consolidations within our industries that may result in stronger competitors, and changes in the regulatory environment in the markets we operate. Existing and new competitors may leverage their established platforms or market positions, or introduce innovative business models, to launch highly-engaging content, products or services that may attract a large user base and achieve rapid growth, which may materially and adversely affect our business expansion and results of operations. We increasingly face competition from domestic and international players operating in these markets, as well as potential political measures, regulatory challenges and protectionist policies that may support domestic players in those markets. As we develop our platforms and other businesses, such as our New Retail initiatives and other direct sales businesses, we may also be perceived to compete with other participants in our digital economy, such as certain merchants and retailers, which may negatively affect our relationships with them.

If we are not able to compete effectively, the level of economic activity and user engagement in our digital economy may decrease and our market share and profitability may be negatively affected, which could materially and adversely affect our business, financial condition and results of operations, as well as our reputation and brand.

We may not be able to maintain and improve the network effects of our digital economy, which could negatively affect our business and prospects.

Our ability to maintain a healthy and vibrant digital economy that creates strong network effects among consumers, merchants, brands, retailers and other participants is critical to our success. The extent to which we are able to maintain and strengthen these network effects depends on our ability to:

- offer secure and open platforms for all participants and balance the interests of these participants;
- provide a wide range of high-quality product, service and content offerings to consumers;
- attract and retain consumers, merchants, brands and retailers of all sizes;

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- provide effective technologies, infrastructure and services that meet the evolving needs of consumers, merchants, brands and retailers;
- arrange secure and trusted payment settlement and escrow services;
- address user concerns with respect to data security and privacy measures;
- improve our logistics data platform and coordinate fulfillment and delivery services with logistics service providers;
- attract and retain third-party service providers that are able to provide quality services on commercially reasonable terms to our merchants, brands and retailers;
- maintain the quality of our customer service; and
- continue adapting to the changing demands of the market.

In addition, changes to current operations we may make to enhance and improve our digital economy or to comply with regulatory requirements may be viewed positively from one participant group's perspective, such as consumers, but may have negative effects from another group's perspective, such as merchants. If we fail to balance the interests of all participants in our digital economy, consumers, merchants, brands, retailers and other participants may spend less time, mind-share and resources on our platforms and may conduct fewer transactions or use alternative platforms, any of which could result in a material decrease in our revenue and net income.

We may not be able to maintain our culture, which has been a key to our success.

Since our founding, our culture has been defined by our mission, vision and values, and we believe that our culture has been critical to our success. In particular, our culture has helped us serve the long-term interests of our customers, attract, retain and motivate employees and create value for our shareholders. We face a number of challenges that may affect our ability to sustain our corporate culture, including:

- failure to identify, attract, promote and retain people who share our culture, mission, vision and values in leadership positions;
- failure to execute an effective management succession plan;
- challenges of effectively incentivizing and motivating employees, including members of senior management, and in particular those who have gained a substantial amount of personal wealth related to share-based incentives;
- the increasing size, complexity, geographic coverage and cultural diversity of our business and workforce;
- challenges in managing a workforce that is expanding through organic growth and acquisitions, in providing effective training to this workforce, and in promoting a culture of compliance with laws and regulations and preventing misconduct among our employees and participants in our digital economy;

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- competitive pressures to move in directions that may divert us from our mission, vision and values;
- the pressure from the public markets to focus on short-term results instead of long-term value creation; and
- the increasing need to develop expertise in new areas of business, such as New Retail, local consumer services and expansion of our logistics network services, that affect us.

If we are not able to maintain our culture or if our culture fails to deliver the long-term results we expect to achieve, our reputation, business, financial condition, results of operations and prospects could be materially and adversely affected.

If we are not able to continue to innovate or if we fail to adapt to changes in our industry, our business, financial condition and results of operations would be materially and adversely affected.

Our industry is characterized by rapidly changing technology, evolving industry standards, new mobile apps and protocols, new products and services, new media and entertainment content – including user-generated content – and changing user demands and trends. Furthermore, our domestic and international competitors are continuously developing innovations in personalized search and recommendation, online shopping and marketing, communications, social networking, entertainment, logistics and other services, to enhance user experience. As a result, we continue to invest significant resources in our infrastructure, research and development and other areas in order to enhance our businesses and operations, as well as to explore new growth strategies and introduce new high-quality products and services. Our investments in innovations and new technologies, which may be significant, may not increase our competitiveness or generate financial returns in the short term, or at all, and we may not be successful in adopting and implementing new technologies, such as AI. Our investments and projects to develop new growth initiatives and technologies may be hindered by political measures, regulatory scrutiny or other protectionist policies, on national security grounds or for other reasons. The changes and developments taking place in our industry may also require us to re-evaluate our business model and adopt significant changes to our long-term strategies and business plans. Our failure to innovate and adapt to these changes and developments would have a material adverse effect on our business, financial condition and results of operations. Even if we timely innovate and adopt changes in our strategies and plans, we may nevertheless fail to realize the anticipated benefits of these changes or even generate lower levels of revenue as a result.

Our failure to manage the significant challenges involved in growing our business and operations could harm us.

Our business has become increasingly complex as the scale, diversity and geographic coverage of our business and our workforce continue to expand. This expansion increases the complexity of our operations and places a significant strain on our management, operational and financial resources. The challenges involved in expanding our businesses require our employees to handle new and expanded responsibilities and duties. If our employees fail to adapt to the expansion or if we are unsuccessful in hiring, training, managing and integrating new employees or retraining and expanding the roles of our existing employees, our business, financial condition and results of operations may be materially harmed.

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Moreover, our current and planned staffing, systems, policies, procedures and controls may not be adequate to support our future operations. To effectively manage continuing expansion and growth of our operations and workforce, we will need to continue to improve our personnel management, transaction processing, operational and financial systems, policies, procedures and controls, which could be particularly challenging as we acquire new operations with different and incompatible systems in new industries or geographic areas. These efforts will require significant managerial, financial and human resources. There can be no assurance that we will be able to effectively manage our growth or to implement all these systems, policies, procedures and control measures successfully. If we are not able to manage our growth effectively, our business and prospects may be materially and adversely affected.

We face risks relating to our acquisitions, investments and alliances.

We have acquired and invested in a large number and a diverse range of businesses, including those in different countries and regions, technologies, services and products in recent years, including investments of varying sizes in equity investees and joint ventures, and, from time to time, we may have a number of pending investments and acquisitions that are subject to closing conditions. See “Financial Information — Recent Investment, Acquisition and Strategic Alliance Activities.” We expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions and dispositions of businesses, technologies, services, products and other assets, as well as strategic investments, joint ventures and alliances. At any given time we may be engaged in discussing or negotiating a range of these types of transactions. These transactions involve significant challenges and risks, including:

- difficulties in, and significant and unanticipated additional costs and expenses resulting from, integrating into our business the large number of personnel, operations, products, services, technology, internal controls and financial reporting of the businesses we acquire;
- disruption of our ongoing business, distraction of and significant time and attention required from our management and employees and increases in our expenses;
- departure of skilled professionals and proven management teams of acquired businesses, as well as the loss of established client relationships of those businesses we invest in or acquire;
- for investments over which we may not obtain management and operational control, we may lack influence over the controlling partners or shareholders, or may not have aligned interests with these of our partners or other shareholders;
- additional or conflicting regulatory requirements, heightened restrictions on and scrutiny of investments, acquisitions and foreign ownership in other jurisdictions, on national security grounds or for other reasons, regulatory hurdles such as filings and approvals under the anti-monopoly and competition laws, rules and regulations, the risk that acquisitions or investments may fail to close, due to political and regulatory challenges or protectionist policies, as well as related compliance and publicity risks;

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- actual or alleged misconduct, unscrupulous business practices or non-compliance by us or any company we acquire or invest in (or by its affiliates), whether before, during or after our acquisition or investments;
- difficulties in identifying and selecting appropriate targets and strategic partners, including potential loss of opportunities for strategic transactions with competitors of our investee companies and strategic partners;
- difficulties in conducting sufficient and effective due diligence on potential targets and unforeseen or hidden liabilities or additional incidences of non-compliance, operating losses, costs and expenses that may adversely affect us following our acquisitions or investments or other strategic transactions;
- negative impact on our cash and credit profile from loans to or guarantees for the benefit of equity investees; and
- actual or potential impairment charges or write-offs of investments in equity investees or intangible assets and goodwill recorded in connection with invested businesses, in the event that a decline in fair value below the carrying value of our equity method investments is other-than-temporary, or the carrying amount of a reporting unit to which goodwill is allocated exceeds its fair value. See “Financial Information — Critical Accounting Policies — Impairment Assessment on Investments in Equity Investees and Impairment Assessment on Goodwill and Intangible Assets.”

These and other risks could lead to negative publicity, litigation, government inquiries, investigations or actions against the companies we invest in or acquire, or even against our other businesses, and may force us to incur significant additional expenses and allocate significant management and human resources to rectify or improve these companies’ corporate governance standards or internal controls and systems. As we continue to implement our New Retail strategy, among other initiatives, and further expand our digital economy, we expect that our acquisition and investment activity will continue at a rapid pace, with a large number and diverse range of target companies, and we will continue to face significant challenges, including unanticipated ones, in integrating these businesses into our existing businesses.

We may face challenges in expanding our international and cross-border businesses and operations.

In addition to risks that generally apply to our acquisitions and investments, we face risks associated with expanding into an increasing number of markets where we have limited or no experience, we may be less well-known or have fewer local resources and we may need to localize our business practices, culture and operations. We may also face protectionist policies that could, among other things, hinder our ability to execute our business strategies and put us at a competitive disadvantage relative to domestic companies in other jurisdictions. The expansion of our international and cross-border businesses will also expose us to risks and challenges inherent in operating businesses globally, including:

- challenges in replicating or adapting our company policies and procedures to operating environments different from that of China, including technology and logistics infrastructure;
- challenges of maintaining efficient and consolidated internal systems, including information technology infrastructure, and of achieving customization and integration of these systems with the other parts of our digital economy;

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- lack of acceptance of our product and service offerings, and challenges of localizing our offerings to appeal to local tastes;
- protectionist or national security policies that restrict our ability to:
 - invest in or acquire companies;
 - develop, import or export certain technologies, such as the national AI initiative proposed by the U.S. government; or
 - utilize technologies that are deemed by local governmental regulators to pose a threat to their national security;
- the need for increased resources to manage regulatory compliance across our international businesses;
- failure to attract and retain capable talent with international perspectives who can effectively manage and operate local businesses;
- compliance with privacy laws and data security laws, including the GDPR, and compliance costs across different legal systems;
- heightened restrictions and barriers on the transfer of data between different jurisdictions;
- differing, complex and potentially adverse customs, import/export laws, tax rules and regulations or other trade barriers or restrictions which may be applicable to transactions conducted through our international and cross-border platforms, related compliance obligations and consequences of non-compliance, and any new developments in these areas;
- availability, reliability and security of international and cross-border payment systems and logistics infrastructure;
- exchange rate fluctuations; and
- political instability and general economic or political conditions in particular countries or regions, including territorial or trade disputes, war and terrorism.

Failure to manage these risks and challenges could negatively affect our ability to expand our international and cross-border businesses and operations as well as materially and adversely affect our business, financial condition and results of operations.

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Our business operations and financial position may be materially and adversely affected by any economic slowdown in China as well as globally.

Our revenue and net income are impacted to a significant extent by economic conditions in China and globally, as well as economic conditions specific to our business. The global economy, markets and levels of spending by businesses and consumers are influenced by many factors beyond our control.

The growth of the PRC economy has slowed in recent years compared to prior years. According to the National Bureau of Statistics of China, China's real GDP growth rate was 6.7% in 2016, which increased to 6.9% in 2017, slowed to 6.6% in 2018, and further slowed to 6.3% in the first half of 2019. There have also been concerns about the relationships among China and other Asian countries, the relationship between China and the United States, as well as the relationship between the United States and certain Asian countries such as North Korea, which may result in or intensify potential conflicts in relation to territorial, regional security and trade disputes. See “— Changes in international trade or investment policies and barriers to trade or investment, and the ongoing trade conflict, may have an adverse effect on our business and expansion plans.” Any disruptions or continuing or worsening slowdown could significantly reduce domestic commerce activities in China, which could lead to significant reduction in merchants' demand for and spending on the various services we offer, such as our marketing services and cloud computing services. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material adverse effect on business and consumer spending and, as a result, adversely affect our business, financial condition and results of operations.

In addition, because we hold a significant amount of cash and cash equivalents and short-term investments, if financial institutions and issuers of financial instruments that we hold become insolvent or if the market for these financial instruments become illiquid as a result of a severe economic downturn, our business and financial condition could be materially and adversely affected.

Our results of operations fluctuate significantly from quarter to quarter which may make it difficult to predict our future performance.

Our results of operations generally are characterized by seasonal fluctuations due to various reasons, including seasonal buying patterns and economic cyclical changes, as well as promotions on our marketplaces. Historically, the fourth quarter of each calendar year generally contributes the largest portion of our annual revenues due to a number of factors, such as merchants allocating a significant portion of their online marketing budgets to the fourth calendar quarter, promotions, such as the 11.11 global shopping festival, and the impact of seasonal buying patterns in respect of certain categories such as apparel. The first quarter of each calendar year generally contributes the smallest portion of our annual revenues, primarily due to a lower level of allocation of marketing budgets by merchants at the beginning of the calendar year and the Chinese New Year holiday, during which time consumers generally spend less and businesses in China are generally closed. We may also introduce new promotions or change the timing of our promotions in ways that further cause our quarterly results to fluctuate and differ from historical patterns. In addition, seasonal weather patterns may affect the timing of buying decisions. The performance of our equity investees and of major businesses in which we have made investments may also result in fluctuations in our results of operations. Fluctuations in our results of operations

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related to our investments may also result from the accounting implication of re-measurement of fair values of certain financial instruments, share-based awards and previously held equity interests upon the loss of control of a subsidiary or step acquisitions. Given that the fair value movements are beyond our control, the magnitude of the related accounting impact is unpredictable and may significantly affect our results of operations.

Our results of operations will likely fluctuate due to these and other factors, some of which are beyond our control. In addition, our growth in the past may have masked the seasonality that might otherwise be apparent in our results of operations. As the rate of growth of our business declines in comparison to prior periods, we expect that the seasonality in our business may become more pronounced. Moreover, as our business grows, we expect that our fixed costs and expenses will continue to increase, which will result in operating leverage in seasonally strong quarters but can significantly pressure operating margins in seasonally weak quarters.

To the extent our results of operations are below the expectations of public market analysts and investors in the future, or if there are significant fluctuations in our financial results, the market price of our Shares and/or ADSs could fluctuate significantly.

Failure to maintain or improve our technology infrastructure could harm our business and prospects.

We are continuously upgrading our platforms to provide increased scale, improved performance, additional capacity and additional built-in functionality, including functionality related to security. Adopting new products and maintaining and upgrading our technology infrastructure require significant investments of time and resources. Any failure to maintain and improve our technology infrastructure could result in unanticipated system disruptions, slower response times, impaired user experience and delays in reporting accurate operating and financial information. The risks of these events occurring are even higher during certain periods of peak usage and activity, such as on or around the 11.11 global shopping festival or other promotional events, when user activity and transactions are significantly higher on our marketplaces compared to other days of the year. In addition, much of the software and interfaces we use are internally developed and proprietary technology. If we experience problems with the functionality and effectiveness of our software, interfaces or platforms, or are unable to maintain and continuously improve our technology infrastructure to handle our business needs, our business, financial condition, results of operations and prospects, as well as our reputation and brand, could be materially and adversely affected.

In addition, our technology infrastructure and services, including our cloud product and service offerings, incorporate third-party-developed software, systems and technologies, as well as hardware purchased or commissioned from outside and overseas suppliers. As our technology infrastructure and services expand and become increasingly complex, we face increasingly serious risks to the performance and security of our technology infrastructure and services that may be caused by these third-party-developed components, including risks relating to incompatibilities among these components, service failures or delays or back-end procedures on hardware and software. We also need to continuously enhance our existing technology. Otherwise, we face the risk of our technology infrastructure becoming unstable and susceptible to security breaches. This instability or susceptibility could create serious challenges to the security and uninterrupted operation of our platforms and services, which would materially and adversely affect our business and reputation.

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Security breaches and attacks against our systems and network, and any potentially resulting breach or failure to otherwise protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.

Our cybersecurity measures may not detect, prevent or control all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, Trojan horses, malicious software, break-ins, phishing attacks, third-party manipulation, security breaches, employee misconduct or negligence or other attacks, risks, data leakage and similar disruptions that may jeopardize the security of data stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorized access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. As techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers, there can be no assurance that we will be able to anticipate, or implement adequate measures to protect against, these attacks.

We have in the past and are likely again in the future to be subject to these types of attacks, breaches and data leakage, although to date no attack, breach or data leakage has resulted in any material damage or remediation cost. In addition, we could be subject to an attack, breach or leakage which we do not discover at the time or the consequences of which are not apparent until a later point in time, that could result in material damages or remediation costs. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liability, our reputation would be harmed and we could sustain substantial revenue loss from lost sales and customer dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving cyber-attacks. Cyber-attacks may target us, our merchants, consumers, users, customers, key service providers or other participants in our digital economy, or the communication infrastructure on which we depend. We only carry limited cybersecurity insurance, and actual or anticipated attacks and risks may cause us to incur significantly higher costs, including costs to deploy additional personnel and network protection technologies, train employees, and engage third-party experts and consultants. Cybersecurity breaches would not only harm our reputation and business, but also could materially decrease our revenue and net income.

The successful operation of our business depends upon the performance, reliability and security of the Internet infrastructure in China and other countries in which we operate.

Our business depends on the performance, reliability and security of the telecommunications and Internet infrastructure in China and other countries in which we operate. Substantially all of our computer hardware and a majority of our cloud computing services are currently located in China. Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in China are connected to the Internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the Internet outside of China. We may face similar or other limitations in other countries in which we operate. We may not have access to alternative networks in the event of disruptions, failures or other problems with the Internet infrastructure in China or elsewhere. In addition, the Internet infrastructure in the countries in which we operate may not support the demands associated with continued growth in Internet usage.

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The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our websites and mobile apps. We have no control over the costs of the services provided by the telecommunications operators. If the prices that we pay for telecommunications and Internet services rise significantly, our margins could be adversely affected. In addition, if Internet access fees or other charges to Internet users increase, our user base may decrease, which in turn may significantly decrease our revenues.

Moreover, if the security of domain names is compromised, we will be unable to use the domain names in our business operations, which could materially and adversely affect our business operations, reputation and brand image. If we fail to implement adequate encryption of data transmitted through the networks of the telecommunications and Internet operators we rely upon, there is a risk that telecommunications and Internet operators or their business partners may misappropriate our data, which could materially and adversely affect our business operations and reputation.

Our digital economy could be disrupted by network interruptions.

Our digital economy depends on the efficient and uninterrupted operation of our computer and communications systems. System interruptions and delays may prevent us from efficiently processing the large volume of transactions on our marketplaces and other businesses we operate. In addition, a large number of merchants and customers maintain their important systems, such as ERP and CRM systems on our cloud computing platform, which contain substantial quantities of data that enables them to operate and manage their businesses. Increasing media and entertainment content on our platforms also requires additional network capacity and infrastructure to process. Consumers expect our media and entertainment content to be readily available online, and any disruptions or delay to the delivery of content could affect the attractiveness and reputation of our media and entertainment platforms.

We and other participants in our digital economy, including Ant Financial, have experienced, and may experience in the future, system interruptions and delays that render websites, mobile apps and services (such as cloud services and payment services) temporarily unavailable or slow to respond. Although we have prepared for contingencies through redundancy measures and disaster recovery plans and also carry business interruption insurance, these preparations and insurance coverage may not be sufficient. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our facilities or the facilities of Ant Financial and other participants in our digital economy, including power outages, system failures, telecommunications delays or failures, construction accidents, break-ins to information technology systems, computer viruses or human errors, could result in delays in or temporary outages of our platforms or services, loss of our, consumers' and customers' data and business interruption for us and our customers. Any of these events could damage our reputation, significantly disrupt our operations and the operations of the participants in our digital economy and subject us to liability, heightened regulatory scrutiny and increased costs, which could materially and adversely affect our business, financial condition and results of operations.

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Changes in international trade or investment policies and barriers to trade or investment, and the ongoing trade conflict, may have an adverse effect on our business and expansion plans.

In recent years, international market conditions and the international regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes to national trade or investment policies, treaties and tariffs, fluctuations in exchange rates or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations. The U.S. administration under President Donald Trump has advocated for and taken steps toward restricting trade in certain goods, particularly from China. For example, in 2018 the United States announced tariffs that applied to products imported from China, totaling approximately US\$250 billion, and in May 2019 the United States increased the rate of certain tariffs previously levied on Chinese products from 10% to 25%. In August 2019, the United States announced that it would apply an additional tariff of 10% on the remaining US\$300 billion of goods and products coming from China. After several rounds of trade talks between China and the United States, the United States temporarily delayed an increase in tariffs on US\$250 billion of products imported from China, and in September and October 2019, the United States announced several tariff exemptions for certain Chinese products. However, there remains uncertainty as to whether the United States will maintain these exemptions or impose additional tariffs on Chinese products in the near future. Furthermore, in August 2019, the U.S. Treasury labelled China a currency manipulator, as a result of which the United States may take further actions to eliminate perceived unfair competitive advantages created by alleged manipulating actions. In addition, the United States is reported to be considering ways to limit U.S. investment portfolio flows into China, though no details in such regard have been officially announced. Trade tension between China and the United States may intensify and the United States may adopt even more drastic measures in the future.

China and other countries have retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. For instance, in response to the tariffs announced by the United States in May 2018, China imposed retaliatory tariffs on U.S. goods of a similar value, and in response to the tariff announcements by the United States in August 2019, China announced it would stop buying U.S. agricultural products and would not rule out import tariffs on newly purchased U.S. agricultural products. In September 2019, China unveiled several tariff exemptions for U.S. products, including various agricultural products. Any further actions to increase existing tariffs or impose additional tariffs could result in an escalation of the trade conflict, which would have an adverse effect on manufacturing levels, trade levels and industries, including logistics, retail sales and other businesses and services that rely on trade, commerce and manufacturing, as well as on our marketplaces that rely upon imports.

Changes in laws and policy could negatively affect, for example, both export-focused businesses on AliExpress and Alibaba.com, as well as import-focused businesses on Tmall, Tmall Global and Kaola. In addition, if trade discussions lead to greater access to the China market, certain of our businesses, such as our cloud business and digital media and entertainment businesses, could be subject to greater competition and pricing pressure, which could reduce our margins or otherwise negatively affect our results of operations. Any further escalation in trade tensions or a trade war, or news and rumors of any escalation, could affect activity levels within our digital economy and have a material and adverse effect on our business, results of operations and trading price of our Shares and/or ADSs. Any restrictions imposed by the United States or other countries on capital flows into China or China-based companies may prevent potential investors from investing in us, and the trading price and liquidity of our Shares and/or ADSs may suffer as a result.

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Trade tensions and policy changes have also led to measures that could have adverse effects on China-based issuers, including recently proposed legislation in the United States that would require listed companies whose audit reports and/or auditors are not subject to PCAOB review to be subject to enhanced disclosure obligations and be subject to delisting if they do not comply with the requirements or use an auditor whose audit reports are subject to PCAOB review. See “— Risks Related to Doing Business in the People’s Republic of China — Restrictions on the direct production of audit work papers of our China-based auditors to foreign regulators could result in our financial statements being determined to not be in compliance with the requirements of the U.S. Exchange Act.”

Export control and economic or trade sanctions could subject us to regulatory investigations or other actions and reputational harm, and could negatively affect our technology supply chain and ability to recruit talent and conduct technological collaboration, which could materially and adversely affect our competitiveness and business operations, as well as lead to significant decrease in the trading price of our Shares and/or ADSs.

The United Nations and a number of countries and jurisdictions, including China, the United States and the EU have adopted various export control and economic or trade sanction regimes. The U.S. government imposes broad economic and trade restrictions on dealings with certain countries and regions, including the Crimea, Cuba, Iran, North Korea and Syria, or the Sanctioned Countries, and numerous individuals and entities, including those designated as having engaged in activities relating to terrorism, drug trafficking, cybercrime, the rough diamond trade, proliferation of weapons of mass destruction or human rights violations, or the Sanctioned Persons. The U.S. government also imposes more targeted sanctions on certain dealings with countries such as Russia and Venezuela, among others. The U.S. government has recently expanded or suggested that it will expand economic sanctions concerning Iran, North Korea, Russia and Venezuela, and there are risks of further enhanced economic sanctions concerning these countries, among others. It is not, however, possible to predict with a reasonable degree of certainty how the regulatory environment concerning U.S. economic sanctions may develop. The United Nations, the EU, the UK and other countries also impose economic and trade restrictions, including on certain Sanctioned Countries and Sanctioned Persons.

As a Cayman Islands company with the substantial majority of our subsidiaries and operations outside of the U.S., UK and EU, we are generally not required to comply with U.S., UK, and EU sanctions to the same extent as U.S., UK or EU entities. However, for companies like us, their U.S., UK, and EU subsidiaries, employees who are U.S. persons or UK or EU nationals, activities in the U.S., UK, or EU, activities involving U.S.-origin goods, technology or services, and certain conduct or dealings involving Iran and North Korea, among other activities, are subject to applicable sanctions requirements. We do not have employees or operations in any of the Sanctioned Countries, and, although our websites are open and available worldwide, we do not actively solicit business from the Sanctioned Countries or Sanctioned Persons. In the case of Alibaba.com, our aggregate cash revenue from members in these Sanctioned Countries in fiscal year 2019 accounted for a negligible portion of our total revenue. In the case of AliExpress and our China retail marketplaces, an insignificant percentage of orders have been placed by consumers from the Sanctioned Countries, with a negligible amount of aggregate GMV in the twelve months ended March 31, 2019 through transactions conducted voluntarily among merchants and consumers on these marketplaces. As all transaction fees on AliExpress and our China retail marketplaces are paid by merchants, primarily based in China, we do not earn any fees or commission from consumers in Sanctioned Countries in respect of transactions conducted on these platforms.

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Recent economic and trade sanctions threatened and/or imposed by the U.S. government on a number of China-based technology companies, including ZTE Corporation, Huawei Technologies Co., Ltd., or Huawei, and certain of their respective affiliates and other China-based technology companies, as well as actions brought against Huawei and related persons by the U.S. and the Canadian governments, have raised further concerns as to whether, in the future, there may be additional regulatory challenges or enhanced restrictions involving other China-based technology companies including us in a wide range of areas such as data security, artificial intelligence, technologies deployed for surveillance purposes, import/export of technology or other business activities. For instance, the U.S. government recently announced several orders effectively barring American firms from selling components and software to, among others, Huawei and certain other China-based technology companies and their respective affiliates. These restrictions, and similar or more expansive restrictions that may be imposed by the U.S. or other jurisdictions in the future, may materially and adversely affect our and our technology partners' abilities to acquire technologies, systems, devices or components that may be critical to our technology infrastructure, service offerings and business operations. These restrictions or sanctions, even targeting specific entities unrelated to us, could nevertheless also negatively affect our and our technology partners' abilities to recruit research and development talent or conduct technological collaboration with scientists and research institutes in the U.S., Europe or other countries, which could significantly harm our competitiveness. There can be no assurance that current or future export controls or economic and trade sanctions regulations or developments will not have a negative impact on our business or reputation.

We have established a compliance program that aims to ensure our compliance with these laws and regulations. However, these laws and regulations are complex and subject to frequent change, including with respect to jurisdictional reach and the lists of countries, entities, individuals and technologies subject to sanctions and other regulatory controls. Hence, we may incur significant costs related to current, new or changing sanctions, embargoes or export controls programs, as well as investigations, fines, fees or settlements, which may be difficult to predict. We also could face increased compliance costs and risks as we expand globally and into additional businesses, such as cloud computing. In addition, our expanding network of investee companies, global business partners, joint venture partners or other parties that have collaborative relationships with us or our affiliates may engage in activities in or with Sanctioned Countries, Sanctioned Persons or persons targeted by export control restrictions, some of which, including some of our investee companies, have become subject to sanctions or export control restrictions, which might result in significant negative publicity, governmental investigations and reputational harm. Media reports on alleged violation of export control or economic and trade sanctions laws, or on uses of the technologies, systems or innovations we develop for purposes that could be perceived to be inappropriate or controversial, by our clients, business partners, investees or other companies, even on matters not involving us, could nevertheless damage our reputation and lead to regulatory investigations against us. If we are publicly named or investigated by any regulator on the basis of suspected or alleged violations of export control or economic and trade sanctions laws and rules, even in situations in which the potential amount or fine involved may be relatively small, our reputation could be significantly harmed. Any of these circumstances may cause the price of our Shares and/or ADSs to decline significantly, and materially reduce the value of your investment in our Shares and/or ADSs.

Certain institutional investors, including state and municipal governments in the United States and universities, as well as financial institutions, have proposed or adopted divestment or similar initiatives regarding investments in companies that do business with Sanctioned Countries. Accordingly, as a result of activities on our marketplaces or in

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connection with other business we operate that may involve users based in the Sanctioned Countries, certain investors may not wish to invest or may divest their investment in us, certain financial institutions may not wish to lend, extend credit or offer ordinary banking services to us, or seek early repayment of loans made to us, and certain financial institutions and other businesses with which we partner or may partner may seek to avoid business relationships with us. These divestment initiatives and terminations of business services may negatively impact our reputation, business and results of operations, and may materially and adversely affect the trading price of our Shares and/or ADSs.

Our business generates and processes a large amount of data, including personal data, and the improper use or disclosure of data could harm our reputation and have a material adverse effect on the trading price of our Shares and/or ADSs, our business and prospects.

Our business generates and processes a large quantity of personal, behavioral, transaction and demographic data. Our privacy policies concerning the collection, use and disclosure of personal data are posted on our platforms. We face risks inherent in handling and protecting large volumes of data, especially consumer data. In particular, we face a number of challenges relating to data from transactions and other activities on our platforms, including:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use by our employees;
- addressing concerns, challenges, negative publicity and litigation related to data privacy, collection, use and actual or perceived sharing (including sharing among our own businesses, with business partners or regulators), safety, security and other factors that may arise from our existing businesses or new businesses and technology, such as new forms of data (for example, biometric data, location information and other demographic information); and
- complying with applicable laws, rules and regulations relating to the collection, use, storage, transfer, disclosure and security of personal information, including requests from data subjects and regulatory and government authorities.

These challenges are heightened as we expand our business into jurisdictions with different legal and regulatory regimes, such as the GDPR and the Russian Data Localization Law. There have been reports of a number of incidents relating to data security and unauthorized use of user data by high-profile Internet and technology companies and their business partners. If our user data is improperly used or disclosed by any party, it could result in a loss of users, businesses and other participants from our digital economy, loss of confidence or trust in our platforms, litigation, regulatory investigations, penalties or actions against us, significant damage to our reputation, and have a material adverse effect on the trading price of our Shares and/or ADSs, our business and prospects.

Pursuant to our data sharing agreement with Ant Financial, which sets forth data security and confidentiality protocols, we have agreed to a broad sharing of depersonalized data through a data sharing platform that we own and operate, subject to compliance with relevant law. As permitted by our privacy policies and user agreements, we also grant expressly limited access to specified data on our data platform to certain other participants in our digital economy that provide services to consumers, merchants, brands and retailers. These participants in our digital economy face the same challenges inherent in handling and

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protecting large volumes of data. Any systems failure or security breach or lapse on our or their part that results in the release of user data could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability or regulatory actions. This could also attract negative publicity from media outlets, privacy advocates, our competitors or others and could adversely affect the trading price of our Shares and/or ADSs.

Our business is subject to complex and evolving domestic and international laws and regulation regarding privacy and data protection. These laws and regulations can be complex and stringent, and many are subject to change and uncertain interpretation, which could result in claims, changes to our data and other business practices, penalties, increased cost of operations, or declines in user growth or engagement, or otherwise affect our business.

Regulatory authorities in China and around the world have implemented and are considering further legislative and regulatory proposals concerning data protection, including measures to ensure that encryption of users' data does not hinder law enforcement agencies' access to that data. New laws and regulations that govern new areas of data protection or impose more stringent requirements may be introduced in China and other jurisdictions where we conduct business or may expand into. In addition, the interpretation and application of consumer and data protection laws in China and elsewhere are often uncertain and in flux. It is possible that existing or newly-introduced laws and regulations, or their interpretation, application or enforcement, could significantly affect the value of our data and force us to change our data and other business practices.

The PRC regulatory and enforcement regime with regard to privacy and data security is evolving. According to the PRC Cybersecurity Law and relevant regulations, network operators, including us, are obligated to provide assistance and support in accordance with the law for public security and national security authorities to protect national security or assist with criminal investigations. In addition, the PRC Cybersecurity Law provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in the PRC should be stored in the PRC, and the law imposes heightened regulation and additional security obligations on operators of critical information infrastructure. The PRC National Security Law covers various types of national security, including technology security and information security. See "Regulation — Regulation of Internet Security." Compliance with the PRC Cybersecurity Law, the PRC National Security Law, as well as additional laws and regulations that PRC regulatory bodies may enact in the future, may result in additional expenses to us and subject us to negative publicity, which could harm our reputation among users and negatively affect the trading price of our Shares and/or ADSs. There are also uncertainties with respect to how the PRC Cybersecurity Law and the PRC National Security Law will be implemented and interpreted in practice. PRC regulators, including the MIIT and the Cyberspace Administration, have been increasingly focused on regulation in the areas of data security and data protection. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

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As we further expand our operations into international markets, we will be subject to additional laws in other jurisdictions where we operate and where our consumers, users, merchants, customers and other participants are located. The laws, rules and regulations of other jurisdictions may be more comprehensive, detailed and nuanced in their scope, and may impose requirements and penalties that conflict with, or are more stringent than, those in China. In addition, these laws, rules and regulations may restrict the transfer of data across jurisdictions, which could impose additional and substantial operational, administrative and compliance burdens on us, and may also restrict our business activities and expansion plans, as well as impede our data-driven business strategies. Complying with laws and regulations for an increasing number of jurisdictions could require significant resources and costs. Our continued expansion into cloud computing services, both in China and elsewhere, will also increase the amount of data hosted on our system, as well as increase the number of jurisdictions in which we have information technology systems. This, as well as the increasing number of new legal requirements in various jurisdictions, such as the Russian Data Localization Law and the GDPR, present increased challenges and risks in relation to policies and procedures relating to data collection, storage, transfer, disclosure, protection and privacy, and will impose significant penalties for non-compliance, including for example, penalties calculated as a percentage of global revenue under the GDPR. The compliance requirements of the GDPR affect a number of our businesses, such as AliExpress and Alibaba Cloud. Compliance with cross-border e-commerce tax laws that apply to our businesses will also affect a number of our businesses, increase our compliance costs and subject us to additional risks.

Any failure, or perceived failure, by us to comply with the above and other regulatory requirements or privacy protection-related laws, rules and regulations could result in reputational damages or proceedings or actions against us by governmental entities, consumers or others. On the other hand, compliance with these laws and requirements in manners that are perceived as harming privacy could also lead to significant damages to our reputation and similar proceedings and actions against us by regulators and private parties. These proceedings or actions could subject us to significant penalties and negative publicity, require us to change our data and other business practices, increase our costs and severely disrupt our business, hinder our global expansion or negatively affect the trading price of our Shares and/or ADSs.

We rely on Alipay to conduct substantially all of the payment processing and all of the escrow services on our marketplaces. If Alipay's services are limited, restricted, curtailed or degraded in any way, or become unavailable to us or our users for any reason, our business may be materially and adversely affected.

Given the significant transaction volume on our platforms, Alipay provides convenient payment processing and escrow services to us through contractual arrangements on preferential terms. These services are critical to our marketplaces and the development of our digital economy. In the twelve months ended March 31, 2019, approximately 70% of the GMV on our China retail marketplaces was settled through Alipay's escrow and payment processing services. We rely on the convenience and ease of use that Alipay provides to our users. If the quality, utility, convenience or attractiveness of Alipay's services declines for any reason, the attractiveness of our marketplaces could be materially and adversely affected.

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Alipay's business is subject to a number of risks that could materially and adversely affect its ability to provide payment processing and escrow services to us, including:

- dissatisfaction with Alipay's services or lower use of Alipay by consumers, merchants, brands and retailers;
- increasing competition, including from other established Chinese Internet companies, payment service providers and companies engaged in other financial technology services;
- changes to rules or practices applicable to payment systems that link to Alipay;
- breach of users' privacy and concerns over the use and security of information collected from customers and any related negative publicity relating thereto;
- service outages, system failures or failure to effectively scale the system to handle large and growing transaction volumes;
- increasing costs to Alipay, including fees charged by banks to process transactions through Alipay, which would also increase our cost of revenues;
- negative news about and social media coverage on Alipay, its business, its products and service offerings or matters relating to Alipay's data security and privacy; and
- failure to manage user funds accurately or loss of user funds, whether due to employee fraud, security breaches, technical errors or otherwise.

In addition, certain commercial banks in China impose limits on the amounts that may be transferred by automated payment from users' bank accounts to their linked accounts with third-party payment services. Although we believe the impact of these restrictions has not been and will not be significant in terms of the overall volume of payments processed for our China retail marketplaces, and automated payment services linked to bank accounts represent only one of many payment mechanisms that consumers may use to settle transactions, we cannot predict whether these and any additional restrictions that could be put in place would have a material adverse effect on our marketplaces.

Alipay's business is highly regulated and faces challenges in managing its regulatory risks. Alipay is required to comply with numerous complex and evolving laws, rules and regulations. In particular, regulators and third parties in China have been increasing their focus on online and mobile payment services, and recent regulatory and other developments could reduce the convenience or utility of Alipay users' accounts. In addition, as Alipay expands its businesses and operations into more international markets, it will become subject to additional legal and regulatory risks and scrutiny. Furthermore, our commercial arrangements with Alipay may be subject to anti-competition challenges. See "— We and Ant Financial are subject to a broad range of laws and regulations, and future laws and regulations may impose additional requirements and other obligations on our business or otherwise that could materially and adversely affect our business, financial condition and results of operations," and "Regulation — Regulation Applicable to Alipay."

If we needed to migrate to another third-party payment service or significantly expand our relationship with other third-party payment services, the transition would require significant time and management resources, and the third-party payment service may not be as

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effective, efficient or well-received by consumers, merchants, brands and retailers on our marketplaces. These third-party payment services also may not provide escrow services, and we may not be able to receive commissions based on GMV settled through these systems. We would also receive less, or lose entirely, the benefit of the commercial agreement with Ant Financial and Alipay, which provides us with preferential terms, and would possibly be required to pay more for payment processing and escrow services than we currently pay. There can be no assurance that we would be able to reach an agreement with an alternative online payment service provider on acceptable terms or at all.

We do not control Alipay or its parent entity, Ant Financial, over which Jack Ma effectively controls approximately 50% of the voting interests. If conflicts that could arise between us and Alipay or Ant Financial are not resolved in our favor, our digital economy, business, financial condition, results of operations and prospects may be materially and adversely affected.

We rely on Alipay to conduct substantially all of the payment processing and all of the escrow services on our marketplaces. Starting from September 2019, we hold a 33% equity interest in Alipay's parent, Ant Financial and also have the right to nominate two directors for election to the board of Ant Financial. However, we do not hold a majority interest in or control Alipay. Alipay provides payment services to us on preferential terms pursuant to our long-term commercial agreement with Ant Financial and Alipay. Following the 2011 divestment and subsequent equity holding restructuring related to Ant Financial, an entity wholly owned by Jack Ma, our director and former executive chairman, became the general partner of Junhan and Junao, each a PRC limited partnership, which are two major equity holders of Ant Financial. Accordingly, Jack has an economic interest in Ant Financial and is able to exercise the voting power of the equity interest in Ant Financial held by Junhan and Junao. We understand that through the exercise of his voting power over Junhan and Junao, Jack continues to control approximately 50% of the voting interests in Ant Financial.

If Alipay were not able to successfully manage the risks relating to its business, its ability to continue to deliver payment services to us on preferential terms may be undermined. Furthermore, if for any reason, Alipay sought to amend the terms of its agreements and arrangements with us, there can be no assurance that Jack Ma, in light of his control of approximately 50% of the voting interests over Alipay's parent, Ant Financial, would exercise his voting interests in a manner that is in our interests. If Alipay were required by regulators to modify the commercial agreement under certain circumstances, Alipay may not have sufficient funds to adequately compensate us for the impact of the adjustment. If we were to lose the preferential terms with Alipay or if Alipay is unable to successfully manage its business, our digital economy could be negatively affected, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Ant Financial also provides other financial services to participants in our digital economy, including wealth management, financing (including consumer financing) and insurance, and may provide additional services in the future. Other conflicts of interest between us, on the one hand, and Alipay and Ant Financial, on the other hand, may arise relating to commercial or strategic opportunities or initiatives. Although we and Ant Financial have each agreed to certain non-competition undertakings, Ant Financial may provide services to our competitors from time to time and there can be no assurance that Ant Financial would not pursue other opportunities that would conflict with our interests. See "Related Party Transactions — Agreements and Transactions Related to Ant Financial and Its Subsidiaries

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— SAPA — Non-competition Undertakings.” Jack Ma may not resolve these conflicts in a manner that is in our interests. Furthermore, our ability to explore alternative payment services other than Alipay for our marketplaces may be constrained due to Jack’s relationship with Ant Financial.

In addition, we grant share-based awards to employees of Ant Financial, and Junhan grants share-based awards tied to the value of Ant Financial to our employees, and a subsidiary of Ant Financial grants restricted share units to our employees. The provision of awards relating to Ant Financial to our employees is intended to enhance our strategic and financial relationship with Ant Financial. See “Related Party Transactions — Agreements and Transactions Related to Ant Financial and Its Subsidiaries — Equity-based Award Arrangements.” The share-based awards granted by Junhan and the Ant Financial subsidiary to our employees result in expenses that are recognized by us. Subject to the approval of our audit committee, Jack (through his role with us and his control over Junhan) and Ant Financial could be in a position to propose and promote further share-based grants that result in additional, and potentially significant, expenses to us. Accordingly, these and other potential conflicts of interest between us and Ant Financial or Alipay, and between us and Jack or Junhan or Junao, may not be resolved in our favor, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, because of our equity interest in and close association with Ant Financial and overlapping user bases, events that negatively affect Ant Financial could also negatively affect customers’, regulators’ and other third parties’ perception of us. In addition, any actual or perceived conflict of interest between us and Ant Financial, or any other company integral to the functioning of our digital economy, could also materially harm our reputation as well as our business and prospects.

We depend on key management as well as experienced and capable personnel generally, and any failure to attract, motivate and retain our staff could severely hinder our ability to maintain and grow our business.

Our future success is significantly dependent upon the continued service of our key executives and other key employees, particularly in new business areas we are expanding into, such as New Retail and local consumer services. If we lose the services of any member of management or key personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff. Jack Ma, our lead founder, one of our directors and principal shareholders, has been crucial to the development of our vision, culture and strategic direction. In September 2019, Daniel Zhang, our current chief executive officer, succeeded Jack as our chairman. This and similar retirements and successions could result in disruptions, or perceived disruptions, in our operations and the execution of our strategy.

As our business develops and evolves, it may become difficult for us to continue to retain our employees. A number of our employees, including many members of management, may choose to pursue other opportunities outside of us. If we are unable to motivate or retain these employees, our business may be severely disrupted and our prospects could suffer.

The size and scope of our digital economy also require us to hire and retain a wide range of capable and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. We will need to continue to attract and retain experienced and capable personnel at all levels, including members of management, as we expand our business and operations. Our various incentive initiatives may not be sufficient to retain our management and employees. Competition for talent in our industry is intense,

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and the availability of suitable and qualified candidates in China and elsewhere is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. Even if we were to offer higher compensation and other benefits, there can be no assurance that these individuals will choose to join or continue to work for us. Any failure to attract or retain key management and personnel could severely disrupt our business and growth.

Failure to deal effectively with fraudulent or illegal activities by our employees would harm our business.

Illegal, fraudulent, corrupt or collusive activities by our employees could subject us to liability or negative publicity. We have discovered cases in which certain of our employees had accepted payments from merchants or other service providers in order to receive preferential treatment on our marketplaces or in connection with other businesses we operate. Although we dismissed the employees responsible for these incidents and other illegal activities, and have implemented internal controls and policies with regard to the review and approval of merchant accounts, sales activities, interactions with business partners and government officials and other relevant matters, there can be no assurance that our controls and policies will prevent fraud or illegal activity by our employees or that similar incidents will not occur in the future. Any illegal, fraudulent, corrupt or collusive activity could severely damage our brand and reputation, which could drive users and consumers away from our digital economy, and materially and adversely affect our business, financial condition and results of operations.

If other third-party service providers in our digital economy fail to provide reliable or satisfactory services, our reputation, business, financial condition and results of operations may be materially and adversely affected.

Ant Financial and a number of other third-party participants, including retail operating partners, logistics service providers, mobile app developers, ISVs, cloud-based developers, marketing affiliates and various professional service providers, provide services to users on our platforms, including consumers, merchants, brands, retailers and users of our cloud computing services. To the extent these service providers are unable to provide satisfactory services to our users on commercially acceptable terms, or at all, or if we fail to retain existing or attract new quality service providers to our platforms, our ability to retain, attract or engage our users may be severely limited, which may have a material and adverse effect on our business, financial condition and results of operations. In addition, we share our user data with certain of these third-party service providers in our digital economy in accordance with our privacy policies, agreements and applicable laws. These third-party service providers also engage in a broad range of other business activities outside of our platforms. If these third-party participants engage in activities that are negligent, fraudulent, illegal or otherwise harm the trustworthiness and security of our digital economy, including, for example, the leak or negligent use of data, the handling, transport and delivery of prohibited or restricted content or items, or if these participants fail to perform their contractual obligations, or users are otherwise dissatisfied with their service quality on or off our platforms, we could suffer reputational harm, even if these activities are not related to, attributable to or caused by us, or within our control.

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If logistics service providers used by our merchants fail to provide reliable logistics services, or the logistics data platform operated by Cainiao Network were to malfunction, suffer an outage or otherwise fail, our business and prospects, as well as our financial condition and results of operations, may be materially and adversely affected.

Our merchants use third-party logistics service providers to fulfill and deliver their orders. Cainiao Network cooperates with a number of third-party logistics service providers to help merchants on our platforms fulfill orders and deliver their products to consumers. We operate Cainiao Network's logistics data platform that links our information system and those of logistics service providers. Interruptions to or failures in these third parties' logistics services, or in Cainiao Network's logistics data platform, could prevent the timely or proper delivery of products to consumers, which would harm the reputation of our digital economy and the businesses we operate. In addition, certain of our businesses, including Lazada, operate and provide logistics services to merchants within our digital economy and may experience interruptions or failures to timely and properly deliver products to consumers. These interruptions or failures may be due to events that are beyond the control of any of our companies, Cainiao Network or these logistics service providers, such as inclement weather, natural disasters, accidents, transportation disruptions, including special or temporary restrictions or closings of facilities or transportation networks due to regulatory or political reasons, or labor unrest or shortages. These logistics services could also be affected or interrupted by business disputes, industry consolidation, insolvency or government shut-downs. The merchants in our digital economy may not be able to find alternative logistics service providers to provide logistics services in a timely and reliable manner, or at all. We do not have agreements with third-party logistics service providers that require them to offer services to our merchants. If the logistics data platform operated by Cainiao Network were to fail for any reason, the logistics service providers would be severely hindered from or unable to connect with our merchants, and their services and the functionality of our digital economy could be severely affected. If the products sold by merchants in our digital economy are not delivered in proper condition, on a timely basis or at shipping rates that are commercially acceptable to marketplace participants, our business and prospects, as well as our financial condition and results of operations could be materially and adversely affected.

We may be subject to liability for content available in our digital economy that is alleged to be socially destabilizing, obscene, defamatory, libelous or otherwise unlawful.

Under PRC law and the laws of certain other jurisdictions in which we operate, we are required to monitor our websites and the websites hosted on our servers and mobile interfaces, as well as our services and devices that generate or host content, for items or content deemed to be socially destabilizing, obscene, superstitious or defamatory, as well as for items, content or services that are illegal to sell online or otherwise in other jurisdictions in which we operate our marketplaces and other businesses, and promptly take appropriate action with respect to the relevant items, content or services. We may also be subject to potential liability in China or other jurisdictions for any unlawful actions of our merchants, marketing customers or users of our websites or mobile interfaces, or for content we distribute or that is linked from our platforms that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, our websites and platforms, such as our cloud computing services, which allow users to upload and save massive data on our cloud data centers, social communities on our marketplaces and DingTalk, and Youku, which allow users to upload videos and other content to our

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websites and platforms, may make this even more difficult. If we are found to be liable, we may be subject to negative publicity, fines, have our relevant business operation licenses revoked, or be prevented from operating our websites or mobile interfaces in China or other jurisdictions.

In addition, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, tort (including personal injury), other unlawful activity or other theories and claims based on the nature and content of information posted on our platforms, including user-generated content, product reviews and message boards, by our consumers, merchants and other participants.

Regardless of the outcome of any dispute or lawsuit, we may suffer from negative publicity and reputational damage as a result of these actions.

We have been and may continue to be subject to allegations, lawsuits and negative publicity claiming that items listed and content available in our digital economy are pirated, counterfeit or illegal.

We have been the subject in the past, and may continue to be the subject in the future, of allegations that items offered, sold or made available through our online marketplaces by third parties or that content we make available through other services, such as our online video and music platforms or through our smart devices, infringe third-party copyrights, trademarks and patents or other intellectual property rights. Although we have adopted measures to proactively verify the products sold on our marketplaces for infringement and to minimize potential infringement of third-party intellectual property rights through our intellectual property infringement complaint and take-down procedures, these measures may not always be successful. In the event that alleged counterfeit or infringing products are listed or sold on our marketplaces or allegedly infringing content are made available through our other services, we could face claims and negative publicity relating to these activities or for our alleged failure to act in a timely or effective manner in response to infringement or to otherwise restrict or limit these activities. We may also choose to compensate consumers for any losses, although we are currently not legally obligated to do so. If, as a result of regulatory developments, we are required to compensate consumers, we would incur additional expenses.

Measures we take to protect against these potential liabilities could require us to spend substantial additional resources and/or experience reduced revenues. In addition, these measures may reduce the attractiveness of our digital economy to consumers, merchants, brands, retailers and other participants. A merchant or online marketer whose content is removed or whose services are suspended or terminated by us, regardless of our compliance with the applicable laws, rules and regulations, may dispute our actions and commence action against us for damages based on breach of contract or other causes of action, make public complaints or allegations or organize group protests and publicity campaigns against us or seek compensation. Any costs incurred as a result of liability or asserted liability relating to the sale of unlawful goods or other infringement could harm our business.

We also have been and may continue to be subject to allegations of civil or criminal liability based on allegedly unlawful activities or unauthorized distribution of products or content carried out by third parties through our online marketplaces. We have also acquired certain companies, such as Youku, Lazada and Ele.me, that from time to time are subject to allegations and lawsuits regarding alleged infringement of third-party intellectual property or other rights, and we may continue to acquire other companies that are subject to similar disputes.

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In addition, we have been and may continue to be subject to significant negative publicity in China and other countries based on similar claims and allegations. For example, in December 2016, January 2018 and April 2019, the Office of the USTR identified Taobao Marketplace as a “notorious market.” The USTR may continue to identify Taobao Marketplace as a notorious market, and there can be no assurance that the USTR will not identify our other businesses as notorious markets in the future. In addition, government authorities have in the past accused, and may in the future accuse, us of perceived problems and failures of our platforms, including alleged failures to crack down on the sale of counterfeit goods and other alleged illegal activities on our China retail marketplaces. As a result of any claims or accusations by government authorities, by industry watchdog organizations, including the U.S. Commission on the Theft of American Intellectual Property, by brand and intellectual property rights holders or by enterprises, there may be a public perception that counterfeit or pirated items are commonplace on our marketplaces or that we delay the process of removing these items. This perception, even if factually incorrect, and existing or new litigation as well as regulatory pressure or action related to intellectual property rights protection, could damage our reputation, harm our business, diminish the value of our brand name and negatively affect trading price of our Shares and/or ADSs.

Failure to deal effectively with any fraud perpetrated and fictitious transactions conducted in our digital economy, and other sources of customer dissatisfaction, would harm our business.

We face risks with respect to fraudulent activities on our marketplaces and in connection with other businesses we operate, and we periodically receive complaints from consumers who may not have received the goods that they had purchased, complaints from merchants who have not received payment for the goods that a consumer had contracted to purchase, as well as other types of actual and alleged fraudulent activities. See “Our Business — Transaction Platform Safety Programs” for more details about the measures we have adopted against fraudulent activities. Although we have implemented various measures to detect and reduce the occurrence of fraudulent activities on our marketplaces and in connection with other businesses we operate, there can be no assurance that these measures will be effective in combating fraudulent transactions or improving overall satisfaction among our consumers, merchants and other participants. Additional measures that we take to address fraud could also negatively affect the attractiveness of our marketplaces and other businesses we operate to consumers or merchants. In addition, merchants on our marketplaces contribute to a fund to provide consumer protection guarantees. If our merchants do not perform their obligations under these programs, we may use funds that have been deposited by merchants in a consumer protection fund to compensate consumers. If the amounts in the fund are not sufficient, we may choose to compensate consumers for losses, although currently we are not legally obligated to do so. If, as a result of regulatory developments, we are required to compensate consumers, we would incur additional expenses. Although we have recourse against our merchants for any amounts we incur, there can be no assurance that we would be able to collect these amounts from our merchants.

In addition to fraudulent transactions with legitimate consumers, merchants may also engage in fictitious or “phantom” transactions with themselves or collaborators in order to artificially inflate their own ratings on our marketplaces, reputation and search results rankings, an activity sometimes referred to as “brushing.” This activity may harm other merchants by enabling the perpetrating merchant to be favored over legitimate merchants, and may harm consumers by deceiving them into believing that a merchant is more reliable or trusted than the merchant actually is.

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Government authorities, industry watchdog organizations or other third parties may issue reports or engage in other forms of public communications concerning alleged fraudulent or deceptive conduct on our platforms. Negative publicity and user sentiment generated as a result of these reports or allegations could severely diminish consumer confidence in and use of our services, reduce our ability to attract new or retain current merchants, consumers and other participants, damage our reputation, result in shareholder or other litigation, diminish the value of our brand, and materially and adversely affect our business, financial condition and results of operations.

We may be subject to claims under consumer protection laws, including health and safety claims and product liability claims, if property or people are harmed by the products and services sold through our platforms.

Due to several high-profile incidents involving safety, including food safety, and consumer complaints that have occurred in China in recent years, the PRC government, media outlets and public advocacy groups are increasingly focused on consumer protection. Government authorities in other countries where we operate also place high importance on consumer protection. Moreover, as part of our growth strategy, we expect to increase our focus on food, food delivery, food supplements and beverages, mother care, baby care, pharmaceutical and healthcare products and services, as well as electronics products, both as a platform operator and as part of our directly operated business. We have also invested in companies involved in these sectors. These activities pose increasing challenges to our internal control and compliance systems and procedures, including our control over and management of third-party service personnel, and expose us to substantial increasing liability, negative publicity and reputational damage arising from consumer complaints, harms to personal health or safety or accidents involving products or services offered through our platforms or provided by us. Operators of e-commerce platforms are subject to certain provisions of consumer protection laws even where the operator is not the merchant of the product or service purchased by the consumer. In addition, if we do not take appropriate remedial action against merchants or service providers for actions they engage in that we know, or should have known, would infringe upon the rights and interests of consumers, we may be held jointly liable for infringement alongside the merchant or service provider. We may also be held jointly liable with the merchants under the PRC E-commerce Law if we fail to take necessary actions when we know or should have known that the products or services provided by the merchants on our platforms do not meet personal and property security requirements, or otherwise infringe upon consumers' legitimate rights. Moreover, applicable consumer protection laws in China hold that trading platforms will be held liable for failing to meet any undertaking that the platforms make to consumers with regard to products listed on their websites. Furthermore, we are required to report to the SAMR, formerly known as the SAIC, or its local branches any violation of applicable laws, regulations or SAMR rules by merchants or service providers, such as sales of goods without proper license or authorization, and we are required to take appropriate remedial measures, including ceasing to provide services to the relevant merchants or service providers. We may also be held liable if we fail to verify the licenses or qualifications of merchants, or fail to safeguard consumers with respect to products or services affecting consumers' health or safety.

In addition, we are facing increasing levels of activist litigation in China by plaintiffs claiming damages based on consumer protection laws. This type of activist litigation could increase in the future, and if it does, we could face increased costs defending these suits and damages should we not prevail, which could materially and adversely affect our reputation and brand and our results of operations.

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We may also face increasing scrutiny from consumer protection regulators and activists, as well as increasingly become a target for litigation, in the United States, Europe and other jurisdictions. For example, recently, member groups of the European Consumer Organization's BEUC network expressed concerns about certain consumer rights related to product returns and dispute resolution with respect to transactions conducted on our AliExpress platform, and requested a review of these consumer rights by their national consumer protection agencies. We only maintain product liability insurance for certain businesses we operate, and do not maintain product liability insurance for products and services transacted on our marketplaces, and our rights of indemnity from the merchants in our digital economy may not adequately cover us for any liability we may incur. Consumer complaints and associated negative publicity could materially and adversely harm our reputation and affect our business expansion. Claims brought against us under consumer protection laws, even if unsuccessful, could result in significant expenditure of funds and diversion of management time and resources, which could materially and adversely affect our business operations, net income and profitability.

We may be accused of infringing intellectual property rights of third parties or violating content restrictions under relevant laws.

Third parties may claim that our product and service offerings, the content on our platforms, including content available through our digital media and entertainment business, search business, online reading platform, online music platform, news feed features and IoT devices or our technology infringe upon their intellectual property rights or are provided beyond the authorized scope. Although we have not in the past faced material litigation involving direct claims of infringement by us, the possibility of intellectual property claims against us, whether in China or other jurisdictions, increases as we continue to grow, particularly internationally. The establishment of, and issuance of reports by, the Commission on the Theft of American Intellectual Property also highlights the current focus of the United States on investigating, preventing and taking action against alleged misappropriation of intellectual property, that may result in increased scrutiny, investigations, enforcement actions and litigation relating to intellectual property infringement. In addition, in April 2019, the U.S. administration issued an executive order instructing the U.S. Department of Homeland Security to coordinate with other federal agencies working to combat the counterfeiting of goods. This executive order aims to hold intermediary online marketplaces, such as ours, accountable for the availability and sale of counterfeit goods on their marketplaces. We have also acquired businesses, such as Youku, that have been, and may continue to be, subject to liabilities for infringement of third-party intellectual property rights or other allegations based on the content available on their websites and mobile apps or the services they provide. In addition, we expect our digital economy to involve more and more user-generated content, including the entertainment content on Youku and our smart speakers, the interactive media content displayed on Taobao Marketplace and Tmall, including livestreams and short-form videos, as well as the data generated, uploaded and saved by users of our cloud computing services, over which we have limited control and we may be subject to claims for infringement of third-party intellectual property rights, or subject us to additional scrutiny by the relevant government authorities. These claims or scrutiny, whether or not having merit, may result in our expenditure of significant financial and management resources, injunctions against us or payment of damages. We may need to obtain licenses from third parties who allege that we have infringed their rights, but these licenses may not be available on terms acceptable to us or at all. These risks have been amplified by the increase in the number of third parties whose sole or primary business is to assert these claims.

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China has enacted laws and regulations governing Internet access and the distribution of products, services, news, information, audio-video programs and other content through the Internet. The PRC government has prohibited the distribution of information through the Internet that it deems to be in violation of PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent or defamatory. Users of certain of our websites and platforms, including Youku, can upload content to these websites, mobile apps and platforms, which is generally referred to as user-generated content. Due to the significant amount of content uploaded by our users, we may not be able to identify all the videos or other content that may violate relevant laws and regulations. If any of the information disseminated through our marketplaces, websites, mobile apps or other businesses we operate, including videos and other content (including user-generated content) displayed on Youku's or our other websites, mobile apps or on our Tmall set-top boxes, smart speakers and smart televisions, or any content that we have produced or acquired, were deemed by the PRC government to violate any content restrictions, we would not be able to continue to display or distribute this content and could suffer losses or become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations. The outcome of any claims, investigations and proceedings is inherently uncertain, and in any event defending against these claims could be both costly and time-consuming, and could significantly divert the efforts and resources of our management and other personnel. An adverse determination in any of these litigation matters or proceedings could cause us to pay damages, incur legal and other costs, limit our ability to conduct business or require us to change the manner in which we operate and harm our reputation. As we expand our operations internationally, we expect that we will become subject to similar laws and regulations in other jurisdictions.

We may not be able to protect our intellectual property rights.

We rely on a combination of trademark, fair trade practice, patent, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our intellectual property rights. We also enter into confidentiality agreements with our employees and any third parties who may access our proprietary information, and we rigorously control access to our proprietary technology and information. In addition, as our business expands and we increase our acquisition of and management of content, we expect to incur greater costs to acquire, license and enforce our rights to content.

Intellectual property protection may not be sufficient in the jurisdictions in which we operate. Confidentiality agreements may be breached by counterparties, and there may not be adequate remedies available to us for these breaches. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China or elsewhere. In addition, policing any unauthorized use of our intellectual property is difficult, time-consuming and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, this litigation could result in substantial costs and a diversion of our managerial and financial resources. There can be no assurance that we will prevail in any litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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We and Ant Financial are subject to a broad range of laws and regulations, and future laws and regulations may impose additional requirements and other obligations that could materially and adversely affect our business, financial condition and results of operations.

The industries in which we and Ant Financial operate in the PRC and other countries, including online and mobile commerce and payments, financial services, cloud computing and digital media and entertainment and other online content offerings, are highly regulated. Government authorities in the PRC and other countries are likely to continue to issue new laws, rules and regulations governing the industries in which we and Ant Financial operate in the PRC and other countries and enhance enforcement of existing laws, rules and regulations. They have imposed, and may continue to impose, requirements relating to, among other things, new and additional licenses, permits and approvals or governance or ownership structures on us or certain of our businesses, Ant Financial and our users.

For example, the recently promulgated E-commerce Law imposes a series of requirements on e-commerce operators including e-commerce platform operators, merchants operating on the platform and the individuals and entities carrying out business online. See “Regulation — Regulation of Online and Mobile Commerce.” Certain third-party platforms, although offering products and services competing with our marketplaces, may not be deemed as e-commerce operators and may be subject to less stringent requirements with respect to merchant regulation and consumer protection. The platform governance measures we adopt in response to the enhanced regulatory requirements may fail to meet these requirements and may lead to penalties or our loss of merchants to those platforms, or to complaints or claims made against us by merchants on our platforms. New regulations governing various aspects of e-commerce platform operations, including those that may limit an e-commerce platform operator’s ability to provide consumers with personalized shopping recommendations, could materially and adversely affect our operating results.

We have from time to time been subject, and are likely again in the future to be subject, to PRC and foreign government inquiries and investigations, including those relating to online content, alleged third-party intellectual property infringement, cybersecurity and privacy laws, and securities laws and regulations. We also face scrutiny, and have been subject and continue to be subject to inquiries and investigations, from PRC and foreign governmental bodies that focus on cross-border trade, tax, intellectual property protection, our investment activities, human rights, user privacy and data protection matters and allegedly fraudulent or other criminal transactions. We may also face protectionist policies and regulatory scrutiny, on national security grounds or for other reasons, in foreign countries in which we conduct business or investment activities. None of these inquiries and investigations has resulted in significant restrictions on our business operations. However, as we continue to grow in scale and significance, we expect to face increased scrutiny, which will, at a minimum, result in our having to continue to increase our investment in compliance and related capabilities and systems.

Ant Financial, which through Alipay provides the substantial majority of the payment processing services on our marketplaces as well as other financial and value-added services, such as wealth management, financing and insurance, is subject to various laws, rules and regulations in the PRC and other countries where it operates, including those governing banking, privacy, cross-border and domestic money transmission, anti-money laundering, counter-terrorist financing and consumer protection laws, rules and regulations. In recent years, the PRC government has increasingly focused on regulation of the financial industry, including laws, rules and regulations relating to the provision of payment services. See

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“Regulation — Regulation Applicable to Alipay.” These laws, rules and regulations are highly complex, constantly evolving and could change or be reinterpreted to be burdensome, difficult or impossible for Ant Financial to comply with.

As we and Ant Financial further expand into international markets, we and Ant Financial will increasingly become subject to additional legal and regulatory compliance requirements as well as political and regulatory challenges, including scrutiny on data privacy and security and anti-money laundering compliance, or on national security grounds or for other reasons, to our business and investment activities in these markets. In addition, Alipay or its affiliates are required to maintain payment business licenses in the PRC and are also required to obtain and maintain other applicable payment, money transmitter or other related licenses and approvals in other countries or regions where they operate. In certain jurisdictions where Alipay currently does not have the required licenses, Alipay provides payment processing and escrow services through third-party service providers. If Alipay or its partners fail to obtain and maintain all required licenses and approvals or otherwise fails to comply with applicable laws, rules and regulations, if new laws, rules or regulations come into effect that impact Alipay or its partners’ businesses, or if any of Alipay’s partners cease to provide services to Alipay, its services could be suspended or severely disrupted, and our business, financial condition and results of operations would be materially and adversely affected.

Tightening of tax compliance efforts that affect our merchants could materially and adversely affect our business, financial condition and results of operations.

Tax legislation relating to the digital economy is still developing. Governments, both in China and in other jurisdictions, may promulgate or strengthen the implementation of tax regulations that impose obligations on e-commerce companies, which could increase the costs to consumers and merchants and make our platforms less competitive in these jurisdictions. Governments may require operators of marketplaces, such as us, to assist in the enforcement of tax registration requirements and the collection of taxes with respect to the revenue or profit generated by merchants from transactions conducted on their platforms. We may also be requested by tax authorities to supply information about our merchants, such as transaction records and bank account information, and assist in the enforcement of other tax regulations, including the payment and withholding obligations against our merchants. As a result of more stringent tax compliance requirements and liabilities, we may lose existing merchants and potential merchants might not be willing to open storefronts on our marketplaces, which could in turn negatively affect us. Stricter tax enforcement by tax authorities may also reduce the activities by merchants on our platforms and result in liability to us.

Potential heightened tax law enforcement against participants in our digital economy (including imposition of reporting or withholding obligations on operators of marketplaces with respect to VAT of merchants and stricter tax enforcement against merchants generally) could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to material litigation and regulatory proceedings.

We have been involved in a high volume of litigation in China and a small volume of potentially high-value litigation outside China relating principally to securities law class actions, third-party and principal intellectual property infringement claims, contract disputes involving merchants and consumers on our platforms, consumer protection claims, claims relating to data and privacy protection, employment related cases and other matters in the

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ordinary course of our business. As our digital economy expands, including across jurisdictions and through the addition of new businesses, we have encountered and may face an increasing number and a wider variety of these claims, including those brought against us pursuant to anti-monopoly or unfair competitions laws or involving higher amounts of alleged damages. Laws, rules and regulations may vary in their scope and overseas laws and regulations may impose requirements that are more stringent than, or which conflict with, those in China. We have acquired and may acquire companies that have been subject to or may become subject to litigation, as well as regulatory proceedings. In addition, in connection with litigation or regulatory proceedings we may be subject to in various jurisdictions, we may be prohibited by laws, regulations or government authorities in one jurisdiction from complying with subpoenas, orders or other requests from courts or regulators of other jurisdictions, including those relating to data held in or with respect to persons in these jurisdictions. Our failure or inability to comply with the subpoenas, orders or requests could subject us to fines, penalties or other legal liability, which could have a material adverse effect on our reputation, business, results of operations and the trading price of our Shares and/or ADSs.

As publicly-listed companies, we and certain of our subsidiaries face additional exposure to claims and lawsuits inside and outside China. We will need to defend against these lawsuits, including any appeals should our initial defense be successful. The litigation process may utilize a material portion of our cash resources and divert management's attention away from our day-to-day operations, all of which could harm our business. There can be no assurance that we will prevail in any of these cases, and any adverse outcome of these cases could have a material adverse effect on our reputation, business and results of operations. In addition, although we have obtained directors' and officers' liability insurance, the insurance coverage may not be adequate to cover our obligations to indemnify our directors and officers, fund a settlement of litigation in excess of insurance coverage or pay an adverse judgment in litigation.

In early 2016, the SEC informed us that it had initiated an investigation into whether there have been any violations of the federal securities laws. The SEC has requested that we voluntarily provide it with documents and information relating to, among other things, our consolidation policies and practices (including our prior practice of accounting for Cainiao Network as an equity method investee), our policies and practices applicable to related party transactions in general, and our reporting of operating data from the 11.11 global shopping festival. We are cooperating with the SEC and, through our legal counsel, have been providing the SEC with requested documents and information. The SEC advised us that the initiation of a request for information should not be construed as an indication by the SEC or its staff that any violation of the federal securities laws has occurred. This matter is ongoing, and, as with any regulatory proceeding, we cannot predict when it will be concluded.

The existence of litigation, claims, investigations and proceedings may harm our reputation, limit our ability to conduct our business in the affected areas and adversely affect the trading price of our Shares and/or ADSs. The outcome of any claims, investigations and proceedings is inherently uncertain, and in any event defending against these claims could be both costly and time-consuming, and could significantly divert the efforts and resources of our management and other personnel. An adverse determination in any litigation, investigation or proceeding could cause us to pay damages, incur legal and other costs, limit our ability to conduct business or require us to change the manner in which we operate.

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We may increasingly become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, including social media and malicious reports, all of which could severely damage our reputation and brand and materially and adversely affect our business and prospects.

We process an extremely large number of transactions on a daily basis on our marketplaces and other businesses we operate, and the high volume of transactions taking place in our digital economy and publicity about our business creates the possibility of heightened attention from the public, regulators, the media and participants in our digital economy. Changes in our services or policies have resulted and could result in objections by members of the public, the media, including social media, participants in our digital economy or others. From time to time, these objections or allegations, regardless of their veracity, may result in public protests or negative publicity, which could result in government inquiry or harm our reputation and brand.

Corporate transactions we or related parties undertake, such as our partnership with the International Olympic Committee, our consolidation of Ele.me and Koubei, our 33% equity interest in Ant Financial, and other initiatives to implement our New Retail strategy, grow our local consumer services business and expand into international markets, may also subject us to increased media exposure and public scrutiny in Hong Kong, China and internationally. There can be no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation and brand as well as our business and prospects.

In addition, our directors and management have been, and continue to be, subject to scrutiny by the media and the public regarding their activities in and outside Alibaba Group, which may result in unverified, inaccurate or misleading information about them being reported by the press. Negative publicity about our founders, chairman, directors or management, even if untrue or inaccurate, may harm our reputation and brand.

Our reputation, our brand and our business may be harmed by aggressive marketing and communications strategies of our competitors.

Due to intense competition in our industry, we have been and may be the target of incomplete, inaccurate and false statements and complaints about us and our products and services that could damage our reputation and brand and materially deter consumers and customers from spending in our digital economy. In addition, competitors have used, and may continue to use, methods such as lodging complaints with regulators, initiating frivolous and nuisance lawsuits, and other forms of attack litigation and “lawfare” that attempt to harm our reputation and brand, hinder our operations, force us to expend resources on responding to and defending against these claims, and otherwise gain a competitive advantage over us by means of litigious and accusatory behavior. Our ability to respond on share price-sensitive information to our competitors’ misleading marketing efforts, including lawfare, may be limited during our self-imposed quiet periods around quarter ends consistent with our internal policies or due to legal prohibitions on permissible public communications by us during certain other periods.

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Failure to comply with the terms of our indebtedness or enforcement of our obligations as a guarantor of other parties' indebtedness could have an adverse effect on our cash flow and liquidity.

As of June 30, 2019, we had US\$13.7 billion in aggregate principal amount of unsecured senior notes and a US\$4 billion term loan outstanding, as well as a US\$5.15 billion revolving credit facility that we have not yet drawn. Under the terms of our indebtedness and under any debt financing arrangement that we may enter into in the future, we are, and may be in the future, subject to covenants that could, among other things, restrict our business and operations. If we breach any of these covenants, our lenders under our credit facilities and holders of our unsecured senior notes will be entitled to accelerate our debt obligations. Any default under our credit facilities or unsecured senior notes could require that we repay these debts prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity. In May 2019, we agreed to provide a guarantee for a loan facility of HK\$7.7 billion (US\$1.0 billion) in favor of an entity partially owned by Cainiao Network in connection with a logistics center development project at the Hong Kong International Airport. As of the Latest Practicable Date, this entity has drawn down HK\$163 million (US\$21 million) under this facility. In the event of default by this entity under the loan facility, we may be required to repay the full amount or a portion of the outstanding loan and undertake the borrower's other obligations under the loan facility. Enforcement against us under this guarantee and other similar arrangements we may enter into in the future could materially and adversely affect our cash flow and liquidity.

We may need additional capital but may not be able to obtain it on favorable terms or at all.

We may require additional cash resources due to future growth and development of our business, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties. Offshore incorporated companies directly or indirectly controlled by individual PRC residents are required to complete filings before the launch of any offshore debt issuance with a term of one year or more in accordance with applicable laws and regulations. The filing procedure takes time which may result in our missing the best market windows for debt issuances in the future. In addition, incurring indebtedness would subject us to increased debt service obligations and could result in operating and financial covenants that would restrict our operations. Our ability to access international capital and lending markets may be restricted at a time when we would like, or need, to do so, especially during times of increased volatility and reduced liquidity in global financial markets and stock markets, including due to policy changes and regulatory restrictions, which could limit our ability to raise funds. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, or at all. Any failure to raise needed funds on terms favorable to us, or at all, could severely restrict our liquidity as well as have a material adverse effect on our business, financial condition and results of operations. Moreover, any issuance of equity or equity-linked securities could result in significant dilution to our existing shareholders.

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We are subject to interest rate risk in connection with our indebtedness.

We are exposed to interest rate risk related to our indebtedness. The interest rates under certain of our offshore credit facilities are based on a spread over LIBOR. As a result, the interest expenses associated with this indebtedness will be subject to the potential impact of any fluctuation in LIBOR. Any increase in LIBOR could impact our financing costs if not effectively hedged. Our Renminbi-denominated bank borrowings are also subject to interest rate risk. Although from time to time, we use hedging transactions in an effort to reduce our exposure to interest rate risk, these hedges may not be effective.

In addition, on July 27, 2017, the FCA, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021, or the FCA Announcement. The FCA Announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Uncertainties surrounding changes to the basis on which LIBOR is calculated or the phase-out of LIBOR, which may cause a sudden and prolonged increase or decrease in LIBOR, could adversely affect our operating results and financial condition, as well as our cash flows. There can be no assurance that any hedging transactions we use will be effective in protecting us against adverse changes in interest rates or that our bank counterparties will be able to perform their obligations. Once LIBOR is not available, the terms of certain of our offshore credit facilities will require alternative determination procedures, which may result in an interest rate differing from our expectations and could materially affect the cost to us of these facilities.

We may not have sufficient insurance coverage to cover our business risks.

We have obtained insurance to cover certain potential risks and liabilities, such as property damage, business interruptions, public liabilities and product liability insurance for certain businesses we operate. However, insurance companies in China and other jurisdictions in which we operate may offer limited business insurance products. As a result, we may not be able to acquire any insurance for all types of risks we face in our operations in China and elsewhere, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. We do not maintain product liability insurance for products and services transacted on our marketplaces or other businesses we operate, and our rights of indemnity from the merchants in our digital economy may not adequately cover us for any liability we may incur. We also do not maintain key-man life insurance. This potentially insufficient coverage could expose us to potential claims and losses. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

An occurrence of a natural disaster, widespread health epidemic or other outbreaks could have a material adverse effect on our business, financial condition and results of operations.

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of a widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, or SARS, Ebola,

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Zika or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in China or elsewhere in the world could materially disrupt our business and operations. These events could also significantly impact our industry and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could be disrupted if any of our employees or employees of our business partners were suspected of contracting an epidemic disease, since this could require us or our business partners to quarantine some or all of these employees or disinfect the facilities used for our operations. In addition, our revenue and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the global or PRC economy in general. Our operations could also be severely disrupted if our consumers, merchants or other participants were affected by natural disasters, health epidemics or other outbreaks.

Risks Related to Our Corporate Structure

The Alibaba Partnership and related voting agreements limit the ability of our shareholders to nominate and elect directors.

Our Articles of Association allow the Alibaba Partnership to nominate or, in limited situations, appoint a simple majority of our board of directors. If at any time our board of directors consists of less than a simple majority of directors nominated or appointed by the Alibaba Partnership for any reason, including because a director previously nominated by the Alibaba Partnership ceases to be a member of our board of directors or because the Alibaba Partnership had previously not exercised its right to nominate or appoint a simple majority of our board of directors, the Alibaba Partnership will be entitled (in its sole discretion) to nominate or appoint such number of additional directors to the board as necessary to ensure that the directors nominated or appointed by the Alibaba Partnership comprise a simple majority of our board of directors.

In addition, we have entered into a voting agreement pursuant to which SoftBank, Alibaba, Jack Ma and Joe Tsai have agreed to vote their Shares in favor of the Alibaba Partnership director nominees at each annual general shareholders meeting for so long as SoftBank owns at least 15% of our outstanding Shares. Furthermore, the voting agreement provides that SoftBank has the right to nominate one director to our board until SoftBank owns less than 15% of our outstanding Shares, and that right is also reflected in our Articles of Association. In addition, pursuant to the voting agreement, Alibaba, Jack Ma and Joe Tsai have agreed to vote their shares (including shares for which they have voting power) in favor of the election of the SoftBank director nominee at each annual general shareholders meeting in which the SoftBank nominee stands for election.

Moreover, subject to certain exceptions, pursuant to the voting agreement SoftBank and Alibaba have agreed to give Jack and Joe a proxy over, with respect to SoftBank, any portion of its shareholdings exceeding 30% of our outstanding shares and, with respect to Alibaba, all of its shareholdings up to a maximum of 972 million of our Shares, after having accounted for the Share Split. Based on publicly disclosed information, Alibaba held ADSs representing 40 million of our Shares, after having accounted for the Share Split, as of September 30, 2019. These proxies will remain in effect until Jack Ma owns less than 1% of our Shares on a fully diluted basis or we materially breach the voting agreement.

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This governance structure and contractual arrangement limit the ability of our shareholders to influence corporate matters, including any matters determined at the board level. In addition, the nomination right granted to the Alibaba Partnership will remain in place for the life of the Alibaba Partnership unless our Articles of Association are amended to provide otherwise by a vote of shareholders representing at least 95% of shares that vote at a shareholders meeting. The nomination rights of the Alibaba Partnership will remain in place notwithstanding a change of control or merger of our Company. These provisions and agreements could have the effect of delaying, preventing or deterring a change in control and could limit the opportunity of our shareholders to receive a premium for the Shares and/or ADSs they hold, and could also materially decrease the price that some investors are willing to pay for our Shares and/or ADSs. As of the Latest Practicable Date, the parties to the voting agreement and the partners of the Alibaba Partnership held in the aggregate approximately 35% of our outstanding Shares (including shares underlying vested and unvested awards). See “Alibaba Partnership.”

The interests of the Alibaba Partnership may conflict with the interests of our shareholders.

The nomination and appointment rights of the Alibaba Partnership limit the ability of our shareholders to influence corporate matters, including any matters to be determined by our board of directors. The interests of the Alibaba Partnership may not coincide with the interests of our shareholders, and the Alibaba Partnership or its director nominees may make decisions with which they disagree, including decisions on important topics such as compensation, management succession, acquisition strategy and our business and financial strategy. Since the Alibaba Partnership will continue to be largely comprised of members of our management team, the Alibaba Partnership and its director nominees, consistent with our operating philosophy, may focus on the long-term interests of participants in our digital economy at the expense of our short-term financial results, which may differ from the expectations and desires of shareholders unaffiliated with the Alibaba Partnership. To the extent that the interests of the Alibaba Partnership differ from the interests of any of our shareholders, our shareholders may be disadvantaged by any action that the Alibaba Partnership may seek to pursue.

Our Articles of Association contain anti-takeover provisions that could adversely affect the rights of holders of our Shares and ADSs.

Our Articles of Association contain certain provisions that could limit the ability of third parties to acquire control of our Company, including:

- a provision that grants authority to our board of directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series;
- a provision that a business combination, if it may adversely affect the right of the Alibaba Partnership to nominate or appoint a simple majority of our board of directors, including the protective provisions for this right under our Articles of Association, shall be approved upon vote of shareholders representing at least 95% of the votes in person or by proxy present at a shareholders meeting; and
- a classified board with staggered terms that will prevent the replacement of a majority of directors at one time.

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These provisions could have the effect of delaying, preventing or deterring a change in control, and could limit the opportunity for our shareholders to receive a premium for their Shares and/or ADSs, and could also materially decrease the price that some investors are willing to pay for our Shares and/or ADSs.

SoftBank owns approximately 25.8% of our outstanding Shares and its interests may differ from those of our other shareholders.

As of the Latest Practicable Date, SoftBank beneficially owned approximately 25.8% of our outstanding Shares. Subject to certain exceptions, SoftBank has agreed to grant the voting power of any portion of its shareholding exceeding 30% of our outstanding Shares to Jack Ma and Joe Tsai by proxy. Under the terms of the voting agreement we entered into with SoftBank, SoftBank also has the right to nominate one member of our board of directors, and Alibaba, Jack and Joe have agreed to vote their shares (including shares for which they have voting power) in favor of the SoftBank director nominees at each annual general shareholders meeting in which the SoftBank nominee stands for election until such time as SoftBank holds less than 15% of our outstanding Shares. SoftBank's director nomination right is also reflected in our Articles of Association. Except with regard to shareholder votes relating to the Alibaba Partnership director nominees, SoftBank will have significant influence over the outcome of matters that require shareholder votes and accordingly over our business and corporate matters. SoftBank may exercise its shareholder rights in a way that it believes is in its own best interest, which may conflict with the interest of our other shareholders. These actions may be taken even if SoftBank is opposed by our other shareholders.

For more information, see “Related Party Transactions — Transactions and Agreements with SoftBank and Alibaba — Voting Agreement.”

If the PRC government deems that the contractual arrangements in relation to our variable interest entities do not comply with PRC governmental restrictions on foreign investment, or if these regulations or the interpretation of existing regulations changes in the future, we could be subject to penalties, or be forced to relinquish our interests in those operations, which would materially and adversely affect our business, financial results and the trading price of our Shares and/or ADSs.

Foreign ownership of certain types of Internet businesses, such as Internet information services, is subject to restrictions under applicable PRC laws, rules and regulations. Under these laws and regulations, foreign investors are generally not permitted to own more than 50% of the equity interests in a value-added telecommunication service provider. Any foreign investor must also have experience and a good track record in providing value-added telecommunications services overseas. Although foreign investors are allowed to hold up to 100% of all equity interests in the online data processing and transaction processing business (operational e-commerce) in China, other requirements provided by the relevant rules (such as the track record and experience requirement for a major foreign investor) still apply. The Negative List also lifts the restrictions on shareholding percentages for certain other types of value-added telecommunications business, including domestic multi-party communication, storage-and-forward and call center services. Since the Negative List was newly amended, there exist significant uncertainties with respect to its implementation and interpretation. See “Regulation — Regulation of Telecommunications and Internet Information Services — Regulation of Telecommunication Services” and “Regulation — Regulation of Foreign Investment.”

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While the significant majority of our revenue was generated by our wholly-owned entities in fiscal year 2019, we provide Internet information services in China, which are critical to our business, through a number of PRC incorporated variable interest entities. Contractual arrangements between us and the variable interest entities and their equity holders give us effective control over each of the variable interest entities and enable us to obtain substantially all of the economic benefits arising from the variable interest entities as well as to consolidate the financial results of the variable interest entities in our results of operations. Although the structure we have adopted is consistent with longstanding industry practice, and is commonly adopted by comparable companies in China, the PRC government may not agree that these arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. We are in the process of enhancing the structure of our variable interest entities. See “— We are in the process of enhancing the structure of some of our variable interest entities, and its completion is subject to uncertainties.”

In the opinion of Fangda Partners, our PRC counsel, the ownership structures of our material wholly-owned entities and our material variable interest entities in China do not and will not violate any applicable PRC law, regulation or rule currently in effect; and the contractual arrangements between our material variable interest entities, the corresponding wholly-owned entities and the respective equity holders of our material variable interest entities governed by PRC law are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect and will not violate any applicable PRC law, rule or regulation currently in effect. However, Fangda Partners has also advised us that there are substantial uncertainties regarding the interpretation and application of current PRC laws, rules and regulations. Accordingly, the possibility that the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the opinion of our PRC legal counsel cannot be ruled out.

It is uncertain whether any new PRC laws, rules or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. Please also see “— Substantial uncertainties exist with respect to the interpretation and implementation of the recently adopted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, business, financial condition and results of operations.”

If we or any of our variable interest entities are found to be in violation of any existing or future PRC laws, rules or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with these violations or failures, including revoking the business and operating licenses of our PRC subsidiaries or the variable interest entities, requiring us to discontinue or restrict our operations, restricting our right to collect revenue, blocking one or more of our websites, requiring us to restructure our operations or taking other regulatory or enforcement actions against us. The imposition of any of these measures could result in a material adverse effect on our ability to conduct all or any portion of our business operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of any of our variable interest entities in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of any of our material variable interest entities or otherwise separate from any of these entities and if we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no

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longer be able to consolidate the financial results of our variable interest entities in our consolidated financial statements. Any of these events would have a material adverse effect on our business, financial condition and results of operations.

We are in the process of enhancing the structure of some of our variable interest entities, and its completion is subject to uncertainties.

In order to further improve our control over our variable interest entities, reduce key man risks associated with having certain individuals be the equity holders of the variable interest entities, and address the uncertainty resulting from any potential disputes between us and the individual equity holders of the variable interest entities that may arise, we are in the process of the VIE Structure Enhancement.

Prior to the completion of the VIE Structure Enhancement, the variable interest entities were owned, or are owned, by a few PRC citizens who are our founders or employees or by PRC entities owned by these PRC citizens. After completion of the VIE Structure Enhancement, those variable interest entities will be directly owned by PRC limited liability companies that are indirectly held by selected members of the Alibaba Partnership or our management who are PRC citizens through PRC limited partnerships jointly established by these individuals. We enter into contractual arrangements, which are substantially similar to the contractual arrangements we have historically used for our variable interest entities, with the above-mentioned multiple layers of legal entities and variable interest entity interest holders. The contractual arrangements, both before and after the VIE Structure Enhancement, give us effective control over each of those variable interest entities and enable us to obtain substantially all of the economic benefits arising from those variable interest entities as well as to consolidate the financial results of those variable interest entities in our results of operations. Please also see “Our History and Corporate Structure — Corporate Structure.”

While we believe the new structure following completion of the VIE Structure Enhancement is consistent with longstanding industry practice, the PRC government may not agree that these arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The VIE Structure Enhancement process is subject to a number of uncertainties, including registration of the transfer of the equity interests, registration of the new equity pledges, and the receipt of required approvals of amendments to certain operating permits, including the Value-added Telecommunication Business Operation Permit, Network Culture Permit and the License for Transmission of Audio-Visual Programs through Information Network. If we are unable to successfully complete these processes involved in the VIE Structure Enhancement, or if these processes are subsequently challenged, we will be unable to enjoy the benefits we expect, including the anticipated enhanced control over those variable interest entities, or reduced key man risks or the uncertainty resulting from any potential disputes among us and the individual equity holders of those variable interest entities as discussed above.

For further information, See “— If the PRC government deems that the contractual arrangements in relation to our variable interest entities do not comply with PRC governmental restrictions on foreign investment, or if these regulations or the interpretation of existing regulations changes in the future, we could be subject to penalties, or be forced to relinquish our interests in those operations, which would materially and adversely affect our business, financial results and the trading price of our Shares and/or ADSs” and “Our History and Corporate Structure — Corporate Structure.”

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Substantial uncertainties exist with respect to the interpretation and implementation of the recently adopted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, business, financial condition and results of operations.

The VIE structure has been adopted by many China-based companies, including us and certain of our equity investees, to obtain licenses and permits necessary to operate in industries that currently are subject to restrictions on or prohibitions for foreign investment in China. The discussion draft of the proposed Foreign Investment Law (《中華人民共和國外國投資法(草案徵求意見稿)》) published by MOFCOM in January 2015 or the 2015 Draft PRC Foreign Investment Law, according to which, variable interest entities that are controlled via contractual arrangements would be deemed as foreign-invested enterprises, if they are ultimately “controlled” by foreign investors. In March 2019, the National People’s Congress promulgated the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace major existing laws and regulations governing foreign investment in the PRC. See “Regulation — Regulation of Foreign Investment.” The 2019 PRC Foreign Investment Law does not use the concept of “control” in determining whether a company should be considered as a foreign-invested enterprise, nor does it explicitly classify the VIE structure as a method of foreign investment. Since the 2019 PRC Foreign Investment Law has only recently been adopted and relevant government authorities may promulgate rules and regulations as to the interpretation and implementation of the 2019 PRC Foreign Investment Law, there can be no assurance that the concept of “control” as reflected in the 2015 Draft PRC Foreign Investment Law, will not be reintroduced, or that the VIE structure adopted by us will not be deemed as a method of foreign investment by other laws, regulations and rules. Accordingly, there are substantial uncertainties as to whether our VIE structure may be deemed as a method of foreign investment in the future. If our VIE structure were to be deemed as a method of foreign investment under any future laws, regulations and rules, and if any of our business operations were to fall under the “negative list” for foreign investment, we would need to take further actions in order to comply with these laws, regulations and rules, which may materially and adversely affect our current corporate structure, business, financial condition and results of operations.

Our contractual arrangements may not be as effective in providing control over the variable interest entities as direct ownership.

We rely on contractual arrangements with our variable interest entities to operate part of our Internet businesses in China and other businesses in which foreign investment is restricted or prohibited. For a description of these contractual arrangements, see “Our History and Corporate Structure — Contractual Arrangements among Our Wholly Owned Entities, Variable Interest Entities and the Variable Interest Entity Equity Holders.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entities.

If we had direct ownership of the variable interest entities, we would be able to exercise our rights as an equity holder directly to effect changes in the boards of directors of those entities, which could effect changes at the management and operational level. Under our contractual arrangements, we may not be able to directly change the members of the boards of directors of these entities and would have to rely on the variable interest entities and the variable interest entity equity holders to perform their obligations in order to exercise our control over the variable interest entities. The variable interest entity equity holders may have conflicts of interest with us or our shareholders, and they may not act in our best interests or may not perform their obligations under these contracts. Pursuant to the call options, we may replace the equity holders of the variable interest entities at any time pursuant to the contractual arrangements. However, if any equity holder is uncooperative in

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the replacement of the equity holders or there is any dispute relating to these contracts that remains unresolved, we will have to enforce our rights under the contractual arrangements through the operations of PRC law and arbitral or judicial agencies, which may be costly and time-consuming and will be subject to uncertainties in the PRC legal system. See “— Any failure by our variable interest entities or their equity holders to perform their obligations under the contractual arrangements would have a material adverse effect on our business, financial condition and results of operations.” Consequently, the contractual arrangements may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership.

Any failure by our variable interest entities or their equity holders to perform their obligations under the contractual arrangements would have a material adverse effect on our business, financial condition and results of operations.

If our variable interest entities or their equity holders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce the arrangements. Although we have entered into call option agreements in relation to each variable interest entity, which provide that we may exercise an option to acquire, or nominate a person to acquire, ownership of the equity in that entity or, in some cases, its assets, to the extent permitted by applicable PRC laws, rules and regulations, the exercise of these call options is subject to the review and approval of the relevant PRC governmental authorities. We have also entered into equity pledge agreements with the equity shareholders and, in the case of variable interest entities that have started, completed, or will start, the VIE Structure Enhancement, the limited partnerships with respect to each variable interest entity to secure certain obligations of the variable interest entity or its equity holders to us under the contractual arrangements. We have not been able to register certain of the pledges in Zhejiang Province where we incorporated those limited partnerships, because the Zhejiang rules for the registration of pledges of partnership interests were relatively new and we are still discussing with the local SAMR about the detailed procedures. In addition, the enforcement of these agreements through arbitral or judicial agencies, if any, may be costly and time-consuming and will be subject to uncertainties in the PRC legal system. Moreover, our remedies under the equity pledge agreements are primarily intended to help us collect debts owed to us by the variable interest entities or the variable interest entity equity holders under the contractual arrangements and may not help us in acquiring the assets or equity of the variable interest entities.

In addition, with respect to the variable interest entities that have not completed the VIE Structure Enhancement, although the terms of the contractual arrangements provide that they will be binding on the successors of the variable interest entity equity holders, as those successors are not a party to the agreements, it is uncertain whether the successors in case of the death, bankruptcy or divorce of a variable interest entity equity holder will be subject to or will be willing to honor the obligations of the variable interest entity equity holder under the contractual arrangements. If the relevant variable interest entity or its equity holder (or its successor), as applicable, fails to transfer the shares of the variable interest entity according to the respective call option agreement or equity pledge agreement, we would need to enforce our rights under the call option agreement or equity pledge agreement, which may be costly and time-consuming and may not be successful.

The contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration or court proceedings in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. Uncertainties in the PRC legal system could limit

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our ability to enforce the contractual arrangements. Under PRC law, if the losing parties fail to carry out the arbitration awards or court judgments within a prescribed time limit, the prevailing parties may only enforce the arbitration awards or court judgments in PRC courts, which would require additional expense and delay. In the event we are unable to enforce the contractual arrangements, we may not be able to exert effective control over the variable interest entities, and our ability to conduct our business, as well as our financial condition and results of operations, may be materially and adversely affected.

We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our variable interest entities, which could severely disrupt our business, render us unable to conduct some or all of our business operations and constrain our growth.

Although the significant majority of our revenues are generated, and the significant majority of our operational assets are held, by our wholly-owned entities, which are our subsidiaries, our variable interest entities hold licenses and approvals and assets that are necessary for our business operations, as well as equity interests in a series of our portfolio companies, to which foreign investments are typically restricted or prohibited under applicable PRC law. The contractual arrangements contain terms that specifically obligate variable interest entity equity holders to ensure the valid existence of the variable interest entities and restrict the disposal of material assets of the variable interest entities. However, in the event the variable interest entity equity holders breach the terms of these contractual arrangements and voluntarily liquidate our variable interest entities, or any of our variable interest entities declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to conduct some or all of our business operations or otherwise benefit from the assets held by the variable interest entities, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if any of our variable interest entities undergoes a voluntary or involuntary liquidation proceeding, its equity holder or unrelated third-party creditors may claim rights to some or all of the assets of the variable interest entity, thereby hindering our ability to operate our business as well as constrain our growth.

The equity holders, directors and executive officers of the variable interest entities may have potential conflicts of interest with us.

PRC laws provide that a director and an executive officer owes a fiduciary duty to the company he or she directs or manages. The directors and executive officers of the variable interest entities, including the relevant members of the Alibaba Partnership or our management, must act in good faith and in the best interests of the variable interest entities and must not use their respective positions for personal gain. On the other hand, as a director of our Company, the relevant individuals have a duty of care and loyalty to us and to our shareholders as a whole under Cayman Islands law. We control our variable interest entities through contractual arrangements and the business and operations of our variable interest entities are closely integrated with the business and operations of our subsidiaries. Nonetheless, conflicts of interests for these individuals may arise due to dual roles both as equity holders, directors and executive officers of the variable interest entities and as our directors or employees.

There can be no assurance that these individual shareholders of our variable interest entities will always act in our best interests should any conflicts of interest arise, or that any conflicts of interest will always be resolved in our favor. There also can be no assurance that these individuals will ensure that the variable interest entities will not breach the

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existing contractual arrangements. If we cannot resolve any of these conflicts of interest or any related disputes, we would have to rely on legal proceedings to resolve these disputes and/or take enforcement action under the contractual arrangements. There is substantial uncertainty as to the outcome of any of these legal proceedings. See “— Any failure by our variable interest entities or their equity holders to perform their obligations under the contractual arrangements would have a material adverse effect on our business, financial condition and results of operations.”

Furthermore, a company controlled by Jack serves as one of the general partners of a PRC limited partnership that made a minority investment in Wasu. Yuzhu Shi, the founder, chairman and a principal shareholder of Giant Interactive, a China-based online game company that was previously listed on the NYSE, and an entrepreneur with significant experience in and knowledge of the media industry in China, serves as the other general partner and the executive partner. The interest of the general partner controlled by Jack in the limited partnership is limited to a return of its RMB10,000 capital contribution. In addition, Simon Xie, a former employee who is one of our founders and an equity holder in certain of our variable interest entities, is a limited partner in this PRC limited partnership. To fund this investment, in April 2015 Simon was granted a financing with an aggregate principal of up to RMB6.9 billion by a major financial institution in the PRC. The financing is secured by a pledge of the Wasu shares acquired by the PRC limited partnership, and a pledge of certain wealth management products we purchased. In addition, we entered into a loan agreement for a principal amount of up to RMB2.0 billion with Simon in April 2015 to finance the repayment by Simon of the principal and interest under the above financing. We entered into these arrangements to strengthen our strategic business arrangements with Wasu to pursue our strategy of expanding entertainment offerings to consumers. See “Related Party Transactions — Pledge for the Benefit of and Loan Arrangement with a Related Party.”

There can be no assurance that Jack Ma will act in our interest given his ability to control one of the general partners of the PRC limited partnership that invested in Wasu, nor can we assure you that he will not breach his obligations to us as our director, including obligations not to compete with us. In addition, the interests of Mr. Shi, as an independent third party, may not coincide with those of Jack, or with our interests in pursuing our entertainment strategy. If any conflicts of this kind arise between Jack and Mr. Shi in conducting the business of the PRC limited partnership, it could potentially have a material adverse effect on our relationship with the shareholder of Wasu and, consequently, on our ability to benefit from our alliance with Wasu. Furthermore, there can be no assurance that Simon will have sufficient resources to repay the loans in a timely manner or at all. The loan that we provided to Simon is secured by a pledge of Simon’s limited partnership interest in the PRC limited partnership. However, if Simon fails to repay the loan, our enforcement of our secured interests could be costly and time-consuming and would be subject to the uncertainties in the PRC legal system.

The contractual arrangements with our variable interest entities may be subject to scrutiny by the PRC tax authorities. Any pricing adjustment of a related party transaction could lead to additional taxes, and therefore substantially reduce our consolidated net income and the value of your investment.

The tax regime in China is rapidly evolving and there is significant uncertainty for taxpayers in China as PRC tax laws may be interpreted in significantly different ways. The PRC tax authorities may assert that we or our subsidiaries or the variable interest entities or their equity holders are required to pay additional taxes on previous or future revenue or income. In particular, under applicable PRC laws, rules and regulations, arrangements and

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transactions among related parties, such as the contractual arrangements with our variable interest entities, may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities determine that any contractual arrangements were not entered into on an arm's length basis and therefore constitute a favorable transfer pricing, the PRC tax liabilities of the relevant subsidiaries and/or variable interest entities and/or variable interest entity equity holders could be increased, which could increase our overall tax liabilities. In addition, the PRC tax authorities may impose late payment interest. Our net income may be materially reduced if our tax liabilities increase.

Risks Related to Doing Business in the People's Republic of China

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

Although we have operating subsidiaries located in various countries and regions, our operations in China currently contribute the large majority of our revenue. Accordingly, our financial condition and results of operations are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. A substantial portion of productive assets in China is still owned by the government. In addition, the PRC government regulates industry development by imposing industrial policies. The PRC government also plays a significant role in China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past four decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity. Any prolonged slowdown in the Chinese economy could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

Most of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

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China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to a significant degree of interpretation by PRC regulatory agencies and courts. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the non-precedential nature of these decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. Therefore, it is possible that our existing operations may be found not to be in full compliance with relevant laws and regulations in the future. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

PRC regulations regarding acquisitions impose significant regulatory approval and review requirements, which could make it more difficult for us to pursue growth through acquisitions.

Under the PRC Anti-monopoly Law, companies undertaking certain investments and acquisitions relating to businesses in China must notify the anti-monopoly enforcement agency, in advance of any transaction where the parties' revenues in the China market exceed certain thresholds and the buyer would obtain control of, or decisive influence over, the other party. In addition, on August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the CSRC and the SAFE, jointly adopted the M&A Rules, which came into effect on September 8, 2006 and was amended on June 22, 2009. Under the M&A Rules, the approval of MOFCOM must be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire domestic companies affiliated with PRC enterprises or residents. Applicable PRC laws, rules and regulations also require certain merger and acquisition transactions to be subject to security review.

Due to the level of our revenues, our proposed acquisition of control of, or decisive influence over, any company with revenues within China of more than RMB400 million in the year prior to any proposed acquisition would be subject to the SAMR merger control review. As a result of our size, many of the transactions we may undertake could be subject to SAMR merger review. Complying with the requirements of the relevant regulations to complete these transactions could be time-consuming, and any required approval processes, including approval from SAMR, may be uncertain and could delay or inhibit our ability to complete these transactions, which could affect our ability to expand our business maintain our market share or otherwise achieve the goals of our acquisition strategy.

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According to the Regulations on Enterprise Outbound Investment issued by the NDRC in December 2017 which came into effect on March 1, 2018, we may also need to report to the NDRC relevant information on overseas investments with an amount of US\$300 million or more in non-sensitive areas, and obtain the NDRC's approval for our overseas investments in sensitive areas, if any, before the closing of the investments. Accordingly, these new regulations may restrict our ability to make investments in some regions and industries overseas, and may subject any proposed investments to additional delays and increased uncertainty, as well as heightened scrutiny, including after the investments have been made.

Our ability to carry out our investment and acquisition strategy may be materially and adversely affected by the regulatory authorities' current practice, which creates significant uncertainty as to the timing of receipt of relevant approvals and whether transactions that we may undertake would subject us to fines or other administrative penalties and negative publicity and whether we will be able to complete investments and acquisitions in the future in a timely manner or at all.

Anti-monopoly and unfair competition claims or regulatory actions against us may result in our being subject to fines, constraints on our business and damage to our reputation.

The PRC anti-monopoly enforcement agencies have in recent years strengthened enforcement under the PRC Anti-monopoly Law, including levying significant fines, with respect to concentration of undertakings and cartel activity, mergers and acquisitions, as well as abusive behavior by companies with market dominance. In March 2018, the SAMR was formed as a new governmental agency to take over, among other things, the anti-monopoly enforcement functions from the relevant departments under the MOFCOM, the NDRC and the SAIC, respectively. The SAMR has stated recently that its tasks are to safeguard consumer interests, and to ensure quality and safety through enhanced market regulation. The SAMR has said that it will adopt an encouraging and cautious approach in regulating new technology, new industries, new business models and new practices, with a goal of stimulating market viability and innovation, promoting development and creating room for future growth.

Since its inception, the SAMR has continued to strengthen its anti-monopoly enforcement. The SAMR issued a new set of guidelines with respect to merger control review in September 2018, and issued the Notice on Anti-monopoly Enforcement Authorization on December 28, 2018, which grants authorizations to the SAMR's province-level branches for anti-monopoly enforcement within their respective jurisdictions. The SAMR recently has also imposed several administrative penalties on various companies for failing to duly make filings as to their transactions subject to merger control review by the SAMR. The scope of the companies that were penalized is broad, and covers a variety of different industries. On several recent occasions, including at administrative guidance meetings attended by Internet platform companies including our Company, the SAMR has indicated its view that certain business arrangements adopted by e-commerce platforms, including arrangements seen as exclusivity arrangements, may constitute violation of the anti-monopoly and unfair competition laws. The SAMR also indicated its intention of initiating investigations into these arrangements.

The PRC Anti-monopoly Law provides a private right of action for competitors, business partners or customers to bring anti-monopoly claims against companies. In recent years, an increased number of companies have been exercising their right to seek relief under the PRC Anti-monopoly Law. Some of these companies, including our competitors, business partners and customers, have resorted to and may continue making public allegations or

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media campaigns against us, submitting complaints to regulators or initiating private litigation that targets our prior and current business practices, such as our market approach with traffic resource allocation on our ecommerce platforms, which we base on multiple factors, and our prior narrowly-deployed exclusive partnerships. Although we believe that our business practices do not violate anti-monopoly or unfair competition laws, due to our large scale of business and close media attention, there can be no assurance that regulators will not initiate anti-monopoly investigations into specific business practices we have adopted.

Any anti-monopoly lawsuit, regulatory investigations or administrative proceedings initiated against us could also result in our being subject to regulatory actions and constraints on our investments and acquisitions, which could include forced termination of any agreements or transactions that are determined by governmental authorities to be in violation of anti-monopoly laws, required divestitures and limitations on certain pricing and business practices. As a result, we may be subject to significant difficulties in pursuing our investment and acquisition strategy.

These allegations, claims, actions or proceedings, regardless of their merits, have, and may continue to, cause us to change some of our business practices and hinder our business operations, which could decrease the popularity of our businesses, products and services, cause our revenue and net income to decrease materially, and could lead to additional regulatory inquiries, investigations or actions against us, such as profit disgorgement, heavy fines and various restrictions on our businesses or investment activities. Any of the above circumstances could materially and adversely affect our business, operations, reputation, brand and the trading price of our Shares and/or ADSs.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

SAFE promulgated the SAFE Circular 37 on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by SAFE on October 21, 2005. See also “Regulation — Regulation of Foreign Exchange and Dividend Distribution — Foreign Exchange Regulation — SAFE Circular 37.” SAFE Circular 37 and its implementing rules require PRC residents to register with banks designated by local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with the PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.”

We have notified substantial beneficial owners of Shares who we know are PRC residents of their filing obligation, and pursuant to SAFE Circular 37, we have periodically filed and updated the above-mentioned foreign exchange registration on behalf of certain employee shareholders who we know are PRC residents. However, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners, and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our Company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject the beneficial owners or our PRC subsidiaries to fines and legal sanctions.

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Furthermore, since it is unclear how those SAFE regulations, and any future regulation concerning offshore or cross-border transactions, will be further interpreted, amended and implemented by the relevant PRC government authorities, we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our Company. These risks may have a material adverse effect on our business, financial condition and results of operations.

Any failure to comply with PRC regulations regarding our employee equity incentive plans may subject the PRC participants in the plans, us or our overseas and PRC subsidiaries to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may, prior to the exercise of an option, submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In the meantime, our directors, executive officers and other employees who are PRC citizens or who are non-PRC citizens residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, and whom we or our overseas listed subsidiaries have granted RSUs, options or restricted shares, may follow the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, to apply for the foreign exchange registration. According to those regulations, employees, directors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which may be a PRC subsidiary of the overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit their ability to make payment under the relevant equity incentive plans or receive dividends or sales proceeds related thereto in foreign currencies, or our ability to contribute additional capital into our domestic subsidiaries in China and limit our domestic subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties under PRC law that could restrict our ability or the ability of our overseas listed subsidiaries to adopt additional equity incentive plans for our directors and employees who are PRC citizens or who are non-PRC citizens residing in the PRC for a continuous period of not less than one year, subject to limited exceptions.

In addition, the State Administration of Taxation has issued circulars concerning employee RSUs, share options or restricted shares. Under these circulars, employees working in the PRC whose RSUs or restricted shares vest, or who exercise share options, will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee RSUs, share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their RSUs, share options or restricted shares. Although we and our overseas listed subsidiaries currently withhold income tax from our PRC employees in connection with the vesting of their RSUs and restricted shares and their exercise of options, if the employees fail to pay, or the PRC subsidiaries fail to withhold, their income taxes according to relevant laws, rules and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities.

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We rely to a significant extent on dividends, loans and other distributions on equity paid by our principal operating subsidiaries in China.

We are a holding company and rely to a significant extent on dividends, loans and other distributions on equity paid by our principal operating subsidiaries for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund inter-company loans, service any debt we may incur outside of China and pay our expenses. When our principal operating subsidiaries incur additional debt, the instruments governing the debt may restrict their ability to pay dividends or make other distributions or remittances, including loans, to us. Furthermore, the laws, rules and regulations applicable to our PRC subsidiaries and certain other subsidiaries permit payments of dividends only out of their retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside a portion of its net income each year to fund certain statutory reserves. These reserves, together with the registered equity, are not distributable as cash dividends. As a result of these laws, rules and regulations, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary. As of June 30, 2019, these restricted net assets totaled RMB114.2 billion (US\$16.6 billion).

P4P services are considered, in part, to involve Internet advertisement, which subjects us to other laws, rules and regulations as well as additional obligations.

On July 4, 2016, the SAIC promulgated the Internet Advertising Measures, which came into effect as of September 1, 2016 and defined Internet advertisements as any commercial advertising that directly or indirectly promotes goods or services through Internet media in any form including paid-for search results. See “Regulation — Regulation of Advertising Services.”

There exist substantial uncertainties with respect to the interpretation and implementation in practice of the Internet Advertising Measures by various government authorities. We derive a significant amount of our revenue from P4P services and other related services. Our P4P services and other related services may be considered to, in part, involve Internet advertisement. We may incur additional taxes in connection with our P4P and other related services. Moreover, PRC advertising laws, rules and regulations require advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with applicable law. Violation of these laws, rules or regulations may result in penalties, including fines, confiscation of advertising fees and orders to cease dissemination of the advertisements. In circumstances involving serious violations, the PRC government may suspend or revoke a violator’s business license or license for operating an advertising business. In addition, the Internet Advertising Measures require paid-for search results to be clearly distinguished from organic search results so that consumers will not misunderstand the nature of these search results. Therefore, we are obligated to distinguish from others the merchants who purchase the above-mentioned P4P and related services or the relevant listings by these merchants. Complying with these requirements, including any penalties or fines for any failure to comply, may significantly reduce the attractiveness of our platforms and increase our costs, and could have a material adverse effect on our business, financial condition and results of operations.

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In addition, for advertising content related to specific types of products and services, advertisers, advertising operators and advertising distributors must confirm that the advertisers have obtained requisite government approvals, including the advertiser's operating qualifications, proof of quality inspection of the advertised products, and, with respect to certain industries, government approval of the content of the advertisement and filing with the local authorities. Pursuant to the Internet Advertising Measures, we are required to take steps to monitor the content of advertisements displayed on our platforms. This requires considerable resources and time, and could significantly affect the operation of our business, while also subjecting us to increased liability under the relevant laws, rules and regulations. The costs associated with complying with these laws, rules and regulations, including fines or any other penalties for our failure to so comply if required, could have a material adverse effect on our business, financial condition and results of operations. Any further change in the classification of our P4P and other related services by the PRC government may also significantly disrupt our operations and materially and adversely affect our business and prospects.

We may be treated as a resident enterprise for PRC tax purposes under the PRC EIT Law, and we may therefore be subject to PRC income tax on our global income.

Under the EIT Law and its implementing rules, both of which came into effect on January 1, 2008, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC EIT at the rate of 25% on their global income. The State Administration of Taxation issued the Circular 82 on April 22, 2009. See “Regulation — Tax Regulations — PRC Enterprise Income Tax.” If we were to be considered a PRC resident enterprise, we would be subject to PRC EIT at the rate of 25% on our global income. In this case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the EIT Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.”

Dividends payable to foreign investors and gains on the sale of our Shares and/or ADSs by our foreign investors may become subject to PRC taxation.

Under the EIT Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable by a resident enterprise to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have an establishment or place of business but the dividends are not effectively connected with the establishment or place of business, to the extent these dividends are derived from sources within the PRC, subject to any reduction set forth in applicable tax treaties. Similarly, any gain realized on the transfer of shares of a resident enterprise by these investors is also subject to PRC tax at a current rate of 10%, subject to any exemption set forth in relevant tax treaties, if the gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our Shares or ADSs, and any gain realized by the investors from the transfer of our Shares or ADSs, may be treated as income derived from sources within the PRC and as a result be subject to PRC taxation. See “Regulation — Tax Regulations — PRC Enterprise Income Tax.” Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of our Shares and/or ADSs by these investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties. It is unclear

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if we or any of our subsidiaries established outside China are considered a PRC resident enterprise, whether holders of our Shares and/or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas and claim foreign tax credit if applicable. If dividends payable to our non-PRC investors, or gains from the transfer of our Shares and/or ADSs by these investors are subject to PRC tax, the value of your investment in our Shares and/or ADSs may decline significantly.

Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs.

Chinese companies operating in the high-technology and software industry that meet relevant requirements may qualify for three main types of preferential treatment, which are high and new technology enterprises, software enterprises and key software enterprises within the scope of the PRC national plan. For a qualified high and new technology enterprise, the applicable EIT rate is 15%. The high and new technology enterprise qualification is re-assessed by the relevant authorities every three years. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning from the first profit-making calendar year and a 50% tax reduction for the subsequent three calendar years. The software enterprise qualification is subject to an annual assessment. For a qualified key software enterprise within the scope of the PRC national plan, the applicable enterprise tax rate for a calendar year is 10%. The key software enterprise qualification is subject to an annual assessment.

A number of our China operating entities enjoy these preferential tax treatments. The discontinuation of any of the various types of preferential tax treatment we enjoy could materially and adversely affect our results of operations. See “Financial Information — Taxation — PRC Income Tax.”

We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a PRC establishment of a non-PRC company.

On February 3, 2015, the State Administration of Taxation issued the Bulletin 7, which has been further amended by Bulletin 37 issued by the State Administration of Taxation on October 17, 2017 and amended on June 15, 2018. Pursuant to these bulletins, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if the arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC EIT. As a result, gains derived from this indirect transfer may be subject to PRC EIT. See also “Regulation — Tax Regulations — PRC Enterprise Income Tax.”

There are uncertainties as to the application of Bulletin 7 and Bulletin 37. Bulletin 7 may be determined by the tax authorities to be applicable to some of our offshore restructuring transactions or sale of the shares of our offshore subsidiaries or investments where PRC taxable assets are involved. The transferors and transferees may be subject to the tax filing and the transferees may be subject to withholding or tax payment obligation, while our PRC subsidiaries may be requested to assist in the filing. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply

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with Bulletin 7 or to establish that we and our non-resident enterprises should not be taxed under Bulletin 7, for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Bulletin 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Bulletin 7, our income tax costs associated with potential acquisitions or disposals will increase, which may have an adverse effect on our financial condition and results of operations.

Restrictions on currency exchange or outbound capital flows may limit our ability to utilize our PRC revenue effectively.

Substantially all of our revenue is denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but requires approval from or registration with appropriate government authorities or designated banks under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or variable interest entities. Currently, our PRC subsidiaries, that are foreign invested enterprises, may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, without the approval of SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions.

Since 2016, PRC governmental authorities have imposed more stringent restrictions on outbound capital flows, including heightened scrutiny over “irrational” overseas investments for certain industries, as well as over four kinds of “abnormal” offshore investments, which are:

- investments through enterprises established for only a few months without substantive operation;
- investments with amounts far exceeding the registered capital of onshore parent and not supported by its business performance shown on financial statements;
- investments in targets that are unrelated to onshore parent’s main business; and
- investments with abnormal sources of Renminbi funding suspected to be involved in illegal transfer of assets or illegal operation of underground banking.

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, which tightened the authenticity and compliance verification of cross-border transactions and cross-border capital flow. See “Regulation — Regulation of Foreign Exchange and Dividend Distribution — Foreign Exchange Regulation.” In addition, the Outbound Investment Sensitive Industry Catalog (2018) lists certain sensitive industries that are subject to NDRC pre-approval requirements prior to remitting investment funds offshore, which subjects us to increased approval requirements and restrictions with respect to our overseas investment activity. On October 23, 2019, SAFE issued the Circular on Further Promoting Cross-border Trade and Investment Facilitation, or Circular 28, which

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took effect on the same day. Circular 28, subject to certain conditions, allows foreign-invested enterprises whose business scope does not include investment, or non-investment foreign-invested enterprises, to use their capital funds to make equity investments in China. Since Circular 28 was issued only recently, its interpretation and implementation in practice are still subject to substantial uncertainties. Since a significant amount of our PRC revenue is denominated in Renminbi, any existing and future restrictions on currency exchange or outbound capital flows may limit our ability to utilize revenue generated in Renminbi to fund our business activities outside of the PRC, make investments, service any debt we may incur outside of China or pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

Fluctuations in exchange rates could result in foreign currency exchange losses to us.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. In 2017, the value of the Renminbi appreciated by approximately 6.3% against the U.S. dollar; and in 2018, the Renminbi depreciated by approximately 5.7% against the U.S. dollar. From the end of 2018 through the end of September 2019, the value of the Renminbi depreciated by approximately 4.0% against the U.S. dollar. It is difficult to predict how market forces or PRC or U.S. government policy, including any interest rate increases by the Federal Reserve, may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, including from the U.S. government. In August 2019, following the Renminbi reaching a seven-year low, the U.S. Treasury announced that it has labelled China a “currency manipulator,” as a result of which the United States may take further actions to eliminate perceived unfair competitive advantages created by alleged manipulating actions. This recent announcement by the U.S. Treasury as well as China’s possible responses could result in greater fluctuation of the Renminbi against the U.S. dollar.

A substantial percentage of our revenues and costs are denominated in Renminbi, and a significant portion of our financial assets are also denominated in Renminbi while the majority of our debt is denominated in dollars. We are a holding company and we rely on dividends, loans and other distributions on equity paid by our operating subsidiaries in China. Any significant fluctuations in the value of the Renminbi may materially and adversely affect our liquidity and cash flows. If we decide to convert our Renminbi into U.S. dollars for the purpose of repaying principal or interest expense on our outstanding U.S. dollar-denominated debt, making payments for dividends on our Shares or ADSs or other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount we would receive. Conversely, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. From time to time we enter into hedging activities with regard to exchange rate risk. There can be no assurance that our hedging activities will successfully mitigate these risks adequately or at all, and in addition hedging activities may result in greater volatility in our financial results.

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Restrictions on the direct production of audit work papers generated from audit work performed in mainland China to foreign regulators could result in our financial statements being determined to not be in compliance with the requirements of the U.S. Exchange Act.

In 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the mainland Chinese affiliates of the “big four” accounting firms, including the affiliate of our auditor. The proceedings related to the failure of these firms and one other firm to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act, as the auditors located in China are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the CSRC. The issues raised by the proceedings are not specific to the Chinese affiliate of our auditor or to us, but potentially affect equally all PCAOB-registered audit firms based in China and all businesses based in China (or with substantial operations in China) with securities listed in the United States.

In February 2015, each of the “big four” accounting firms in China agreed to a censure and to pay a fine to the SEC to settle the dispute. The settlement stayed the proceeding for four years. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was on February 6, 2019. Despite the deemed dismissal of the proceedings, all parties are expected to continue to apply the procedures that were stipulated as part of the stay: the four PRC-based accounting firms are to follow detailed procedures to seek to provide the SEC with access to their audit work papers via the CSRC. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, or if any of the PRC-based accounting firms fail to follow the required procedures, the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. law or commence a new, expedited administrative proceeding against them. Any such challenge or new proceeding could result in the imposition of penalties on our independent registered public accounting firm by the PCAOB or the SEC, such as suspensions of our audit firm’s ability to practice before the SEC.

If any additional remedial measures are imposed on the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the U.S. Exchange Act. If our independent registered public accounting firm, or its affiliate, was denied, even temporarily, the ability to practice before the SEC, we would need to consider alternate support arrangements for the audit of our operations in China. If our auditor, or its affiliate, was unable to address issues related to the production of documents, and we were unable to timely find another independent registered public accounting firm, our financial statements could be determined to not be in compliance with the requirements of the U.S. Exchange Act.

In addition, recently proposed legislation, including the Equitable Act (Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges) and certain other newly introduced bills, also seek to impose requirements that, among other things, foreign issuers that do not make their audit reports subject to PCAOB review within three years would be delisted from American stock exchanges.

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Under both the existing securities laws and regulations and the above newly proposed legislation, if passed into law, if our auditor, or its Chinese affiliate, was denied the ability to practice before the SEC and it was determined that our financial statements or audit reports were not in compliance, we could be at risk of delisting or become subject to other penalties that would adversely affect our ability to remain listed on the NYSE. Any of these events would materially and adversely affect the market price of our ADSs and potentially our Shares and substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our Shares, ADSs and the Listing

As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see “Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our Shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO, which could result in our incurring of incremental compliance costs.

The trading price of our ADSs has been and is likely to continue to be, and the trading price of the Shares can be, volatile, which could result in substantial losses to holders of our Shares and/or ADSs.

The trading price of our ADSs has been and is likely to continue to be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. The trading price of our Shares, likewise, can be volatile for similar or different reasons. For example, the high and low sale prices of our ADSs in fiscal year 2019 were US\$211.70 and US\$129.77, respectively. In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States may affect the volatility in the prices of and trading volumes for our Shares and/or ADSs. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of these companies' securities at the time of or after their offerings may affect the overall investor sentiment towards other companies with business operations located mainly in China and listed in Hong Kong and/or the United

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States and consequently may impact the trading performance of our Shares and/or ADSs. In addition to market and industry factors, the prices and trading volumes for our Shares and/or ADSs may be highly volatile for specific business reasons, including:

- variations in our results of operations or earnings that are not in line with market or research analyst expectations or changes in financial estimates by securities research analysts;
- publication of operating or industry metrics by third parties, including government statistical agencies, that differ from expectations of industry or financial analysts;
- announcements made by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments;
- press and other reports, whether or not true, about our business, including negative reports published by short sellers, regardless of their veracity or materiality to us;
- litigation and regulatory allegations or proceedings that involve us;
- changes in pricing we or our competitors adopt;
- additions to or departures of our management;
- actual or perceived general industry, regulatory, economic and business conditions and trends in China and globally, due to various reasons, including changes in geopolitical landscape, as some investors or analysts may invest in or value our Shares and/or ADSs based on the economic performance of the Chinese economy, which may not be correlated to our financial performance;
- political or market instability or disruptions, and actual or perceived social unrest in the United States, Hong Kong or other jurisdictions;
- fluctuations of exchange rates among the Renminbi, the Hong Kong dollar and the U.S. dollar;
- sales or perceived potential sales or other dispositions of existing or additional Shares and/or ADSs or other equity or equity-linked securities; and
- the creation by our major shareholders of vehicles that hold our Shares.

Any of these factors may result in large and sudden changes in the volume and trading price of our Shares and/or ADSs. In addition, the stock market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies and industries. These fluctuations may include a so-called “bubble market” in which investors temporarily raise the price of the stocks of companies in certain industries, such as the technology industry, to unsustainable levels. These market fluctuations may significantly affect the trading price of our Shares and/or ADSs. In the past, following periods of volatility in the market price of a company’s securities, shareholders have often instituted securities class action litigation against that company. We were named as a defendant in certain purported shareholder class action

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lawsuits described in “Our Business — Legal and Administrative Proceedings.” The litigation process may utilize a material portion of our cash resources and divert management’s attention from our day-to-day operations, all of which could harm our business. If adversely determined, the class action suits may have a material adverse effect on our financial condition and results of operations.

Substantial future sales or perceived potential sales of our Shares, ADSs, or other equity or equity-linked securities in the public market could cause the price of our Shares and/or ADSs to decline significantly.

Sales of our Shares, ADSs, or other equity or equity-linked securities in the public market, or the perception that these sales could occur, could cause the market price of our Shares and/or ADSs to decline significantly. All of our Shares represented by ADSs were freely transferable by persons other than our affiliates without restriction or additional registration under the U.S. Securities Act. The Shares held by our affiliates and other shareholders are also available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the U.S. Securities Act, under sales plans adopted pursuant to Rule 10b5-1 or otherwise.

Divestiture in the future of our Shares and/or ADSs by shareholders, the announcement of any plan to divest our Shares and/or ADS, or hedging activity by third-party financial institutions in connection with similar derivative or other financing arrangements entered into by shareholders, could cause the price of our Shares and/or ADSs to decline.

Certain major holders of our Shares have the right to cause us to register under the U.S. Securities Act the sale of their Shares. Registration of these Shares under the U.S. Securities Act would result in ADSs representing these Shares becoming freely tradable without restriction under the U.S. Securities Act immediately upon the effectiveness of the registration. Sales of these registered Shares in the form of ADSs in the public market could cause the price of our Shares and/or ADSs to decline significantly.

Furthermore, although our directors, our executive officers and SoftBank have agreed to a lock-up of their Shares, any major disposal of our Shares and/or ADSs by any of them upon expiration of the relevant lock-up periods (or the perception that these disposals may occur upon the expiration of the lock-up period) may cause the prevailing market price of our Shares and/or ADSs to fall which could negatively impact our ability to raise equity capital in the future.

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We may in the future conduct a public offering and listing of our equity securities in Shanghai or Shenzhen, which may result in increased regulatory scrutiny and compliance costs as well as increased fluctuations in the prices of our Shares and ADSs.

We may conduct a public offering and/or listing of our equity securities on a stock exchange in Shanghai or Shenzhen in the future. We have not set a specific timetable or decided on any specific form for an offering in Shanghai or Shenzhen and may not ultimately conduct an offering and listing. The precise timing of the offering and/or listing of our equity securities in Shanghai or Shenzhen would depend on a number of factors, including relevant regulatory developments and market conditions. If we complete a public offering or listing in Shanghai or Shenzhen, we would become subject to the applicable laws, rules and regulations governing public companies listed in Shanghai or Shenzhen, in addition to the various laws, rules and regulations that we are subject to in the United States and Hong Kong as a listed company. The listing and trading of our equity securities in multiple jurisdictions and multiple markets may lead to increased compliance costs for us, and we may face the risk of significant intervention by regulatory authorities in these jurisdictions and markets.

In addition, under current PRC laws, rules and regulations, the Shares and ADSs, will not be interchangeable or fungible with any equity securities we may decide to list on a stock exchange in Shanghai or Shenzhen, and there is no trading or settlement between either the NYSE or the Hong Kong Stock Exchange and stock exchanges in Shanghai or Shenzhen. Furthermore, the NYSE, the Hong Kong Stock Exchange and stock exchanges in Shanghai or Shenzhen have different trading characteristics and investor bases, including different levels of retail and institutional participation. As a result of these differences, the trading prices of our Shares and ADSs, accounting for the ADS ratio, may not be the same as the trading prices of any equity securities we may decide to offer and/or list in Shanghai or Shenzhen. The issuance of a separate class of shares and fluctuations in its trading price may also lead to increased volatility in, and may otherwise materially decrease, the prices of our Shares and ADSs.

Our shareholders may face difficulties in protecting their interests, and their ability to protect their rights through the U.S. federal courts or Hong Kong courts may be limited because we are incorporated under Cayman Islands law, our Articles of Association include certain provisions that may be different from common practices in Hong Kong, we conduct substantially all of our operations in China and most of our directors and substantially all of our executive officers reside outside the United States and Hong Kong.

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our wholly-owned entities and variable interest entities. Most of our directors and substantially all of our executive officers reside outside the United States and Hong Kong and a substantial portion of their assets are located outside of the United States and Hong Kong. As a result, it may be difficult or impossible for our shareholders (including holders of our Shares and ADSs) to bring an action against us or against these individuals in the Cayman Islands or in China in the event that they believe that their rights have been infringed under the securities laws of the United States, Hong Kong or otherwise. Even if shareholders are successful in bringing an action of this kind, the laws of the Cayman Islands and China may render them unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, Hong Kong or China, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

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Our corporate affairs are governed by our Articles of Association, and by the Cayman Companies Law as well as common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary duties of our directors are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which provides persuasive, but not binding, authority in a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States and Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws than the United States and Hong Kong and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts or Hong Kong.

In addition, our Articles of Association provide that in the event that any shareholder initiates or asserts any claim or counterclaim against us, or joins, offers substantial assistance to or has a direct financial interest in any claim or counterclaim against us, and does not obtain a judgment on the merits in which the initiating or asserting party prevails, then the shareholder will be obligated to reimburse us for all fees, costs and expenses (including, but not limited to, all reasonable attorneys' fees and other litigation expenses) that we may incur in connection with a claim or counterclaim. These fees, costs and expenses that may be shifted to a shareholder under this provision are potentially significant and this fee-shifting provision is not limited to specific types of actions, but is rather potentially applicable to the fullest extent permitted by law.

Our fee-shifting provision may dissuade or discourage our shareholders (and their attorneys) from initiating lawsuits or claims against us or may impact the fees, contingency or otherwise, required by attorneys to represent our shareholders. Fee-shifting provisions such as ours are relatively new and untested. There can be no assurance that we will or will not invoke our fee-shifting provision in any particular dispute, or that we will be successful in obtaining fees if we choose to invoke the provision.

Furthermore, our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders, and the minimum shareholding required to requisition an extraordinary general meeting is one-third of the shareholding, as opposed to the threshold of 10% voting rights in Hong Kong. See "Information about the Listing" and "Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Shareholder Protection" for further details.

As a result of the foregoing, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States or Hong Kong.

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our Shares and ADSs.

Upon the Listing, we will be subject to Hong Kong and NYSE listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and the NYSE have different trading hours, trading characteristics (including trading volume and liquidity), trading and

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listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Shares and our ADSs may not be the same, even allowing for currency differences. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of the Shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our Shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs may not be indicative of the trading performance of the Shares after the Global Offering.

Exchange between our Shares and our ADSs may adversely affect the liquidity and/or trading price of each other.

Our ADSs are currently traded on the NYSE. Subject to compliance with U.S. securities law and the terms of the Deposit Agreement, holders of our Shares may deposit Shares with the depositary in exchange for the issuance of our ADSs. Any holder of ADSs may also withdraw the Shares underlying the ADSs pursuant to the terms of the Deposit Agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Shares are deposited with the depositary in exchange for ADSs or vice versa, the liquidity and trading price of our Shares on the Hong Kong Stock Exchange and our ADSs on the NYSE may be adversely affected.

The time required for the exchange between Shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Shares into ADSs involves costs.

There is no direct trading or settlement between the NYSE and the Hong Kong Stock Exchange on which our ADSs and the Shares are respectively traded. In addition, the time differences between Hong Kong and New York and unforeseen market circumstances or other factors may delay the deposit of Shares in exchange of ADSs or the withdrawal of Shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Shares into ADSs (and vice versa) will be completed in accordance with the timelines investors may anticipate.

Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

As a foreign private issuer in the U.S., we are permitted to and we will, rely on exemptions from certain NYSE corporate governance standards applicable to domestic U.S. issuers. This may afford less protection to holders of our ADSs.

We are exempted from certain corporate governance requirements of the NYSE by virtue of being a foreign private issuer in the U.S. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate

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governance practices required to be followed by domestic U.S. companies listed on the NYSE. The standards applicable to us are considerably different than the standards applied to domestic U.S. issuers. For instance, we are not required to:

- have a majority of the board be independent (although all of the members of the audit committee must be independent under the U.S. Exchange Act);
- have a compensation committee or a nominating or corporate governance committee consisting entirely of independent directors;
- have regularly scheduled executive sessions for non-management directors; or
- have executive sessions of solely independent directors each year.

We have relied on and intend to continue to rely on some of these exemptions. As a result, holders of our ADSs may not be provided with the benefits of certain corporate governance requirements of the NYSE.

As a foreign private issuer in the U.S., we are exempt from certain disclosure requirements under the U.S. Exchange Act, which may afford less protection to holders of our ADSs than they would enjoy if we were a domestic U.S. company.

As a foreign private issuer in the U.S., we are exempt from, among other things, the rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act and the rules relating to selective disclosure of material nonpublic information under Regulation FD under the U.S. Exchange Act. In addition, our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit and recovery provisions contained in Section 16 of the U.S. Exchange Act. We are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the U.S. Exchange Act. As a result, holders of our ADSs may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. companies.

The voting rights of holders of our ADSs are limited by the terms of the Deposit Agreement.

Holders of our ADSs may exercise their voting rights with respect to the Shares underlying their ADSs only in accordance with the provisions of the Deposit Agreement. Upon receipt of voting instructions from them in the manner set forth in the Deposit Agreement, the depositary for our ADSs will endeavor to vote their underlying Shares in accordance with these instructions. Under our Articles of Association, the minimum notice period required for convening a general meeting is ten days. When a general meeting is convened, holders of our ADSs may not receive sufficient notice of a shareholders' meeting to permit them to withdraw their Shares to allow them to cast their votes with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to holders of our ADSs or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of our ADSs in a timely manner, but they may not receive the voting materials in time to ensure that they can instruct the depositary to vote the Shares underlying their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to

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carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any vote. As a result, holders of our ADSs may not be able to exercise their rights to vote and they may lack recourse if the Shares underlying their ADSs are not voted as they requested.

The depositary for our ADSs will give us a discretionary proxy to vote our Shares underlying the ADSs if holders of these ADSs do not give voting instructions to the depositary, except in limited circumstances, which could adversely affect the interests of holders of our Shares and ADSs.

Under the Deposit Agreement for our ADSs, the depositary will give us a discretionary proxy to vote the Shares underlying the ADSs at shareholders' meetings if holders of these ADSs do not give voting instructions to the depositary, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that, if holders of our ADSs fail to give voting instructions to the depositary, they cannot prevent our Shares underlying their ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence our management. Holders of our Shares are not subject to this discretionary proxy.

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the Deposit Agreement, or for any other reason.

Holders of our ADSs may not receive distributions on our Shares or any value for them if it is illegal or impractical to make them available to them.

The depositary of our ADSs has agreed to pay holders of our ADSs the cash dividends or other distributions it or the custodian for our ADSs receives on our Shares or other deposited securities after deducting its fees and expenses. Holders of our ADSs will receive these distributions in proportion to the number of our Shares that their ADSs represent. However, the depositary is not responsible for making these payments or distributions if it is unlawful or impractical to make a distribution available to any holders of ADSs. For

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example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the U.S. Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for the distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, Shares, rights or anything else to holders of our ADSs. This means that holders of our ADSs may not receive the distributions we make on our Shares or any value for them if it is illegal or impractical for us to make them available. These restrictions may materially reduce the value of the ADSs.

Risks Related to the Global Offering

An active trading market for our Shares on the Hong Kong Stock Exchange might not develop or be sustained and trading prices of our Shares might fluctuate significantly.

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our ADSs on the NYSE might not be indicative of those of our Shares on the Hong Kong Stock Exchange following the completion of the Global Offering. If an active trading market of our Shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. In October 2019, the Shanghai and Shenzhen Stock Exchanges separately announced their amended implementation rules in connection with Southbound Trading to include shares of WVR companies to be traded through Stock Connect. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a secondary listing on the Hong Kong Stock Exchange. It is unclear whether and when the Shares of our Company, a WVR company with a secondary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Shares for trading through Stock Connect will affect mainland Chinese investors' ability to trade our Shares and therefore may limit the liquidity of the trading of our Shares on the Hong Kong Stock Exchange.

Since there will be a gap of several days between pricing and trading of our Shares, the price of our ADSs traded on the NYSE may fall during this period and could result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

The pricing of the Offer Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be about four Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in

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our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our ADSs will continue to be traded on the NYSE and their price can be volatile, any fall in the price of our ADSs may result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our ordinary shares on the Hong Kong Stock Exchange.

In connection with our initial public offering of ordinary shares in Hong Kong, or the Hong Kong IPO, we will establish a branch register of members in Hong Kong, or the Hong Kong share register. Our ordinary shares that are traded on the Hong Kong Stock Exchange, including those to be issued in the Hong Kong IPO and those that may be converted from ADSs, will be registered on the Hong Kong share register, and the trading of these ordinary shares on the Hong Kong Stock Exchange will be subject to the Hong Kong stamp duty. To facilitate ADS-ordinary share conversion and trading between the NYSE and the Hong Kong Stock Exchange, we also intend to move a portion of our issued ordinary shares from our Cayman share register to our Hong Kong share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller. See “Dealings and Settlement of Ordinary Shares in Hong Kong.”

To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the trading or conversion of ADSs of companies that are listed in both the United States and Hong Kong and that have maintained all or a portion of their ordinary shares, including ordinary shares underlying ADSs, in their Hong Kong share registers. However, it is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs of these dual-listed companies constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the competent authority to apply to the trading or conversion of our ADSs, the trading price and the value of your investment in our ADSs or ordinary shares may be affected.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The initial Public Offer Price of our Shares is higher than the net tangible assets per Share of the outstanding Shares issued to our existing shareholders immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

Directors' Responsibility Statement

This prospectus, for which our directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving information with regard to us. Our directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

The Hong Kong Public Offering and this Prospectus

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Senior Joint Lead Managers, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Representatives (for themselves and on behalf of the Underwriters) agreeing on the pricing of the Hong Kong Offer Shares. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Procedures for Application for the Hong Kong Offer Shares

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Structure and Conditions of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.

Over-allotment Option and Stabilization

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering” in this prospectus.

Restrictions on Offers and Sales of Shares

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares (except for a registration of Shares on a registration statement on Form F-3ASR filed with the SEC) or the general distribution of this prospectus in any jurisdiction other than in Hong Kong or the United States. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

Commencement of Dealings in Our Shares

We expect that dealings in our Shares on the Hong Kong Stock Exchange will commence on November 26, 2019. The Shares will be traded in board lots of 100 Shares each. The stock code of our Shares will be 9988.

Shares Will Be Eligible for Admission into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

Professional Tax Advice Recommended

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Shares or ADSs or exercising any rights attaching to our Shares. We emphasize that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Senior Joint Lead Managers, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, our Shares or ADSs or your exercise of any rights attaching to our Shares.

Register of Members and Stamp Duty

Our principal register of members will be maintained by our Principal Share Registrar in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar in Hong Kong.

Dealings in our Shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, our Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of our Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

To facilitate ADS-ordinary share conversion and trading between the NYSE and the Hong Kong Stock Exchange, we also intend to move a portion of our issued ordinary shares from our Cayman share register to our Hong Kong share register. It is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. See “Risk Factors — Risks Relating to the Global Offering — There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our ordinary shares on the Hong Kong Stock Exchange.”

Exchange Rate Conversion

Our reporting currency is the Renminbi. This prospectus contains translations of financial data in Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise stated, all translations of financial data in Renminbi and Hong Kong dollars into U.S. dollars and from U.S. dollars into Renminbi in this prospectus were made at a rate of RMB6.8650 to US\$1.00 and HK\$7.8103 to US\$1.00, the respective exchange rate on June 28, 2019 set forth in the H.10 statistical release of the Federal Reserve Board.

On November 1, 2019, the noon buying rate for Renminbi and Hong Kong dollars was RMB7.0368 to US\$1.00 and HK\$7.8365 to US\$1.00, respectively.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

Rounding

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Language

If there is any inconsistency between the English prospectus and its Chinese translation, the English prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only. Chinese names of entities incorporated outside of China, if provided, are actual registered names.

Other

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

INFORMATION ABOUT THE LISTING

The Listing

We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) as well as Chapter 8A (Weighted Voting Rights).

We have a track record of good regulatory compliance of at least two full financial years on the NYSE as required by Rule 19C.04 of the Hong Kong Listing Rules for the purposes of our Listing.

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time.

Our ADSs are currently listed and traded on the NYSE. We also have outstanding debt securities listed and traded on the Hong Kong Stock Exchange and the Singapore Stock Exchange. Other than the foregoing, no part of our Shares or loan capital is listed on or traded on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Registrar in order to enable them to be traded on the Hong Kong Stock Exchange.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

Registration of Subscription, Purchase and Transfer of Shares

Our register of members holding unlisted Shares and a portion of our Shares represented by the ADSs will be maintained by our Principal Share Registrar in the Cayman Islands, and our register of members holding Shares listed on the Hong Kong Stock Exchange and a portion of our Shares represented by the ADSs will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Ownership of ADSs

An owner of ADSs may hold his or her ADSs either by means of an ADR (evidencing certificated ADSs) registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank, commonly referred to as the “direct registration system,” or DRS. The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and DTC. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she must rely on the procedures of his or her broker or bank to

INFORMATION ABOUT THE LISTING

assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

Dealings and Settlement of Ordinary Shares in Hong Kong

Our ordinary shares will trade on the Hong Kong Stock Exchange in board lots of 100 ordinary shares. Dealings in our ordinary shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

The transaction costs of dealings in our ordinary shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong share registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor who has deposited his or her ordinary shares in his or her stock account or in his or her designated CCASS participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his broker or custodian before the settlement date.

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Conversion between Ordinary Shares Trading in Hong Kong and ADSs

In connection with our initial public offering of ordinary shares in Hong Kong, or the Hong Kong IPO, we have established a branch register of members in Hong Kong, or the Hong Kong share register, which will be maintained by our Hong Kong share registrar, Computershare. Our principal register of members, or the Cayman share register, will continue to be maintained by our principal share registrar, Maples Fund Services (Cayman) Limited, or Maples.

All ordinary shares offered in the Hong Kong IPO will be registered on the Hong Kong share register in order to be listed and traded on the Hong Kong Stock Exchange. As described in further detail below, holders of ordinary shares registered on the Hong Kong share register will be able to convert these shares into ADSs, and vice versa.

Our ADSs

Our ADSs are traded on the NYSE. Dealings in our ADSs on the New York Stock Exchange are conducted in U.S. Dollars.

ADSs may be held either:

- directly, by having a certificated ADS, or an ADR, registered in the holder's name, or by holding in the direct registration system, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto; or
- indirectly, through the holder's broker or other financial institution.

The depositary for our ADSs is Citibank, N.A., whose office is located at 388 Greenwich Street, New York, New York 10013, United States.

Converting Ordinary Shares Trading in Hong Kong into ADSs

An investor who holds ordinary shares registered in Hong Kong and who intends to convert them to ADSs to trade on the NYSE must deposit or have his or her broker deposit the ordinary shares with the depositary's Hong Kong custodian, Citibank, N.A., Hong Kong, or the custodian, in exchange for ADSs.

A deposit of ordinary shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- If ordinary shares have been deposited with CCASS, the investor must transfer ordinary shares to the depositary's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed conversion form to the depositary via his or her broker.
- If ordinary shares are held outside CCASS, the investor must arrange to deposit his or her ordinary shares into CCASS for delivery to the depositary's account with the custodian within CCASS, submit and deliver a request for conversion form to the custodian and after duly completing and signing such conversion form, deliver such conversion form to the custodian.

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- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated by an investor or his or her broker.

For ordinary shares deposited in CCASS, under normal circumstances, the above steps generally require two business days. For ordinary shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Ordinary Shares Trading in Hong Kong

An investor who holds ADSs and who intends to convert his/her ADSs into ordinary shares to trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw ordinary shares from our ADS program and cause his or her broker or other financial institution to trade such ordinary shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker should follow the broker's procedure and instruct the broker to arrange for cancellation of the ADSs, and transfer of the underlying ordinary shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- To withdraw ordinary shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will instruct the custodian to deliver ordinary shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive ordinary shares outside CCASS, he or she must receive ordinary shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register ordinary shares in their own names with the Hong Kong share registrar.

For ordinary shares to be received in CCASS, under normal circumstances, the above steps generally require two business days. For ordinary shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the ordinary shares on the Hong Kong Stock Exchange until the procedures are completed.

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Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancellations. In addition, completion of the above steps and procedures is subject to there being a sufficient number of ordinary shares on the Hong Kong share register to facilitate a withdrawal from the ADS program directly into the CCASS system. We are not under any obligation to maintain or increase the number of ordinary shares on the Hong Kong share register to facilitate such withdrawals.

Depository Requirements

Before the depositary issues ADSs or permits withdrawal of ordinary shares, the depositary may require:

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver, transfer, or register issuances, transfers and cancellations of ADSs generally when the transfer books of the depositary or our Hong Kong share registrar are closed or at any time if the depositary or we determine it advisable to do so.

All costs attributable to the transfer of ordinary shares to effect a withdrawal from or deposit of ordinary shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of ordinary shares and ADSs should note that the Hong Kong share registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of ordinary shares and ADSs must pay up to US\$5.00 (or less) per 100 ADSs for each issuance of ADSs and each cancellation of ADSs, as the case may be, in connection with the deposit of ordinary shares into, or withdrawal of ordinary shares from, our ADS program.

Summary of Exemptions as a Foreign Private Issuer in the U.S.

As required by Rule 19C.14 of the Hong Kong Listing Rules, set forth below is a summary of the exemptions from obligations under U.S. securities laws and NYSE rules that we enjoy as a foreign private issuer in the U.S.

Exemptions from NYSE rules

Foreign private issuers are exempted from certain corporate governance requirements of the NYSE. Foreign private issuers are permitted to follow home country practice, i.e., for us, the practice of the Cayman Islands, in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the NYSE listing standards and explain the basis for the conclusion that the exemption is applicable. Specifically, we currently enjoy the exemptions from the requirements to:

- have a majority of independent directors;

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- regularly schedule executive sessions without management at which the non-management directors must meet;
- have a nominating/corporate governance committee composed entirely of independent directors;
- have a compensation committee composed entirely of independent directors, whose members must satisfy the additional independence requirements specific to compensation committee membership;
- give shareholders the opportunity to vote on:
 - all equity-compensation plans and material revisions thereto, with limited exceptions;
 - issuances of common stock (or of securities convertible into or exercisable for common stock) in related transactions, if the number of shares of common stock to be issued (or securities convertible into or exercisable for shares of common stock) exceeds either 1% of the shares of common stock or 1% of the voting power outstanding before such issuance;
 - private placements (other than a bona fide private placement), if the number of shares of common stock, or of securities convertible into or exercisable for common stock to be issued equals or exceeds 20% of the shares of common stock outstanding before the issuance; or
 - an issuance that will result in a change of control of the listed company; and
- have its CEO certify to the NYSE each year that he or she is not aware of any violation by the listed company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.

Exemptions from SEC rules and regulations under U.S. federal securities laws

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

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Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year.

Our Articles of Association

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands.

The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong.

For example, Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that an issuer such as us seeking a listing under Chapter 19C has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules for standards of shareholder protection if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07. Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer's (as defined in the Hong Kong Listing Rules) members or other body that is independent of the issuer's board of directors), but our Articles of Association do not contain this or a similar provision. Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the of the issuer, while the minimum stake set out in our Articles of Association is not less than one-third of the Shares. See "Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance" for further details.

See "Alibaba Partnership" and "Summary of our Constitution and Cayman Companies Law" as set out in Appendix III to this prospectus.

INFORMATION ABOUT THE LISTING

Compliance Advisor

We have appointed Credit Suisse as our compliance advisor, or the Compliance Advisor, upon listing of our Shares on the Hong Kong Stock Exchange in compliance with Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

- before the publication of any announcement, circular or financial report;
- where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (WUMP) Ordinance and have applied for a ruling under the Takeovers Codes:

Relevant rule(s) waived	Subject matter
Section 4.1 of the Introduction to the Takeovers Codes	Determination of whether a company is a “public company in Hong Kong”
Part XV of the SFO	Disclosure of interests
Paragraphs 41(4) and 45 of Appendix 1A and Practice Note 5 to the Hong Kong Listing Rules	Disclosure of interests information
Rule 19C.07(3) and Rule 19C.07(7) of the Hong Kong Listing Rules	Shareholder protection requirements in relation to approval, removal and remuneration of auditors; and requisition of extraordinary general meeting by shareholders
Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules	Investments and acquisitions after the Track Record Period
Rule 4.04(3)(a), Rule 4.05 and Rule 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to Companies (WUMP) Ordinance	Disclosure requirements under the Accountant’s Report
Paragraphs 33(2), 33(3), 46(2), 46(3) of Appendix 1A of the Hong Kong Listing Rules and Paragraph 6 of the Third Schedule to Companies (WUMP) Ordinance	Prospectus disclosure requirements under the Hong Kong Listing Rules and Companies (WUMP) Ordinance in respect of directors’ and five highest individuals’ emoluments and directors’ residential addresses
Paragraphs 13, 26, 27 and 29(1) of Appendix 1A of the Hong Kong Listing Rules and Paragraphs 10, 11, 14, 25 and 29 of the Third Schedule to Companies (WUMP) Ordinance	Other prospectus disclosure requirements under the Hong Kong Listing Rules and Companies (WUMP) Ordinance
Rule 12.04(3), Rule 12.07 and Rule 12.11 of the Hong Kong Listing Rules	Availability of copies of the prospectus in printed form
Rule 2.07A of the Hong Kong Listing Rules	Corporate communications

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Relevant rule(s) waived	Subject matter
Rule 13.25B of the Hong Kong Listing Rules	Monthly returns
Rule 13.48(1) of the Hong Kong Listing Rules	Publication of interim report for the six months ended September 30, 2019
Paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules	Clawback mechanism
Paragraph 15(2)(c) of Appendix 1A to the Hong Kong Listing Rules	Disclosure of Offer Price
Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in the Shares prior to Listing
Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules	Subscription for Shares by existing shareholders

Not a Public Company in Hong Kong

Section 4.1 of the Takeovers Codes provides that the Takeovers Codes applies to takeovers, mergers and share repurchases affecting public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes.

We have applied for, and the SFC has granted, a ruling that we are not a “public company in Hong Kong” for the purposes of Section 4.2. Therefore, the Takeovers Codes does not apply to us. This ruling may be reconsidered by the SFC in the event that the bulk of trading in our Shares migrates to Hong Kong such that we would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules or in the event of a material change in information provided to the SFC.

Disclosure of Interests under Part XV of SFO

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which we are subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful,

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since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to us and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant shareholders.

We have applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) the disclosures of interest filed in the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosure in the same manner as disclosures made under Part XV of the SFO; and (iii) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

Disclosure of Interests Information

Part XV of the SFO imposes duties of disclosure of interests in Shares. Practice Note 5, paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests to be included in this prospectus.

The SFC has granted us and our shareholders, a partial exemption from strict compliance with Part XV of the SFO as set out above under sub-section headed "Disclosure of Interest under Part XV of SFO." The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in the section headed "Major Shareholders" in this prospectus.

We undertake to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC. We further undertake to disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between our directors, officers, members of committees and their relationship to any controlling shareholder.

On the basis above, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from the requirements under Practice Note 5, paragraphs 41(4) and 45 of Appendix 1A of the Hong Kong Listing Rules.

Shareholder Protection

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.06 of the Hong Kong Listing Rules provides that Appendix 3 and Appendix 13 of the Hong Kong Listing Rules do not apply to an overseas issuer that is a Non-Greater China Issuer (as defined in the Hong Kong Listing Rules) or a Grandfathered Greater China Issuer seeking a secondary listing under Chapter

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19C of the Hong Kong Listing Rules. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Non-Greater China Issuer or a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules. We are a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of the Qualifying Issuer's members or other body that is independent of the issuer's board of directors, or the Auditors Provision. However, our Articles of Association do not contain an equivalent Auditors Provision. We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from the strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules on the following conditions and basis:

- While our board has the power to appoint, remove and remunerate the auditors, our board has formally delegated this function to the Audit Committee since our listing on the NYSE in 2014. The Audit Committee is akin to an independent body of our board on the basis of the independence requirements as set out in applicable U.S. laws and the NYSE rules. The Audit Committee comprises of three members, all of whom are independent directors as required by the U.S. Exchange Act and applicable NYSE rules. Since 2014, we have put forward a resolution at each annual general meeting for shareholders to ratify auditors' appointment and the ratification resolution in each year has been passed over with 99% votes in favor without exception.
- We are seeking a listing on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules.
- The disclosure of the basis of the waiver is set out in this prospectus.

Requisition of extraordinary general meeting by shareholders

Rule 19C.07(7) of the Hong Kong Listing Rules requires members holding a minority stake in the Qualifying Issuer's total number of issued shares must be able to convene an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the Qualifying Issuer. Article 57 of our Articles of Association provides that members who hold in aggregate of not less than one-third of the voting rights of our issued shares that are entitled to vote at general meetings may requisition a meeting, and such requisition must state the objects of the meeting, and set forth a form of any resolutions proposed by the requisitionists for consideration at the meeting. If the directors do not do so, the requisitioning members may proceed to convene such meeting. Hence, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from the strict compliance with Rule 19C.07(7) of the Hong Kong Listing Rules on the following conditions and basis:

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- We have a diverse shareholder base and do not have a controlling shareholder who is entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings. As of the Latest Practicable Date, our largest single shareholder, SoftBank, owned approximately 25.8% and two of our founders, Jack Ma and Joe Tsai, beneficially owned approximately 6.1% and approximately 2.0% of our issued share capital, respectively. In contrast, many of the largest companies listed in Hong Kong have controlling shareholders and allied group of shareholders that are able to dominate the vote and effectively control all corporate decisions, making the right to requisition a meeting not meaningful. As such, the lack of a controlling shareholder who is entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings and our diverse shareholder base afford a level of shareholder protection comparable to Hong Kong listed companies with controlling shareholders.
- As the Alibaba Partnership's director nomination rights are categorized as a weighted voting right structure under the Hong Kong Listing Rules and no weighted voting rights are given to any particular shareholders, our one-share-one-vote structure and the fact that we do not have a controlling shareholder who is entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings afford a higher level of shareholder protection compared to Hong Kong listed companies with controlling shareholders.
- Considering the size of the Global Offering relative to our outstanding Shares at the time of the Listing, it will be significantly difficult for Hong Kong investors to reach a 10% shareholding threshold to requisition a meeting. Therefore, lowering the requisition threshold to 10% is not practical additional protection to investors in Hong Kong.
- As we are a Cayman Islands incorporated entity and also qualify as a foreign private issuer in the U.S., minority shareholders (i) have the rights to bring personal action directly against us, seek alternative remedies and derivative actions; and (ii) are indirectly protected by the U.S. federal securities laws, rules and regulations governed by the SEC.
- We are seeking a listing on the Main Board of the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules.
- The disclosure of the basis of the waiver is set out in this prospectus.

Investments and Acquisitions after the Track Record Period

Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules require that, among other things, the results and balance sheet of any business or subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited financial statements of the issuer have been made in respect of each of the three financial years immediately preceding the issue of this prospectus.

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We may increase our direct or indirect equity interest in entities that are already majority controlled by us and are consolidated in our financial statements. As these do not involve the acquisition of a company or a business, and the financial contribution of the relevant entities are already reflected in our financial statements, we do not believe that these increases in its equity interests represent an acquisition for the purpose of Rules 4.04(2) and 4.04(4).

Pursuant to the guidance letter HKEX-GL32-12 issued by the Hong Kong Stock Exchange, or GL32-12, acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Hong Kong Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

Ordinary course Investments since June 30, 2019

During the Track Record Period, we have made minority investments in a large number of companies both in China and overseas in the ordinary and usual course of business to further our strategic objectives. Since June 30, 2019 and up to the Latest Practicable Date, we have made or proposed to make minority investments in a number of companies, and we expect to continue to enter into further minority investments subsequent to the Latest Practicable Date and prior to the date of this prospectus, collectively, the Investments. The Investments do not include those made or proposed to be made by AGTech Holdings Limited and its subsidiaries, or AGTech, whose shares are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange (Stock Code: 8279), Alibaba Health and Alibaba Pictures, collectively the HKSE Listed Subsidiaries, which are subject to applicable restrictions on the disclosure of confidential information to us as its shareholder, as well as their own general disclosure obligations and obligations for notifiable transactions under the Hong Kong Listing Rules. Details of the Investments up to the Latest Practicable Date:

Investments⁽¹⁾	Consideration⁽²⁾ (RMB million)	Percentage of shareholding/ equity interest⁽²⁾	Principal business activities
STO Express Co., Ltd.	14,700 ⁽³⁾	46%	Logistics services
Meinian Onehealth Healthcare Holdings Co Ltd ⁽⁶⁾	6,700 ⁽⁴⁾	— ⁽⁵⁾	Core commerce
Company A	5,980	49%	Innovative initiatives
Company B	3,211	— ⁽⁵⁾	Digital media and entertainment
Company C	1,750	3%	Core commerce
Company D	1,030	8% ⁽⁷⁾	Core commerce
Company E	950	10%	Cloud computing
BEST Inc. ⁽⁸⁾	687	29%	Logistics services
Company F	687	25%	Core commerce
Company G	500	5%	Logistics services
Company H	500	20%	Core commerce
Company I	500	49%	Core commerce
Company J	350	6%	Logistics services
Company K	172	35%	Core commerce

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Investments ⁽¹⁾	Consideration ⁽²⁾ (RMB million)	Percentage of shareholding/ equity interest ⁽²⁾	Principal business activities
Company L	144	12%	Core commerce
Company M	108	20%	Core commerce
Company N	103	27%	Logistics services
Company O	103	4%	Innovation initiatives/Cloud computing
Company P	100	49%	Core commerce
Company Q	100	13%	Core commerce
Company R	70	43%	Innovation initiatives
Company S	58	20%	Cloud computing
Company T	26	8%	Core commerce

- (1) Given that we have not yet entered into legally binding agreements for certain of the above Investments as at the Latest Practicable Date, the terms and information set out above might be subject to further changes.
- (2) The approximate consideration disclosed in the table represents our investment after June 30, 2019, to each of the Investments. The percentage of shareholding/equity interest represents our total pro forma shareholding in each of the Investments after the completion of the disclosed transaction.
- (3) Assumes full exercise of the call options described in the section headed “Financial Information — Recent Investment, Acquisition and Strategic Alliance Activities” in this prospectus. Other details of STO Express Co., Ltd. are also set out in the above sub-section.
- (4) Part of the consideration is to be contributed by one of our affiliated entities.
- (5) Upon completion of our investment, we will hold a minority interest in Meinian Onehealth Healthcare Holdings Co Ltd and Company B.
- (6) See “Financial Information — Recent Investment, Acquisition and Strategic Alliance Activities” in this prospectus for further details of Meinian Onehealth Healthcare Holdings Co Ltd.
- (7) The percentage of equity interests will be subject to the final amount raised by Company D. The current figure stated in the table above is calculated based on the estimated amount to be raised by Company D as at the Latest Practicable Date.
- (8) See note 4(y) to the Accountant’s Report included in Appendix IA, and note 4(g) to the Unaudited Condensed Interim Financial Information included in Appendix IB, to this prospectus for further details of BEST Inc.

The investment amounts for the Investments are the result of commercial arm’s length negotiations, based on factors including stock price (for public companies), market dynamics, a mutually agreed valuation, and/or capital required for the target company’s operations.

Conditions to the waiver granted by the Hong Kong Stock Exchange

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules in respect of our Investments on the following grounds:

Ordinary and usual course of business

We make strategic equity investments in sectors relating to our business as part of our ordinary and usual course of business. We have a long history of making investments and have conducted a substantial number of investments during the Track Record Period.

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The percentage ratios of each Investment are all less than 5% by reference to the most recent fiscal year of the Track Record Period

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for each of the Investments are all significantly less than 5% by reference to the most recent fiscal year of our Track Record Period. To the best of our knowledge, the Investments are not subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules. None of the Investments should be aggregated because (i) each of the Investments involves the acquisition of interests in a different target company and (ii) the Investments were entered into with different counterparties.

Accordingly, we believe that the Investments have not resulted in any significant change to our financial position since June 30, 2019, and all information that is reasonably necessary for potential investors to make an informed assessment of our activities or financial position has been included in this prospectus. As such, a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investing public.

We are neither able to exercise any control, nor have any significant influence, over the underlying company or business

We only hold and/or will only hold a minority equity interest in each of the Investments and do not control their boards of directors; and we currently expect this to remain the case for any subsequent Investments. For Investments in which we have over 20% equity interest, we do not exert significant influence because we do not have board majority. We are also not involved in the day to day management of these Investments and we only enjoy minority strategic shareholder rights. The minority rights given to us are generally commensurate to our status as a minority shareholder and are for the protection of our interests as a minority stakeholder in the Investments. These rights are neither intended, nor they sufficient to compel or require them to prepare or to disclose in this prospectus audited financial statements for the purposes of compliance with the relevant requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules. These disclosures are also not required pursuant to applicable U.S. securities laws. It could be prejudicial and potentially harmful to our portfolio relationships and commercial interests to do so. In addition, as some portfolio companies are private, disclosing this information could harm their interests and bring them into an unfavorable competitive position. As we do not expect the Investments to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules would prejudice the interest of the investors to assess us.

Alternative disclosure of the Investments in this prospectus

We have provided alternative information in connection with the Investments in this section. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the principal business activities, the investment amounts, and a statement that none of the core connected persons at the level of our Company is a controlling shareholder of any of the Investments. For the avoidance of doubt, we have excluded disclosure on certain Investments in this prospectus because (i) we have entered into confidentiality agreements with these companies and do not have consent for such disclosure and/or (ii) given that we have not yet entered into legally binding agreements with respect to all of these investments as of the Latest Practicable Date and the competitive nature of the industries in which we operate, disclosure of the names of the relevant companies in this prospectus is commercially sensitive and may jeopardize our ability to consummate the proposed Investments. It is commercially sensitive to disclose the identities of the companies we invested in or propose to invest in to avoid

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our competitors anticipating our strategy. Since the relevant percentage ratio of each Investment is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for potential investors to form an informed assessment of us. We do not expect to use any proceeds from the Listing to fund such Investments.

Acquisitions since June 30, 2019

Since June 30, 2019, we have made or proposed to make a number of acquisitions and up to the Latest Practicable Date, and we expect to continue to enter into further acquisitions subsequent to the Latest Practicable Date and prior to the date of this prospectus, collectively, the Acquisitions. The Acquisitions do not include those made or proposed, to be made by the HKSE Listed Subsidiaries, which are subject to applicable restrictions on the disclosure of confidential information to us as its shareholder, as well as their own general disclosure obligations and obligations for notifiable transactions under the Hong Kong Listing Rules. Details of the Acquisitions up to the Latest Practicable Date include:

Targets	Consideration⁽¹⁾ (RMB million)	Percentage of shareholding/ equity interest⁽¹⁾	Principal business activities
Kaola	12,958	100%	Core commerce
Company U	2,050 ⁽²⁾	93%	Logistics services
Company V	1,080	51%	Logistics services
Company W	1,050	100%	Cloud computing/innovation initiatives
Company X	847	76%	Logistics services
Company Y	635	64%	Logistics services
Company Z	369 ⁽³⁾	67%	Logistics services
Company AA	255	100%	Cloud computing/innovation initiatives
Company AB	176	70%	Core commerce
Company AC	150	50%	Core commerce
Company AD	50	50%	Core commerce
Company AE	18	100%	Logistics services
Company AF	15	100%	Logistics services

(1) The approximate consideration disclosed in the table represents our investment after June 30, 2019, to each of the Acquisitions. The percentage of shareholding/equity interest represents our total pro forma shareholding in each of the Acquisitions after the completion of disclosed transaction.

(2) The consideration also includes an investment, representing approximately 100% equity interest, in an affiliated entity.

(3) The consideration includes an investment in an affiliated entity.

The acquisition amounts for the Acquisitions are the result of commercial arm's length negotiations, based on factors including stock price (for public companies), market dynamics, a mutually agreed valuation, and/or capital required for the target company's operations.

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Conditions to the waiver granted by the Hong Kong Stock Exchange

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules in respect of the Acquisitions on the following grounds:

The percentage ratios of each Acquisition are all less than 5% by reference to the most recent fiscal year of our Track Record Period.

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for the Acquisitions are all significantly less than 5% by reference to the most recent fiscal year of the Track Record Period. To the best of our knowledge, the Acquisitions are not subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules. None of the Acquisitions should be aggregated because (i) each of the Acquisitions involves the acquisition of interests in a different target company and (ii) the Acquisitions were entered into with different counterparties.

Accordingly, the Acquisitions have not resulted in any significant change to our financial position since June 30, 2019, and all information that is reasonably necessary for the potential investors to make an informed assessment of our activities or financial position has been included in this prospectus. As such, a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investing public.

The historical financial information of the Targets is not available and would be unduly burdensome to obtain or prepare

The Targets do not have available historical financial information which is readily available for disclosure in this prospectus in accordance with the Hong Kong Listing Rules. In addition, it will require considerable time and resources for us and our reporting accountant to fully familiarize ourselves with the management accounting policies of the Targets and compile necessary financial information and supporting documents for disclosure in this prospectus. As such, it would be impractical and unduly burdensome for us to disclose the audited financial information of the Targets as required under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules.

In addition, having considered the Acquisitions are immaterial and that we do not expect the Acquisitions to have any material effect on our business, financial condition or operations, it would not be meaningful and would be unduly burdensome for us to prepare and include the financial information of the Targets during the Track Record Period in this prospectus. As we do not expect the Acquisitions to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules would prejudice the interest of the investors to assess us.

Alternative disclosure of the Acquisitions in this prospectus

We have provided alternative information in this section in connection with the Acquisitions. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the principal business activities, the

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investment amounts and a statement that none of the core connected persons at the level of our Company is a controlling shareholder of any of the Targets. For the avoidance of doubt, the names of the Targets are not disclosed in this prospectus because (i) we have entered into confidentiality agreements with these companies and do not have consent from all of them for such disclosure and/or (ii) given that we have not yet entered into legally binding agreements with respect to all of these Acquisitions as of the Latest Practicable Date and the competitive nature of the industries in which we operate, disclosure of the names of the relevant companies in this prospectus is commercially sensitive and may jeopardize our ability to consummate the proposed Acquisitions. It is commercially sensitive to disclose the identities of the companies we invested in or propose to invest in to avoid our competitors anticipating our strategy. Since the relevant percentage ratio of each Acquisition is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for potential investors to form an informed assessment of us. We do not expect to use any proceeds from the Listing to fund such Acquisitions.

Waiver in relation to investments and acquisitions by the HKSE Listed Subsidiaries

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the investments and the acquisitions made or proposed to be made by the HKSE Listed Subsidiaries on the basis that (a) the percentage ratios of each such investment or acquisition are all less than 5% by reference to the most recent fiscal year of the Track Record Period, and (b) the HKSE Listed Subsidiaries are subject to applicable restrictions on the disclosure of confidential information to the Alibaba Group as its shareholder, as well as their own general disclosure obligations and obligations for notifiable transactions under the Hong Kong Listing Rules.

Accountant's Report

Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance set out certain content requirements in respect of an accountant's report included in a listing document.

Certain historical financial information required to be disclosed under the Hong Kong requirements are not required to be disclosed under the U.S. GAAP, in particular,

- (i) the following specific detail concerning financial information set out in Rules 4.05 and 4.13 of the Hong Kong Listing Rules:
 - balance sheets at a company level;
 - aging analysis of accounts receivables;
 - aging analysis of accounts payables; and
 - adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on; and

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- (ii) balance sheets at a company level required under paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance.

In accordance with U.S. GAAP, we have applied the modified retrospective method or prospective method to account for the impact of the adoption of certain new accounting standards in the Track Record Period. Under the modified retrospective method and prospective method adopted by us, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, we adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 “Revenue from Contracts with Customers (Topic 606)” and related amendments and implementation guidance, or ASC 606, Accounting Standards Update 2016-01 “Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”, including related technical corrections and improvements, or ASU 2016-01, and Accounting Standards Update 2016-02 “Leases” (Topic 842)”, including certain transitional guidance and subsequent amendments, or ASC 842. The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the Accountant’s Report in Appendix IA to this prospectus.

ASC 606 was adopted on April 1, 2018 using the modified retrospective method. Results for fiscal year 2019 are presented under ASC 606, while results for the comparative periods have not been adjusted and were reported in accordance with the previous revenue recognition standard under U.S. GAAP. The impact of adopting ASC 606 was not material on our consolidated financial statements and there was no adjustment to the beginning retained earnings on April 1, 2018.

ASU 2016-01 was adopted on April 1, 2018 using the modified retrospective method to account for the cumulative-effect adjustments to the balance sheet, except for fair value adjustments of equity securities for which we have elected to account for under the measurement alternative. The Financial Accounting Standards Board provides clear guidance within ASU 2016-01 that fair value adjustments of equity securities for which the measurement alternative is elected should be applied prospectively to equity securities that exist as of the date of the adoption and no retrospective method is permitted.

Upon the adoption of ASU 2016-01, fair value changes related to equity securities previously classified as available-for-sale were recorded in the consolidated income statements, whereas the fair value changes of these securities were recorded in other comprehensive income in previous fiscal years prior to the adoption. As of March 31, 2017 and 2018, net unrealized gains of RMB8,956 million and RMB9,403 million, respectively, on listed equity securities previously classified as available-for-sale were recorded in accumulated other comprehensive income. Upon the adoption of ASU 2016-01, net unrealized gains on these equity securities recorded in accumulated other comprehensive income as of March 31, 2018, net of tax, were reclassified into retained earnings as of April 1, 2018.

In addition, upon the adoption of ASU 2016-01, equity securities previously accounted for using the cost method were reclassified into investment securities. These equity securities do not have readily determinable fair values and we elected to record a majority of these equity securities using the measurement alternative. Fair value adjustments, including impairments, from applying the measurement alternative were recorded in the consolidated

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income statements. As required under ASU 2016-01, we prospectively applied the measurement alternative on these equity securities, and our consolidated financial statements for the comparative periods were not retrospectively adjusted. As of March 31, 2019 and June 30, 2019, the amount of equity securities for which we elected to record using the measurement alternative amounted to RMB81,514 million and RMB87,324 million, respectively.

The full retrospective application of ASU 2016-01 is not permitted under U.S. GAAP. Any adjustments to the historical financial information in the comparative periods arising from the full retrospective application of ASU 2016-01 will create confusion to the existing investors in the U.S. market and it may be misleading for us to disclose such information in the Accountant's Report in Appendix IA to this prospectus.

ASC 842 was adopted on April 1, 2019 using the modified retrospective method by applying the new lease standard to all leases existing as of April 1, 2019, the date of initial application, and no adjustments were made to the comparative periods. Adoption of the new lease standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet as of April 1, 2019. The adoption of the new lease standard does not have any significant impact on our consolidated statements of comprehensive income and cash flows and there was no adjustment to the beginning retained earnings on April 1, 2019.

The following alternative disclosures with respect to certain items identified above which are relevant to us have been included in this prospectus:

- disclosure of the accounting policy for accounts receivable and allowance for doubtful accounts in the Accountant's Report in Appendix IA to this prospectus;
- for certain new accounting standards that came into effect in the latest fiscal year, the accounting policies as well as the impact of adoption, if any, to the beginning retained earnings of initial application (i.e. April 1, 2018 and 2019) has been disclosed in the Accountant's Report in Appendix IA to this prospectus in accordance with the relevant requirements under U.S. GAAP; and
- disclosure of the relevant accounting policies adopted for the Track Record Period in the Accountant's Report in Appendix IA to this prospectus.

As this prospectus has included the above alternative disclosures and the disclosure in this prospectus contains all information which is necessary for the investing public to make an informed assessment of the business, asset and liability, financial position, trading position, management and prospect of the Group, we believe that it would be of no material value to Hong Kong investing public for the Accountant's Report in Appendix IA to this prospectus to include certain required information pursuant to Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules and paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance and the non-disclosure of such information is not material and will not prejudice the interests of the investing public.

On the basis of the matters set out above and on the ground that it would be unduly burdensome to us to include certain disclosures as required under Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance, we have applied for, and the Hong Kong Stock

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Exchange has granted, a waiver from strict compliance with Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules, and we have applied for an exemption from strict compliance with Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance. The SFC has granted an exemption referred to above on the conditions that:

- (i) the particulars of such exemption are set out in this prospectus; and
- (ii) this prospectus will be issued on or before November 15, 2019.

Prospectus Disclosure Requirements under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance in Respect of Directors' and Five Highest Individuals' Emoluments and Directors' Residential Addresses

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors' emoluments during the three financial years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2019, Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in us for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

Paragraph 6 of the Third Schedule of the Companies (WUMP) Ordinance require the prospectus to include the address of directors and paragraph 45 of the Third Schedule of the Companies (WUMP) Ordinance provides that such address means the place of usual residence of the directors.

Waivers in relation to directors' and five highest individuals' emoluments

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules. In compliance with our annual reporting requirements with the SEC, we are required to report the aggregate amount of compensation paid, and benefits in kind granted, to our directors and members of our administrative, supervisory or management body (unless individual disclosure is required by the Cayman Islands, our jurisdiction of incorporation or otherwise made public). We provide aggregate compensation disclosure in our annual report on Form 20-F. As such, the additional disclosure would not provide additional meaningful disclosure for potential Hong Kong investors in relation to the directors' emoluments.

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Waiver and exemption in relation to the disclosure of directors' residential addresses

We have applied to the SFC for, and the SFC has granted, a certificate of exemption under section 342A of the Companies (WUMP) Ordinance from strict compliance with the requirement of paragraph 6 of the Third Schedule of the Companies (WUMP) Ordinance, in respect of the disclosure of the residential address of Mr. Joseph C. TSAI, Mr. J. Michael EVANS, Mr. Masayoshi SON, Mr. E. Börje EKHOLM and Ms. Wan Ling MARTELLO, on ground that such disclosure would be inappropriate having considered the following factors:

- The five directors are high profile public figures due to the nature and scale of our business and their positions held in other companies. Joseph C. TSAI is a member of the Alibaba founding team and has served on our board of directors since our inception. Other than being a director of our Company, Mr. Masayoshi SON is also the chief executive officer of SoftBank Group Corp., Mr. J. Michael EVANS held senior positions at Goldman Sachs before joining our Company, Mr. E. Börje EKHOLM is the president and chief executive officer of Ericsson and Ms. Wan Ling Martello served as the executive vice president and chief executive officer of the Asia, Oceania, and Sub-Saharan Africa region for Nestlé SA until December 2018. These directors appear on news articles and interviews from time to time and the latest corporate decisions and speeches made by these directors are often under the scrutiny by the general public and often generate interest across global media. Given their position as high profile public figures, the disclosure of the residential addresses of the five directors above may expose them and their families to unnecessary disturbance and unwanted public attention to their private lives.
- As we may from time to time be subject to malicious or frivolous complaints or allegations given the nature and scale of our business, the disclosure of the residential addresses of the five directors above in this prospectus would create a real risk of exposing the five directors above and their families to harassment and endanger personal safety.
- Disclosure of the business addresses of the five directors has been made in this prospectus and the non-disclosure of the residential addresses of the five directors above in the prospectus will not prejudice the interests of the investing public and would not affect potential investors' ability to make an informed investment decision as to the securities for which listing is sought.

Other Prospectus Disclosure as Required under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance

We have applied for, and the Hong Kong Stock Exchange (in respect of the Hong Kong Listing Rules) and the SFC (in respect of the Companies (WUMP) Ordinance) has granted, waivers and exemptions from strict compliance with certain content requirements in respect of this prospectus as follows:

- ***Alterations of our capital and particulars of any commissions, discounts and brokerages:*** Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 14 of the Third Schedule of the Companies (WUMP) Ordinance require the listing document to include the particulars of any alterations of our capital within two years immediately preceding the issue of the

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listing document and the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any of our capital. We have identified 11 entities that we consider are our major subsidiaries. For further details, see the section headed “Our History and Corporate Structure — Our Major Subsidiaries and Operating Entities.” Globally, we have more than 1,200 subsidiaries and affiliated consolidated entities. It would be unduly burdensome for us to disclose this information in respect of non-Major Subsidiaries as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to investors. By way of illustration, for the fiscal year ended March 31, 2019 and the three months ended June 30, 2019, the aggregate revenue and net income of the Major Subsidiaries in respect of which the relevant information is disclosed represents a significant majority of our total revenue and net income in both periods. Accordingly, our remaining subsidiaries and affiliated consolidated entities are individually insignificant to our overall results. As such, we have disclosed the particulars of the changes in our share capital and the Major Subsidiaries in the section headed “Statutory and General Information — Further Information about Us” in Appendix IV to this prospectus and particulars of the commissions, discounts and brokerage fee in respect of our Major Subsidiaries and us are set out in the section headed “Statutory and General Information — Other Information — Miscellaneous” of Appendix IV to this prospectus.

- ***Particulars of our capital or debentures of any of our consolidated subsidiary or affiliated consolidated entities which is under option:*** Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires us to set out in the prospectus particulars of any capital of any of our consolidated subsidiary or affiliated consolidated entities that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee. Paragraph 10 of Part 1 of Third Schedule to the Companies (WUMP) Ordinance further requires us to set out in the prospectus, among other things, details of the number, description and amount of any of our shares or debentures which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it was given.

In relation to our Company, the only options over our capital or debentures under option are those issued pursuant to our Equity Incentive Plans. The Equity Incentive Plans provide for the granting of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, share appreciation rights and share payments. The waiver and the exemption therefore only relates to the options that are outstanding under the Equity Incentive Plans, which only accounted for approximately 0.24% of our total outstanding Shares as of September 30, 2019. As of September 30, 2019, the options held by our directors and executive officers and their affiliates represent less than 0.15% of our total outstanding Shares.

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Details of the Equity Incentive Plans, including outstanding RSUs, options and other rights held by our directors and executive officers, are set out in the section headed “Directors, Senior Management and Employees — Compensation — Equity Incentive Plans,” with details as required by applicable U.S. rules and regulations. However, the details with respect to options are not in strict compliance with the requirements of paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 10 of Part 1 of Third Schedule to the Companies (WUMP) Ordinance.

Having considered the background that (a) the SFC has granted a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders’ interests; (b) the current disclosure in this prospectus (including options granted to directors) as set out in the section headed “Directors, Senior Management and Employees — Compensation — Equity Incentive Plans”, is substantially the same as that set out in our 20-F filings and complies with applicable U.S. laws and regulations; (c) the details of the options have not been disclosed in any of our filings with the U.S. Securities and Futures Commission, and (d) our Equity Incentive Plans are not subject to Chapter 17 of the Hong Kong Listing Rules as it is not applicable pursuant to Rule 19C.11 of the Hong Kong Listing Rules, we have applied to the Hong Kong Stock Exchange (in respect of the Hong Kong Listing Rules) and the SFC (in respect of the Companies (WUMP) Ordinance) for a waiver and/or exemption from strict compliance with the above disclosure requirement in relation to the options granted pursuant to the Equity Incentive Plans on the grounds that strict compliance with the above requirements or condition would be unduly burdensome, unnecessary and/or inappropriate for us.

- ***Particulars of the authorized debentures:*** Paragraph 25 of the Third Schedule of the Companies (WUMP) Ordinance requires particulars of the authorized debentures of us and our subsidiaries in the prospectus. It is unduly burdensome for us to procure this information as we have more than 1,200 subsidiaries and affiliated consolidated entities and for the reasons as set out above. As such, only the particulars of debentures in respect of us and our Major Subsidiaries are set out in this prospectus under the section headed “Statutory and General Information — Other Information — Miscellaneous” in Appendix IV to this prospectus.
- ***Information on subsidiaries whose profits or assets make material contribution to us:*** Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule of the Companies (WUMP) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by us, or whose profits or assets make, or will make a material contribution to the figures in our auditors’ report or to our next financial statements. It is unduly burdensome for us to procure this information as we have approximately 1,200 subsidiaries and affiliated consolidated entities for the reasons as set out above. As such, only the particulars in relation to our Major Subsidiaries are set out in this prospectus under the section headed “Our History and Corporate Structure — Our Major Subsidiaries and Operating Entities” and “Statutory and General Information — Further Information about Us” in Appendix IV to this prospectus, which should be sufficient for the potential investors to make an informed assessment of us in their investment decision.

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The exemption from strict compliance with the content requirements in respect of the Companies (WUMP) Ordinance set out above was granted by the SFC on the conditions that:

- (i) the particulars of such exemption are set out in this prospectus; and
- (ii) this prospectus will be issued on or before November 15, 2019.

We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of the Group has been disclosed in this prospectus, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (WUMP) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of the investing public.

Availability of copies of the prospectus in printed form

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 12.04(3), Rule 12.07 and Rule 12.11 of the Hong Kong Listing Rules in respect of the availability of copies of the prospectus in printed form based on the specific and prevailing circumstances of the Company.

Corporate Communications

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

Our ADSs are listed on the NYSE. To the best of our knowledge, in June 2019, we had more than 1.6 million ADS holders globally.

We do not currently produce or send out any corporate communications to our shareholders or holders of ADSs in printed form unless requested or in limited circumstances described below. We publicly file or furnish various corporate communications with the SEC which are posted on the SEC's website. Our annual reports on Form 20-F and periodic reports on Form 6-K and all amendments to these reports, are also available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, we post our proxy materials on a publicly accessible website and send a notice including the proxy materials to our shareholders and holders of ADSs. Those documents are also available on our website.

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Apart from the Offer Shares that we will offer for subscription in Hong Kong, the Offer Shares will also be placed to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world. Given our diverse shareholder base and the potential number of countries in which our shareholders are located, it would not be practicable for us to send printed copies of all our corporate communications to all of our shareholders. Further, it would also not be practicable for us to approach our existing shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communication in printed form instead.

With effect from the Listing on the Hong Kong Stock Exchange, we have or will make the following arrangements:

- We will issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese.
- We will continue to provide printed copies of notice including the proxy materials to our shareholders at no costs.
- We will also add to the "Investor Relations" page of our website which will direct investors to all of our future filings with the Hong Kong Stock Exchange.

On the bases of the above, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 2.07A of the Hong Kong Listing Rules.

Monthly Returns

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates. Pursuant to the Joint Policy Statement Regarding the Listing of Overseas Companies, or Joint Policy Statement, companies applying for a secondary listing may seek a waiver from Rule 13.25B subject to satisfying the waiver condition that the SFC has granted a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders' interests. As we have obtained a partial exemption from the SFC, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if any, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

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Publication of Interim Report for the six months ended September 30, 2019

Rule 13.48(1) of the Hong Kong Listing Rules requires an issuer to send an interim report or a summary interim report in respect of the first six months of the financial year within three months after the end of that period. Practice Note 10 of the Hong Kong Listing Rules requires newly listed issuers to prepare and publish interim reports in respect of the first six month period where the deadline for publishing the reports falls after the date on which dealings in the securities of the issuer commenced.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 13.48(1) of the Hong Kong Listing Rules in relation to the six months ended September 30, 2019 on, among others, the following grounds:

- as we have included in our prospectus the audited financial information in respect of the three months ended June 30, 2019, the unaudited condensed interim financial information in respect of the three months ended September 30, 2019 and other financial disclosure, the strict compliance of such requirements would not provide our shareholders and potential investors with additional material information not already contained in the prospectus; and
- to require us to prepare, publish and send to our shareholders an interim report over a short period of time after the publication of the prospectus would incur unnecessary administrative cost and time on the part of our management and be unduly burdensome for us.

We confirm that we would not be in breach of our constitutional documents or laws or regulations of the Cayman Islands or any other regulatory requirements for not preparing, publishing and sending an interim report under the Hong Kong Listing Rules to our shareholders for the six months ended September 30, 2019.

Clawback mechanism under paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. Subject to the Hong Kong Stock Exchange granting the waiver described as below, the Hong Kong Public Offering and the International Offering will initially account for 2.5% and 97.5% of the Global Offering, respectively, subject to the clawback mechanism described below. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements of paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules such that the allocation of the Offer Shares in the Hong Kong Public Offering will be adjusted as follows:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering

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from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 25,000,000 Offer Shares, representing approximately 5.0% of the Offer Shares initially available under the Global Offering;

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 20 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 37,500,000 Offer Shares, representing 7.5% of the Offer Shares initially available under the Global Offering; and
- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 20 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 50,000,000 Offer Shares, representing 10.0% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives would have discretion to allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. On the other hand, if the Hong Kong Public Offering is not fully subscribed, the unsubscribed Offer Shares under the Hong Kong Public Offering may be reallocated to the International Offering.

See “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus for further details.

Disclosure of Offer Price

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules states that the issue price or offer price of each security must be disclosed in the prospectus.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules so that the Company will only disclose the maximum Public Offer Price for the Hong Kong Offer Shares, or the Public Offer Price, in the Prospectus:

- The Public Offer Price will be determined by reference to, among other factors, the closing price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date and the Company has no control on the market price of its ADSs traded on the NYSE;

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- Setting a fixed price or a price range with a low end International Offer Price or Public Offer Price may adversely affect the market price of the ADSs and the Hong Kong Offer Shares; and
- Disclosure of a maximum Public Offer Price is in compliance with the Companies (WUMP) Ordinance.

See “Structure of the Global Offering — Pricing And Allocation — Determining The Offer Price” in this prospectus for the historical prices of our ADS and trading volume on the NYSE.

Dealings in the Shares prior to Listing

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted, or the Relevant Period.

We have over 1,200 subsidiaries and affiliated consolidated entities and our ADSs are widely held, publicly traded and listed on the NYSE. For a company whose securities are listed and traded in the U.S., it is a common practice for substantial shareholders and corporate insiders, including directors, executives and other members of management, to set up trading plans that meet the requirements of Rule 10b5-1 under the U.S. Exchange Act, or the Rule 10b5-1 Plans, to buy or sell the company’s securities. A Rule 10b5-1 Plan is a written plan, set up with a broker, to trade securities that (a) is entered into at a time when the person trading the securities is not aware of any material non-public information; (b) specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold; and (c) does not allow the person trading the securities to exercise any subsequent influence over how, when, or whether to effect purchases or sales. Persons who trade securities pursuant to a Rule 10b5-1 Plan have an affirmative defense against insider trading allegations under U.S. securities law.

SoftBank, our substantial shareholder, and other core connected persons of us may from time to time use the Shares as security (including charges and pledges) in connection with their respective financing activities.

On the basis of the above, the following categories of persons, collectively, the Permitted Persons, should not be subject to the dealing restrictions set out in Rule 9.09(b):

- Softbank, our substantial shareholder, in respect of (i) its use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period; (ii) any dealings by a close associate of Softbank in the securities of the Company over which Softbank has no control provided that such close associate does not have any

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influence over the Global Offering and does not possess any non-public inside information from the Company; and (iii) its dealings pursuant to Rule 10b5-1 Plans they have set up prior to the Relevant Period, or Category 1;

- our directors and chief executive, and directors and chief executives of our Major Subsidiaries, in respect of (i) their respective use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period and (ii) their respective dealings pursuant to Rule 10b5-1 Plans they have set up prior to the Relevant Period, or Category 2;
- directors, chief executives and substantial shareholders of our non-Major Subsidiaries (except for Taobao Holding Limited, Taobao China Holding Limited and Alibaba Investment Limited) and their close associates, or Category 3; and
- any other person (whether or not an existing Shareholder) who may, as a result of dealings, become our substantial shareholder and who is not our director or chief executive, or a director or chief executive of our subsidiaries, or their close associates, or Category 4.

For the avoidance of doubt,

- as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and
- persons in Category 1 and Category 2 who (i) use their respective Shares other than as described in this section “Dealings in the Shares prior to Listing” or (ii) are not dealing in our securities according to Rule 10b5-1 Plans set up before the Relevant Period are subject to the restriction under Rule 9.09(b) of the Hong Kong Listing Rules.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 9.09(b) of the Hong Kong Listing Rules in respect of any dealing during the Relevant Period by the Permitted Persons subject to the following conditions:

- Categories 1 and 2 of the Permitted Persons who enter into Rule 10b5-1 Plans have no discretion over dealings in our ADSs after the plans have been entered into. Where Categories 1 and 2 of the Permitted Persons use the Shares as security, other than as set out in the waiver above, there will be no change in the beneficial ownership of the Shares during the Relevant Period;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

- Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and do not possess any of our non-public inside information given such persons are not in a position with access to information that is considered material to us taken as a whole. Given the large number of our subsidiaries and the vast ADS holder base, we and our management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in our ADSs;
- we will promptly release any inside information to the public in the United States in accordance with the U.S. securities laws and NYSE listing rules. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which we are aware;
- we will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of our core connected persons during the Relevant Period when we become aware of the same other than dealings by core connected persons who are Permitted Persons within the permitted scopes as set out above; and
- prior to the Listing Date, other than within the permitted scopes as set out above, our directors and chief executive and directors and chief executives of our Major Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period. For the avoidance of doubt, such prohibited dealing in our Shares shall not include the granting, vesting, payment or exercise (as applicable) of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, share appreciation rights and share payments under the Equity Incentive Plans.

Subscription for Shares by existing shareholders

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

Our Company has over 1,200 subsidiaries and affiliated consolidated entities and its ADSs are widely held, publicly traded and listed on the NYSE. Categories 3 and 4 of the Permitted Persons (as defined in “— Dealings in Shares Prior to the Listing” above) have no influence over the Global Offering and are not in possession of any non-public inside information and are effectively in the same positions as our public investors. Categories 3 and 4 of the Permitted Persons and other public investors are referred to as Permitted Existing Shareholders.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 and Paragraph 5(2) of Appendix 6 of the Hong Kong Listing Rules in respect of the restriction on Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering, subject to the following conditions:

- each Permitted Existing Shareholder is interested in less than 5% of the Company's voting rights before the Listing;
- other than the Categories 3 and 4 of the Permitted Persons, each Permitted Existing Shareholder is not a core connected person of the Company;
- the Permitted Existing Shareholders do not have the power to appoint directors of the Company or any other special rights in the Company;
- the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;
- the Permitted Existing Shareholder will be subject to the same book-building and allocation process as other investors in the Global Offering; and
- to the best of their knowledge and belief, each of the Company, the Joint Representatives (for themselves and on behalf of the Underwriters) and the Joint Sponsors (based on its discussions with and confirmations from the Company and the other Joint Representatives (for themselves and on behalf of the Underwriters)), confirms no preferential treatment has been, nor will be, given to the Permitted Existing Shareholders and their close associates as a placee in the International Offering by virtue of their relationship with the Company.

Allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in the allotment results announcement of the Company as it would be unduly burdensome for the Company to disclose such information given that there is no requirement to disclose interests under the U.S. Exchange Act unless such person (including directors and officers of the company concerned) who acquires beneficial ownership of more than 5% of equity securities registered under Section 12 of the U.S. Exchange Act.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Directors

Name	Address	Country of Nationality
Mr. Daniel Yong ZHANG (張勇) <i>Chairman and Chief Executive Officer</i>	Room 501, Building No. 21 Lane 259, Huan Long Road Shanghai The People's Republic of China	PRC
Mr. Jack Yun MA (馬雲)	Apartment 202, Unit 1 Building 16 Feng He Yuan, Hu Pan Hua Yuan Hangzhou The People's Republic of China	PRC
Mr. Joseph C. TSAI (蔡崇信) <i>Executive Vice Chairman</i>	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong ⁽¹⁾	Canada
Mr. J. Michael EVANS <i>President</i>	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong ⁽¹⁾	Canada
Mr. Eric Xiandong JING (井賢棟)	Room 4-4-702, Golden Garden 16 Fuchun Road Shangcheng District Hangzhou The People's Republic of China	PRC
Mr. Masayoshi SON	1-9-1 Higashi-Shimbashi Minato-ku, Tokyo 105-7303, Japan ⁽¹⁾	Japan
Mr. Chee Hwa TUNG (董建華)	Apt 2D Grenville House 1 Magazine Gap Road Hong Kong	PRC
Mr. Walter Teh Ming KWAUK (郭德明)	Suite 504, EAST Residences 23 Tong Chong Street Quarry Bay Hong Kong	Canada

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Country of Nationality
Mr. Jerry YANG (楊致遠)	720 University Avenue Suite #200, Los Gatos CA 95032 United States of America	United States
Mr. E. Börje EKHOLM	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong ⁽¹⁾	United States
Ms. Wan Ling MARTELLO	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong ⁽¹⁾	United States

(1) This is the director's business address.

Further information about the directors and other senior management members are set out in the section headed "Directors, Senior Management and Employees" in this prospectus.

Parties Involved in the Global Offering

Joint Sponsors, Joint Representatives, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers <i>(in alphabetical order)</i>	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
	Credit Suisse (Hong Kong) Limited Level 88, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	Citigroup Global Markets Asia Limited, or Citigroup <i>(Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only)</i> 50/F, Champion Tower 3 Garden Road Central Hong Kong
	Citigroup Global Markets Limited, or Citigroup <i>(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)</i> 33 Canada Square Canary Wharf London E14 5LB United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

J.P. Morgan Securities (Asia Pacific) Limited, or J.P. Morgan
(Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only)
28/F, Chater House
8 Connaught Road Central
Hong Kong

J.P. Morgan Securities plc, or J.P. Morgan
(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

J.P. Morgan Securities LLC, or J.P. Morgan
(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)
383 Madison Avenue
New York, New York 10179
United States of America

Morgan Stanley Asia Limited, or Morgan Stanley
(Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only)
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Morgan Stanley & Co. International plc, or Morgan Stanley
(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Joint Bookrunners and Joint Lead Managers

The Hongkong and Shanghai Banking Corporation Limited, or HSBC
1 Queen's Road Central
Hong Kong

ICBC International Capital Limited, or ICBCI
(Joint Bookrunner only)
37/F, ICBC Tower
3 Garden Road
Hong Kong

ICBC International Securities Limited, or ICBCI
(Joint Lead Manager only)
37/F, ICBC Tower
3 Garden Road
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Senior Joint Lead Managers

Deutsche Bank AG, Hong Kong Branch, or Deutsche Bank

52/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

DBS Asia Capital Limited, or DBS

73rd Floor, The Center
99 Queen's Road Central
Hong Kong

Mizuho Securities Asia Limited, or Mizuho

14-15/F, K11 Atelier
18 Salisbury Road
Tsim Sha Tsui
Kowloon
Hong Kong

Joint Lead Managers

ABCI Securities Company Limited, or ABCI

10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

BOCI Asia Limited, or BOCI

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

BOCOM International Securities Limited, or BOCOMI

9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CCB International Capital Limited, or CCBI

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

CLSA Limited, or CLSA

18/F, One Pacific Place
88 Queensway
Hong Kong

CMB International Capital Limited, or CMBI

45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Yunfeng Securities Limited, or YFS

Suites 3201 – 3204, One Exchange Square
8 Connaught Place
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Our Legal Advisers

As to Hong Kong and U.S. laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower
3 Garden Road
Central
Hong Kong

As to PRC laws:

Fangda Partners

24/F, HKRI Centre Two
HKRI Taikoo Hui
288 Shi Men Yi Road
Shanghai, China

As to Cayman Islands laws:

Maples and Calder (Hong Kong) LLP

53rd Floor, The Center
99 Queen's Road Central
Hong Kong

Legal Advisers to the Joint Sponsors and the Underwriters

As to Hong Kong and U.S. laws:

Freshfields Bruckhaus Deringer

55th Floor, One Island East
Taikoo Place
Quarry Bay
Hong Kong

As to PRC laws:

King & Wood Mallesons

18th Floor, East Tower, World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing, China

Auditor and Reporting Accountant

PricewaterhouseCoopers

Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Receiving Bank

**The Hongkong and Shanghai Banking Corporation
Limited**

1 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Trident Trust Company (Cayman) Limited Fourth Floor, One Capital Place P.O. Box 847, George Town Grand Cayman Cayman Islands
Principal Executive Offices of Main Operations	969 West Wen Yi Road Yu Hang District Hangzhou, Zhejiang, China
Address in Hong Kong	26/F Tower One, Times Square 1 Matheson Street Causeway Bay Hong Kong
Company's Website	<u>www.alibabagroup.com</u> (The information on the website does not form part of this prospectus)
Authorized Representative	Timothy A. STEINERT 26/F Tower One, Times Square 1 Matheson Street Causeway Bay Hong Kong
Audit Committee	Walter Teh Ming KWAUK (Chairman) E. Börje EKHOLM Wan Ling MARTELLO
Compensation Committee	Jerry YANG (Chairman) Walter Teh Ming KWAUK Joseph C. TSAI
Nominating and Corporate Governance Committee	Jack Yun MA (Chairman) Chee Hwa TUNG Jerry YANG
Cayman Islands Principal Share Registrar and Transfer Office	Maples Fund Services (Cayman) Limited P.O. Box 1093, Boundary Hall Cricket Square, Grand Cayman KY1-1102, Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong

CORPORATE INFORMATION

Compliance Advisor

Credit Suisse (Hong Kong) Limited
Level 88, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Principal Banks

China Merchants Bank
19/F, China Merchants Bank Tower
No. 7088 Shennan Boulevard
Shenzhen
Guangdong, China

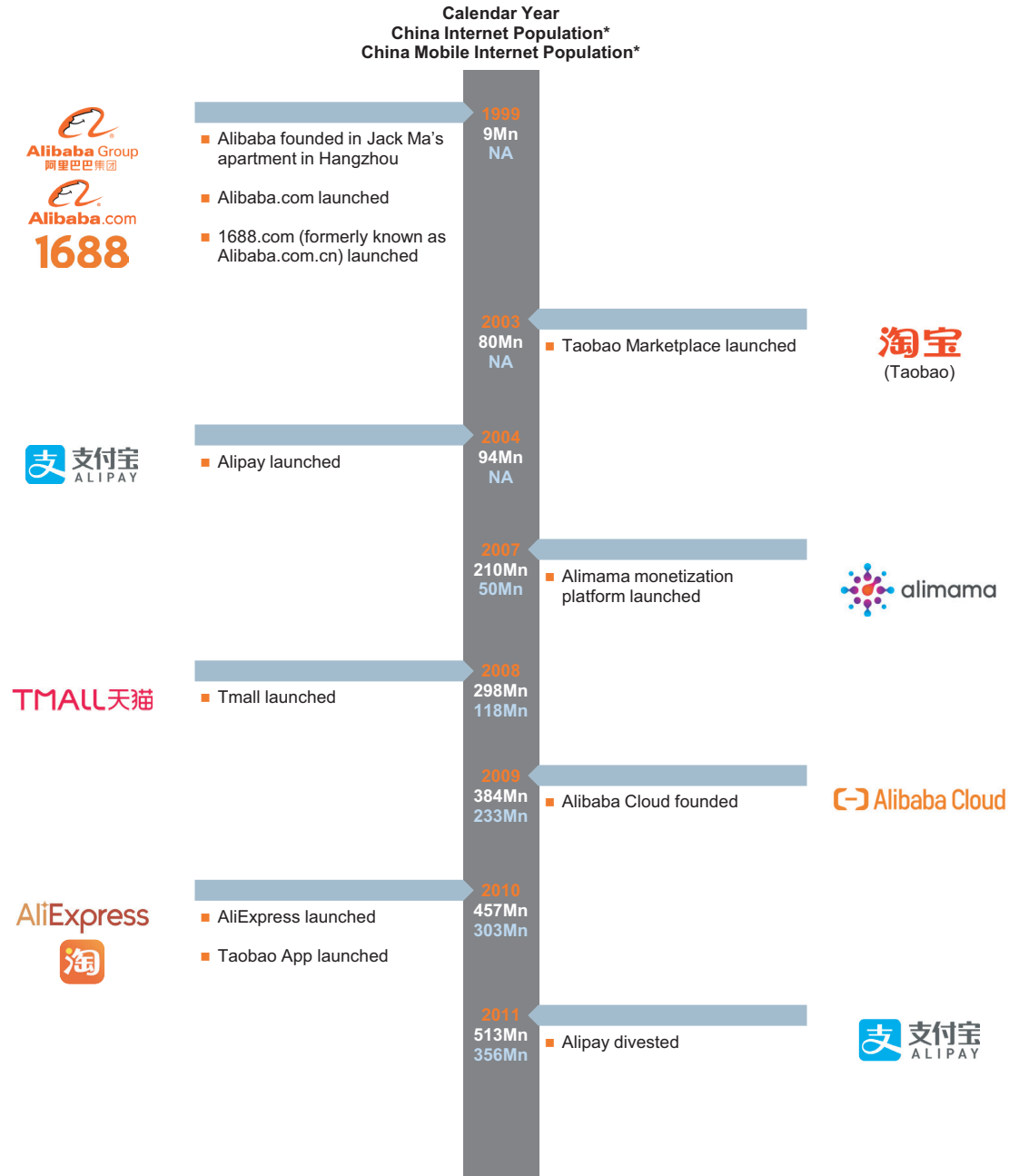
Citibank (Hong Kong) Limited
3 Garden Road
Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

OUR HISTORY AND CORPORATE STRUCTURE

We are a holding company established under the Cayman Companies Law on June 28, 1999. We conduct our business in China through our subsidiaries and variable interest entities, as well as in other countries and regions.

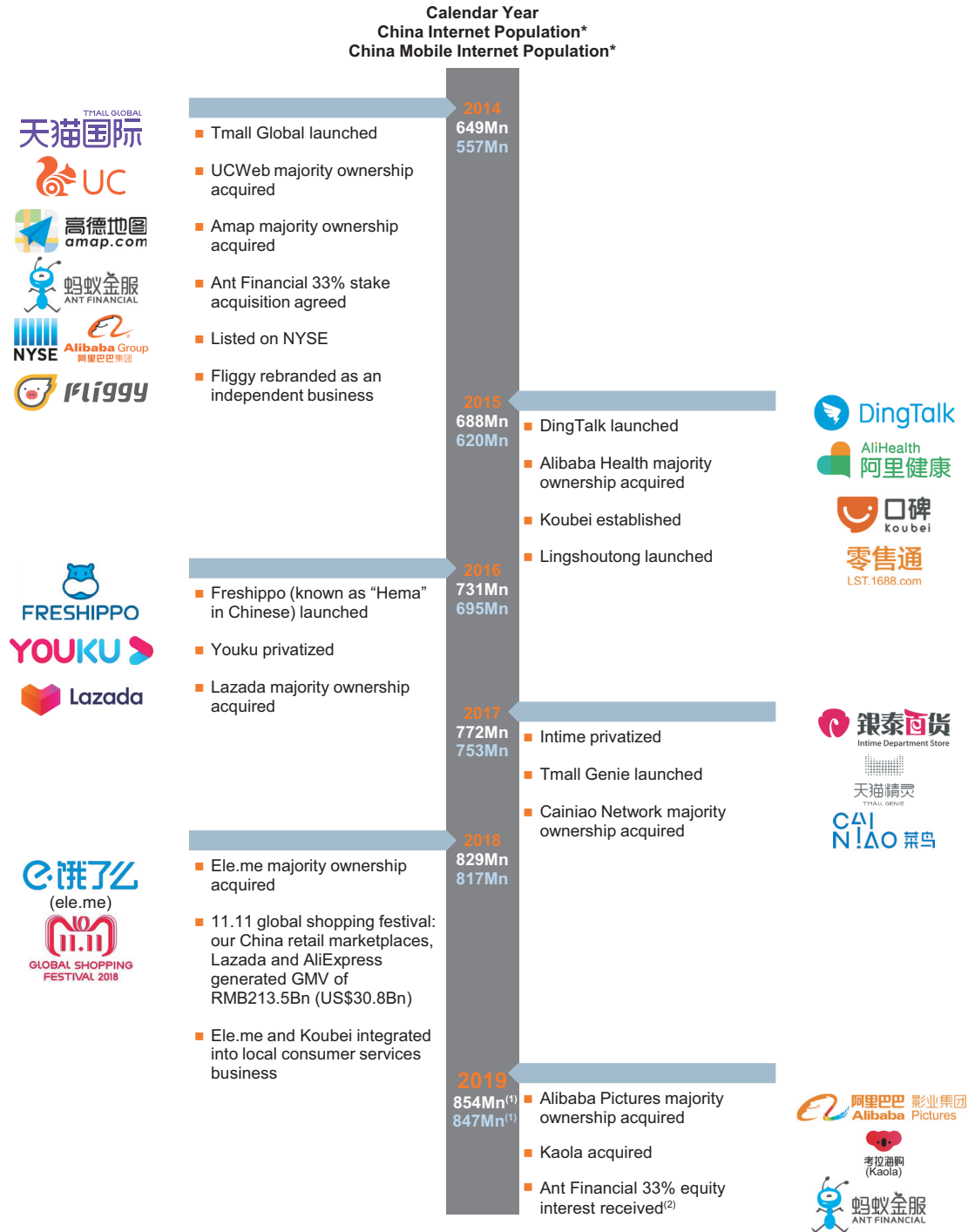
The following is a summary of our key business milestones:



* Source for China Internet Population and China Mobile Internet Population: CNNIC.

Note: Data on China Mobile Internet Population was not disclosed until 2006.

OUR HISTORY AND CORPORATE STRUCTURE



* Source for China Internet Population and China Mobile Internet Population: CNNIC. As of calendar year end, unless otherwise stated.

(1) As of June 30, 2019.

(2) Pursuant to the 2014 transaction agreements and the relevant amendments to these agreements.

OUR HISTORY AND CORPORATE STRUCTURE

Major Acquisitions and Investments

In addition to organic growth, we have made, or have entered into agreements to make, strategic investments, acquisitions and alliances that are intended to further our strategic objectives. See “Financial Information — Recent Investment, Acquisition and Strategic Alliance Activities” for further details on our major acquisitions and strategic investment and alliance activities during the Track Record Period and the period through the Latest Practicable Date.

Our Major Subsidiaries and Operating Entities

The principal business activities and date of establishment of each of our Major Subsidiaries, are shown below:

Name of company	Principal Business Activities	Date and Jurisdiction of Establishment
Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司)	An indirect subsidiary of Taobao Holding and a wholly-foreign owned enterprise and primarily involved in the operation of Taobao Marketplace.	December 7, 2004, PRC
Zhejiang Taobao Network Co., Ltd. (浙江淘寶網絡有限公司)	An affiliated consolidated entity of Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司) and primarily involved in the operation of Taobao Marketplace.	September 4, 2003, PRC
Zhejiang Tmall Technology Co., Ltd. (浙江天貓技術有限公司)	An indirect subsidiary of Taobao Holding and a wholly-foreign owned enterprise and primarily involved in the operation of Tmall.	October 25, 2010, PRC
Zhejiang Tmall Network Co., Ltd. (浙江天貓網絡有限公司)	An affiliated consolidated entity of Zhejiang Tmall Technology Co., Ltd. (浙江天貓技術有限公司) and primarily involved in the operation of Tmall.	March 28, 2011, PRC
Hangzhou Cainiao Supply Chain Management Co., Ltd. (杭州菜鳥供應鏈管理有限公司)	Our indirect subsidiary and primarily involved in the operation of Cainiao Network.	October 27, 2016, PRC
Zhejiang Alibaba Cloud Computing Ltd. (浙江阿里巴巴雲計算有限公司)	Our indirect subsidiary and primarily involved in the operation of our cloud computing business.	December 13, 2011, PRC
Alibaba Cloud Computing Ltd. (阿里雲計算有限公司)	An affiliated consolidated entity of Zhejiang Alibaba Cloud Computing Ltd. (浙江阿里巴巴雲計算有限公司) and primarily involved in the operation of our cloud computing business.	April 8, 2008, PRC

OUR HISTORY AND CORPORATE STRUCTURE

Name of company	Principal Business Activities	Date and Jurisdiction of Establishment
Alibaba (China) Technology Co., Ltd. (阿里巴巴(中國)網絡技術有限公司)	Our indirect subsidiary and primarily involved in the operation of Alibaba.com, 1688.com and AliExpress.	September 9, 1999, PRC
Hangzhou Alibaba Advertising Co., Ltd. (杭州阿里巴巴廣告有限公司)	An affiliated consolidated entity of Alibaba (China) Technology Co., Ltd. (阿里巴巴(中國)網絡技術有限公司) and primarily involved in the operation of Alibaba.com, 1688.com and AliExpress.	December 7, 2006, PRC
Youku Internet Technology (Beijing) Co., Ltd. (優酷網絡技術(北京)有限公司)	An indirect subsidiary of Alibaba Investment and primarily involved in the operation of Youku's business.	November 14, 2005, PRC
Youku Information Technology (Beijing) Co., Ltd. (優酷信息技術(北京)有限公司)	An affiliated consolidated entity of Beijing Youku Technology Co., Ltd. (北京優酷科技有限公司) and primarily involved in the operation of Youku's business.	February 24, 2006, PRC

Reasons for the Listing

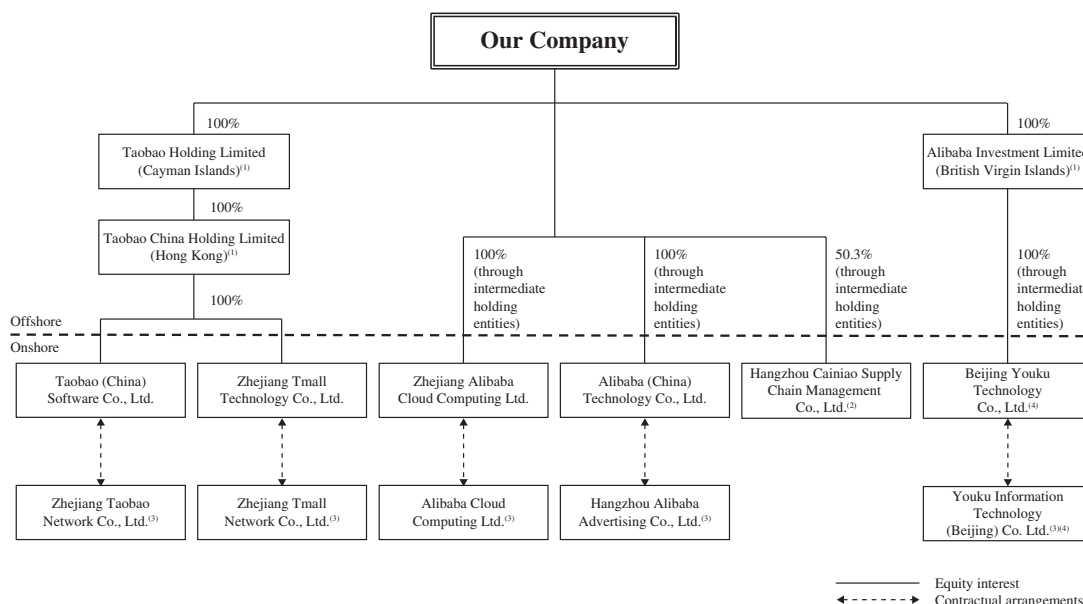
In September 2014, we completed an initial public offering and listing of our ADSs on the NYSE.

We believe that the Listing on the Hong Kong Stock Exchange will present us with an opportunity to further expand our investor base and broaden our access to capital markets.

Corporate Structure

As of June 30, 2019, we conducted our business operations across approximately 710 subsidiaries and consolidated entities incorporated in China and approximately 530 subsidiaries and consolidated entities incorporated in other jurisdictions. Like many large scale, multinational companies with businesses around the world and across industries, we conduct our business through a large number of Chinese and foreign operating entities as we continue to expand through organic growth and acquisitions and consolidations of new businesses. The chart below summarizes our corporate legal structure:

OUR HISTORY AND CORPORATE STRUCTURE

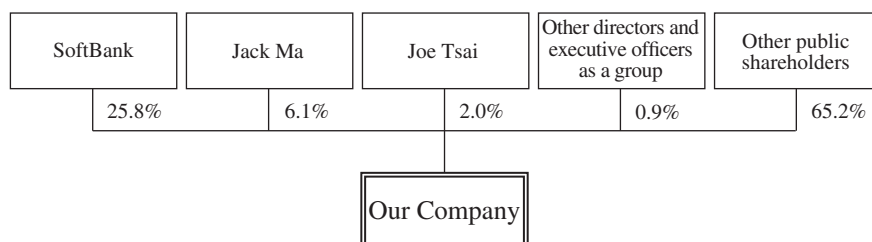


Notes:

- (1) A holding company.
- (2) An indirect wholly-owned subsidiary of Cainiao Network. In November 2019, we subscribed for newly issued ordinary shares of Cainiao Network together with certain of Cainiao Network's existing shareholders, and our equity interest in Cainiao Network increased to approximately 63%. See "Financial Information — Recent Investment, Acquisition and Strategic Alliance Activities — Logistics" for further details. The remaining 37% of equity interest is primarily beneficially owned by a number of investors with significant operational experience in logistics, retail and real estate in China.
- (3) Each of these variable interest entities is owned by a PRC entity owned and/or controlled by PRC citizens.
- (4) As of the date of this prospectus, as a result of our VIE Structure Enhancement, Beijing Youku Technology Co., Ltd. has replaced Youku Internet Technology (Beijing) Co. Ltd. as the designated wholly-owned entity to enter into contractual arrangements with Youku Information Technology (Beijing) Co. Ltd. and its shareholder.

Shareholding Structure

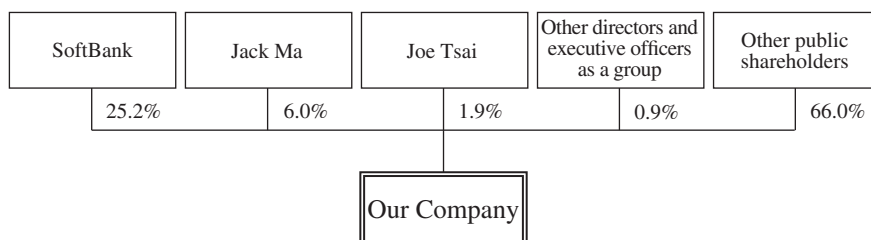
The following diagram illustrates our shareholding structure as of the Latest Practicable Date:



Note: See "Major Shareholders" for the beneficial ownership of each of SoftBank, Jack Ma and Joe Tsai.

OUR HISTORY AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major shareholders' shareholding remain unchanged as of the Latest Practicable Date and the Over-allotment Option is not exercised):



Contractual Arrangements among Our Wholly-Owned Entities, Variable Interest Entities and the Variable Interest Entity Equity Holders

Due to legal restrictions on foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of ICPs, we, similar to all other entities with foreign-incorporated holding company structures operating in our industries in China, operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited in the PRC through various contractual arrangements with variable interest entities that are incorporated and 100% owned by PRC citizens or by PRC entities owned and/or controlled by PRC citizens. The relevant variable interest entities hold the ICP licenses and other regulated licenses and operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited. Specifically, our variable interest entities that are material to our business are Zhejiang Taobao Network Co., Ltd., Zhejiang Tmall Network Co., Ltd., Alibaba Cloud Computing Ltd., Hangzhou Alibaba Advertising Co., Ltd. and Youku Information Technology (Beijing) Co., Ltd. We have entered into certain contractual arrangements, as described in more detail below, which collectively enable us to exercise effective control over the variable interest entities and realize substantially all of the economic risks and benefits arising from the variable interest entities. As a result, we include the financial results of each of the variable interest entities in our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries.

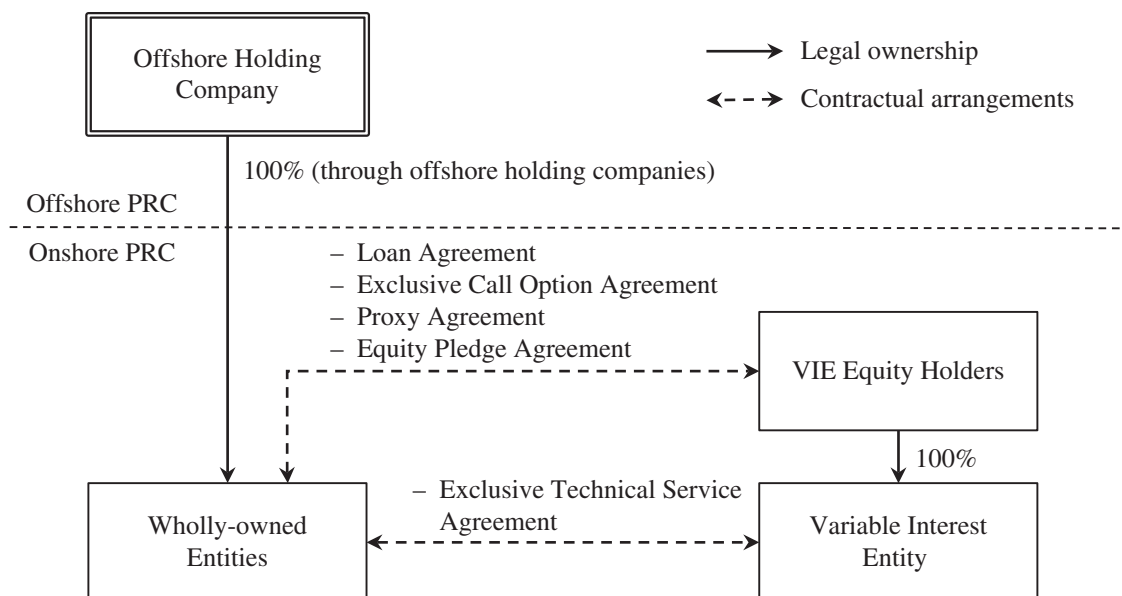
Other than the ICP licenses and other licenses and approvals for businesses in which foreign ownership is restricted or prohibited that are held by our variable interest entities, we hold our material assets in, conduct our material operations and generate the significant majority of revenues through, our wholly-owned entities, which primarily provide technology and other services to our customers. We primarily generate our revenue directly through our wholly-owned entities, which directly capture the profits and associated cash flow from operations without having to rely on contractual arrangements to transfer cash flow from the variable interest entities to our wholly-owned entities.

OUR HISTORY AND CORPORATE STRUCTURE

VIE Structure Enhancement

Overview

The following diagram is a simplified illustration of the ownership structure and contractual arrangements for variable interest entities that are typical in our industry and previously were standard for our Company:



We are in the process of enhancing the structure we use to hold our variable interest entities so that we can better ensure the stability and proper governance of our variable interest entities as an integral part of our Company, or the VIE Structure Enhancement. The VIE Structure Enhancement maintains the primary legal framework that we and many peer companies in our industries have adopted to operate businesses in which foreign investment is restricted or prohibited in the PRC. We have completed the VIE Structure Enhancement for all of our material variable interest entities.

Upon the completion of the VIE Structure Enhancement for each variable interest entity, the equity interest of each variable interest entity will, instead of being held by a few individuals, be directly held by a PRC limited liability company, which in turn will be indirectly held (through a layer of PRC limited partnerships) by selected members of the Alibaba Partnership or our management who are PRC citizens. This new structure institutionalizes the governance framework of our variable interest entities.

OUR HISTORY AND CORPORATE STRUCTURE

Compared with the VIE shareholder structure that is typical in our industry and previously were standard for us, which uses natural persons to serve as direct equity holders of the variable interest entities, we have designed the VIE Structure Enhancement to:

- reduce the key man and succession risks associated with natural person VIE equity holders, through a new structure that has widely dispersed interests among natural person interest holders;
- create a VIE ownership structure that is more stable and self-sustaining, by distancing the natural person interest holders with the variable interest entity with multiple layers of legal entities, including a partnership structure; and
- further enhance our control over the variable interest entities through multiple layers of contractual arrangements.

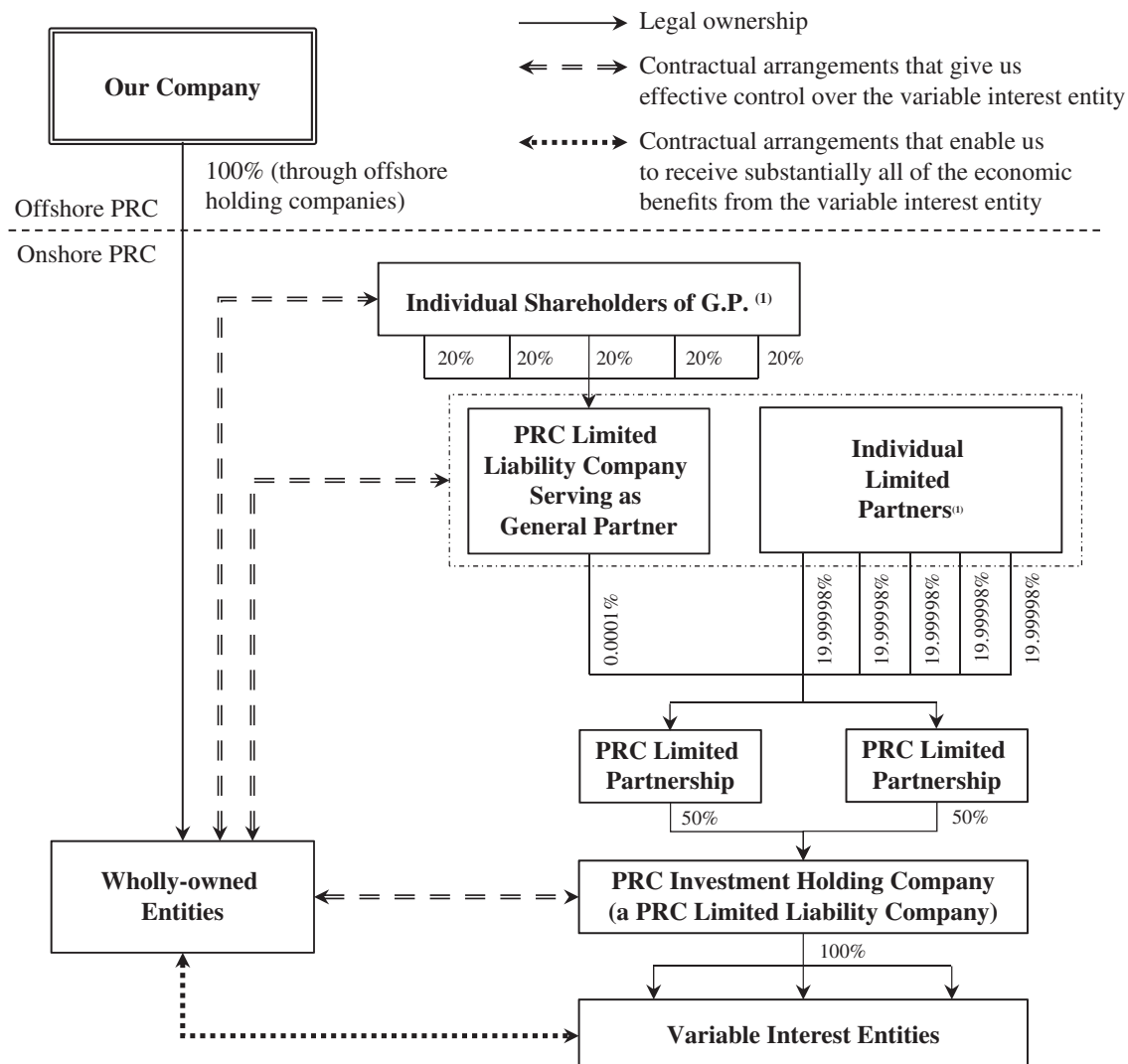
VIE equity holders after the VIE Structure Enhancement

Prior to the VIE Structure Enhancement, our material variable interest entities were directly or indirectly owned by natural persons.

Following the VIE Structure Enhancement, a material variable interest entity will be directly held by a PRC limited liability company. This PRC limited liability company will in turn be directly or indirectly owned by two PRC limited partnerships, each of which will hold 50% of the equity interest. Each of these partnerships is comprised of (i) a PRC limited liability company, as general partner (which is formed by a number of selected members of the Alibaba Partnership and our management who are PRC citizens), and (ii) the same group of natural persons, as limited partners. Under the terms of the relevant partnership agreements, the natural person limited partners must be members of the Alibaba Partnership or our management who are PRC citizens and as designated by the general partner of the partnership. We may also create additional holding structures in the future in connection with the VIE Structure Enhancement.

OUR HISTORY AND CORPORATE STRUCTURE

The following diagram is a simplified illustration of the typical ownership structure and contractual arrangements of the variable interest entities following the VIE Structure Enhancement.



(1) Selected members of the Alibaba Partnership or our management who are PRC citizens.

Following the VIE Structure Enhancement, the designated wholly-owned entity, on the one hand, and the corresponding variable interest entity and the multiple layers of legal entities above the variable interest entity, as well as the natural persons described above, on the other hand, will enter into contractual arrangements, which are substantially similar to the contractual arrangements we have historically used for our variable interest entities. See “— Contracts that Give us Effective Control of the Variable Interest Entities” and “— Contracts that Enable us to Receive Substantially All of the Economic Benefits from the Variable Interest Entities” below.

Although we believe the VIE Structure Enhancement will further improve our control over our variable interest entities, there continue to be risks associated with the VIE structure in general, as well as with the completion of the VIE Structure Enhancement. See “Risk Factors — Risks Related to Our Corporate Structure.”

The following is a summary of our typical contractual arrangements.

OUR HISTORY AND CORPORATE STRUCTURE

Contracts that Give Us Effective Control of the Variable Interest Entities

Loan agreements

Pursuant to the relevant loan agreement, our respective wholly-owned entity has granted a loan to the relevant variable interest entity equity holders, which may only be used for the purpose of its business operation activities agreed by our wholly-owned entity. Our wholly-owned entity may require acceleration of repayment at its absolute discretion. When the variable interest entity equity holders make early repayment of the outstanding amount, our wholly-owned entity or a third-party designated by it may purchase the equity interests in the variable interest entity at a price equal to the outstanding amount of the loan, subject to any applicable PRC laws, rules and regulations. The variable interest entity equity holders undertake not to enter into any prohibited transactions in relation to the variable interest entity, including the transfer of any business, material assets, intellectual property rights or equity interests in the variable interest entity to any third-party. The parties to the loan agreement for each of our material variable interest entities are the relevant PRC limited liability company, on the one hand, and Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司), Zhejiang Tmall Technology Co., Ltd. (浙江天貓技術有限公司), Alibaba (China) Technology Co., Ltd. (阿里巴巴(中國)網絡技術有限公司), Zhejiang Alibaba Cloud Computing Ltd. (浙江阿里巴巴雲計算有限公司) or Beijing Youku Technology Co., Ltd. (北京優酷科技有限公司), our respective wholly-owned entity, on the other hand.

Exclusive call option agreements

The variable interest entity equity holder has granted our wholly-owned entity an exclusive call option to purchase its equity interest in the variable interest entity at an exercise price equal to the higher of (i) the paid-in registered capital in the variable interest entity; and (ii) the minimum price as permitted by applicable PRC laws. Each relevant variable interest entity has further granted our relevant wholly-owned entity an exclusive call option to purchase its assets at an exercise price equal to the book value of the assets or the minimum price as permitted by applicable PRC law, whichever is higher. Following the VIE Structure Enhancement, each relevant variable interest entity and its equity holders will also jointly grant our relevant wholly-owned entity (A) an exclusive call option to request the relevant variable interest entity to decrease its registered capital at an exercise price equal to the higher of (i) the paid-in registered capital in the relevant variable interest entity and (ii) the minimum price as permitted by applicable PRC law, or the capital decrease price, and (B) an exclusive call option to subscribe for the increased capital of relevant variable interest entity at a price equal to the sum of the capital decrease price and the unpaid registered capital, if applicable, as of the capital decrease. Our wholly-owned entity may nominate another entity or individual to purchase the equity interest or assets, or to subscribe for the relevant increased capital, if applicable, under the call options. Execution of each call option shall not violate the applicable PRC laws, rules and regulations. Each variable interest entity equity holders has agreed that the following amounts, to the extent in excess of the original registered capital that they contributed to the variable interest entity (after deduction of relevant tax expenses), belong to and shall be paid to our relevant wholly-owned entities: (i) proceeds from the transfer of its equity interests in the variable interest entity, (ii) proceeds received in connection with a capital decrease in the variable interest entity, and (iii) distributions or liquidation residuals from the disposal of its equity interests in the variable interest entity upon termination or liquidation. Moreover, any profits, distributions or dividends (after deduction of relevant tax expenses) received by the variable interest entity equity holder also belong to and shall be paid to our wholly-owned entity. The exclusive call option agreements remain in effect until the equity interest or assets that are the subject of these agreements are transferred to

OUR HISTORY AND CORPORATE STRUCTURE

our wholly-owned entity. The parties to the exclusive call option agreement for each of our material variable interest entities are the relevant variable interest entity equity holders, the relevant variable interest entity and its corresponding wholly-owned entity. Apart from legal restrictions on foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of ICPs, our right to exercise the call option is not subject to any statutory limitations.

Proxy agreements

Pursuant to the relevant proxy agreement, each of the variable interest entity equity holders irrevocably authorizes any person designated by our wholly-owned entity to exercise his rights as the equity holder of the variable interest entity, including without limitation the right to vote and appoint directors. The parties to the proxy agreement for each of our material variable interest entities are the relevant variable interest entity equity holder, the relevant variable interest entity and its corresponding wholly-owned entity.

Equity pledge agreements

Pursuant to the relevant equity pledge agreement, the relevant variable interest entity equity holders have pledged all of their interests in the equity of the variable interest entity as a continuing first priority security interest in favor of the corresponding wholly-owned entity to secure the outstanding amounts advanced under the relevant loan agreements described above and to secure the performance of obligations by the variable interest entity and/or its equity holders under the other structure contracts. Each wholly-owned entity is entitled to exercise its right to dispose of the variable interest entity equity holders' pledged interests in the equity of the variable interest entity and has priority in receiving payment by the application of proceeds from the auction or sale of the pledged interests, in the event of any breach or default under the loan agreement or other structure contracts, if applicable. These equity pledge agreements remain in force until the later of (i) the full performance of the contractual arrangements by the relevant parties, and (ii) the full repayment of the loans made to the relevant variable interest entity equity holders. The parties to the equity pledge agreement for each of our material variable interest entities are the relevant variable interest entity equity holders, the relevant variable interest entity and its corresponding wholly-owned entity.

Contracts that Enable Us to Receive Substantially All of the Economic Benefits from the Variable Interest Entities

Exclusive technology services agreements or exclusive services agreements

Each relevant variable interest entity has entered into an exclusive technology services agreement or, following the VIE Structure Enhancement, an exclusive service agreement with the respective wholly-owned entity, pursuant to which our relevant wholly-owned entity provides exclusive services to the variable interest entity. In exchange, the variable interest entity pays a service fee to our wholly-owned entity, the amount of which shall be determined, to the extent permitted by applicable PRC laws as proposed by our wholly-owned entity, resulting in a transfer of substantially all of the profits from the variable interest entity to our wholly-owned entity. We are under no obligation to provide any financial support to the variable interest entity.

OUR HISTORY AND CORPORATE STRUCTURE

The exclusive call option agreements described above also entitle our wholly-owned entity to all profits, distributions or dividends (after deduction of relevant tax expenses) to be received by the variable interest entity equity holder, and the following amounts, to the extent in excess of the original registered capital that they contributed to the variable interest entity (after deduction of relevant tax expenses) to be received by each variable interest entity equity holder: (i) proceeds from the transfer of its equity interests in the variable interest entity, (ii) proceeds received in connection with a capital decrease in the variable interest entity, and (iii) distributions or liquidation residuals from the disposal of its equity interests in the variable interest entity upon termination or liquidation.

In the opinion of Fangda Partners, our PRC legal counsel:

- the ownership structures of our material wholly-owned entities and our material variable interest entities in China do not and will not violate any applicable PRC law, regulation, or rule currently in effect;
- the contractual arrangements between our material variable interest entities, the corresponding wholly-owned entities and the respective equity holders of our material variable interest entities governed by PRC laws are valid, binding and enforceable in accordance with their terms and applicable PRC laws, rules, and regulations currently in effect, and will not violate any applicable PRC law, regulation, or rule currently in effect; and
- the contractual arrangements between our material variable interest entities, the corresponding wholly-owned entities and the respective equity holders of our material variable interest entities governed by PRC laws will not be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law.

Furthermore, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our business through the various variable interest entities under the contractual arrangements.

However, we have been further advised by our PRC legal counsel, Fangda Partners, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations. Accordingly, the possibility that the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the opinion of our PRC legal counsel cannot be ruled out. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our Internet-based business do not comply with PRC government restrictions on foreign investment in the aforesaid business we engage in, we could be subject to severe penalties including being prohibited from continuing operations. See “Risk Factors — Risks Related to Our Corporate Structure.”

There are certain risks involved in our corporate structure and the contractual arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in the section headed “Risk Factors — Risks Related to Our Corporate Structure.” We have determined that the costs of insurance for the risks associated with our corporate structure and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, we did not purchase any insurance to cover the risks relating to the contractual arrangements.

OUR MARKET OPPORTUNITIES

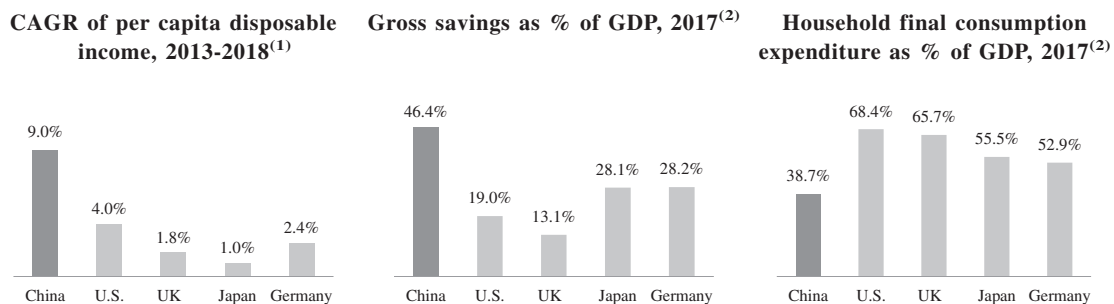
The information presented in this section is derived from various government publications and other publications. We believe that the sources of such information are appropriate and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Senior Joint Lead Managers, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.

China's Transformation into a Consumption Economy

Significant domestic consumption power

China has the world's largest number of middle class households, according to the World Economic Forum. According to NBS, the number of middle income households in China (defined as households with annual income between RMB100,000 and RMB500,000) reached 140 million in 2017, representing over 30% of the 455 million total households in China. Over the past 20 years, China's GDP per capita has expanded from less than US\$1,000 to nearly US\$10,000, according to IMF. We believe the expansion of China's middle class will continue to drive the growth of consumption and the shift from basic needs to more discretionary expenditures.

China's growth in per capita disposable income has outpaced those of major developed countries such as the U.S., UK, Japan and Germany. China also has a higher savings rate and a lower ratio of household consumption to GDP as compared to those countries, as illustrated in the charts below. These structural differences compared with major developed countries will likely drive the future consumption growth in China.



Source:

(1) CAGR based on: China – per capita disposable income from NBS, U.S. – per capita disposable personal income from Bureau of Economic Analysis, UK – mean equivalized household disposable income from Office for National Statistics (from financial year ending March 2013 to financial year ending March 2018), Japan – average monthly disposable income of workers' households from Statistics Bureau, Germany – disposable income of households per inhabitant from Federal Statistical Office (Destatis).

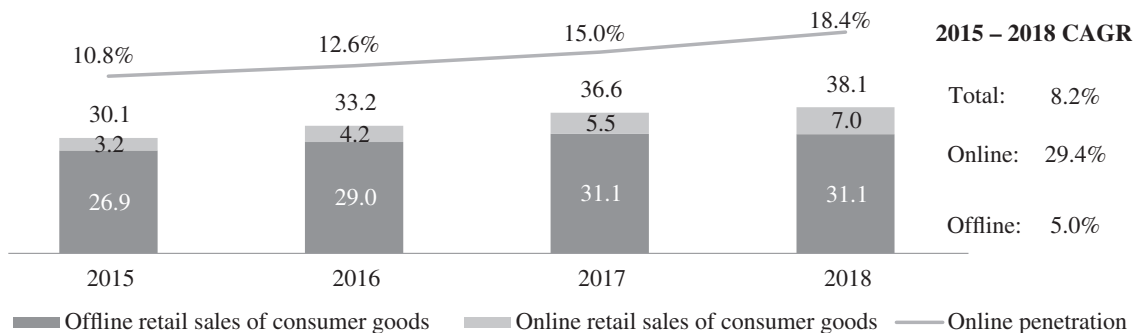
(2) The World Bank.

OUR MARKET OPPORTUNITIES

Massive retail market opportunity in China

We believe that China is poised to become the world's top retail market in the next few years, surpassing the U.S. China's overall retail sales of consumer goods reached RMB38.1 trillion (US\$5.5 trillion) in 2018, representing a CAGR of 9.4% since 2013, outpacing the CAGR of 6.9% for China's real GDP over the same period, according to NBS. Further, China's online retail sales of consumer goods increased to RMB7.0 trillion (US\$1.0 trillion) in 2018, representing a CAGR of 29.4% since 2015, according to NBS. Online retail has been an important growth driver of the overall retail market. The share of total retail sales of consumer goods accounted for by online retail has increased from 10.8% in 2015 to 18.4% in 2018.

Retail sales of consumer goods in China, RMB trillion, 2015-2018

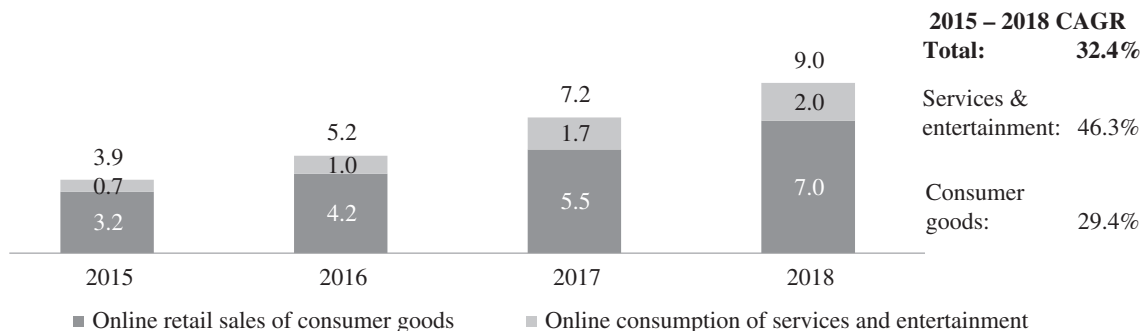


Source: NBS; offline retail sales represent the difference between total and online retail sales; online retail sales of consumer goods refer to online retail sales of physical goods as published by NBS.

Evolving consumption trends

Consumers in China are expanding their online consumption from consumer goods to services and entertainment. Total online consumption in services and entertainment in China reached RMB2.0 trillion (US\$0.3 trillion) in 2018, representing a CAGR of 46.3% since 2015, and has outgrown that of consumer goods, according to NBS.

Online consumption in China, RMB trillion, 2015-2018



Source: NBS; online consumption of services and entertainment refers to online retail sales of non-physical goods as published by NBS.

OUR MARKET OPPORTUNITIES

With the proliferation of convenient mobile payment apps and the availability of on-demand delivery services, consumers in China increasingly demand high quality products, high standards of customer service and a seamless shopping experience. We expect that Chinese consumers will continue to demand higher quality products and services as the number of middle class households in China increases.

Digital Transformation of Enterprises

Challenges faced by traditional enterprises

Most enterprises in China remain largely offline and un-digitized

Without digitization of the various aspects of enterprise operations, it is difficult for businesses to accurately analyze their customers, supply chains and daily operations, resulting in significant value leakage and lost opportunities. For example, traditional retailers who have not captured consumer data are not capable of helping their brand partners to conduct consumer demand-based real-time planning for product development, marketing, distribution and inventory management.

Online and offline operations of traditional retailers remain segregated and inefficiently managed

Many retailers and brands still manage online and offline operations separately. Information about customers and loyalty program members, product catalogs, stock inventory, delivery and customer management systems across channels are not synchronized, standardized or managed in a holistic manner.

Lack of IT and data infrastructure to upgrade traditional operation

Traditional enterprises often lack access to modern IT and computing infrastructure, limiting their capabilities in big data analytics, storage, large scale computing, security, and IoT services. Building a private IT infrastructure in-house is often costly, time consuming and impractical.

Opportunities for commerce technology companies

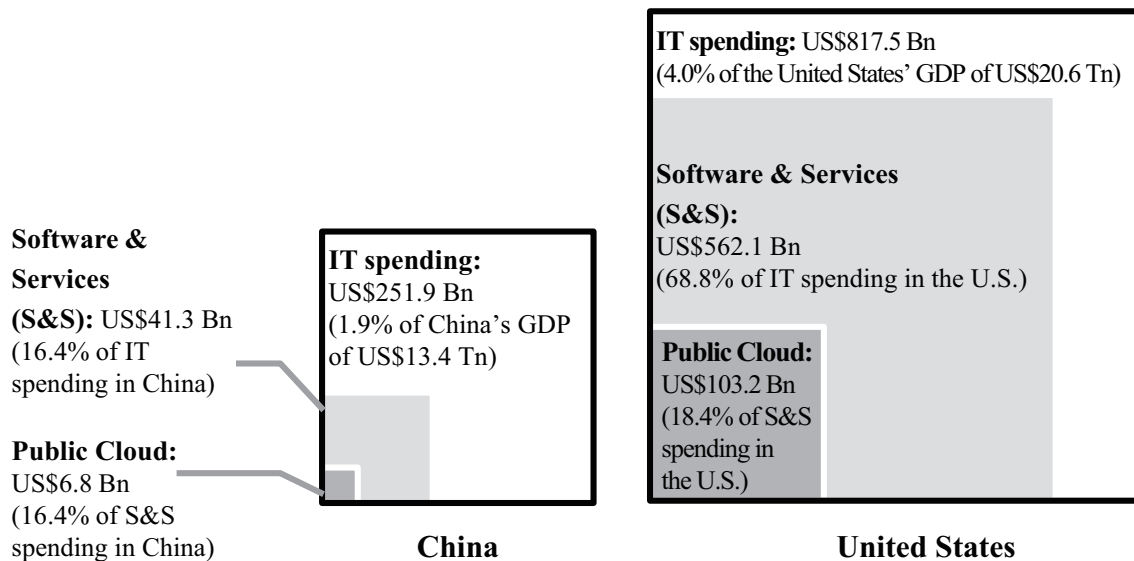
Enterprises in China that face intensifying competition will need core technology innovation, integrated data processing capabilities and digitization of their businesses as well as their value chains. This operating environment presents growth opportunities for commerce technology companies that offer a broad range of platform services and an integrated business operating system that can reengineer and transform business operations across various verticals. Opportunities for commerce technology companies include the following:

- *Digitalization of store-based retail operations.* By equipping retailers with digitalized operating systems, in-store technology, supply chain systems, and consumer insights, the integration of online and store-based retail operations will provide a better shopping experience for consumers. We expect an increasing percentage of store-based retail in China will become digitized as competition drives the needs for better consumer insights and more efficient operations.

OUR MARKET OPPORTUNITIES

- Branding and marketing opportunities.** As consumers increase their engagement and time spent online, we believe online platforms are no longer just a sales channel but an effective vehicle for developing consumer insights and driving consumer engagement and loyalty. New forms of digital advertising and customer management tools, such as recommendation feeds and short-form videos, provide efficient ways to engage potential audiences in a targeted fashion. The market size of online advertising in China has undergone remarkable growth, increasing from RMB109.6 billion (US\$16.0 billion) in 2013 to RMB371.7 billion (US\$54.1 billion) in 2018, representing a CAGR of 27.7% over that period, according to the CNNIC.
- Logistics service sector.** Through digitalization of operations, big data analytics and value added services, logistics players can improve efficiency and enhance user experience. The introduction of technology and algorithms to the logistics sector will lower delivery costs and create new business opportunities such as on-demand delivery, urban warehousing, “last-meter” pick up and further penetration into less developed cities and rural areas.
- Cloud computing.** Cloud computing technology eliminates the need for on-premise IT and data technology infrastructure for enterprises of all sizes. Scalable computing infrastructure allows enterprises to dynamically calibrate their business needs, enabling a high degree of flexibility to scale in a cost-efficient manner. According to IDC, public cloud spending in China reached US\$6.8 billion in 2018, but still lags far behind that in the U.S. as illustrated in the chart below, indicating a large growth potential for public cloud services market in China.

Comparison of IT spending breakdown between China and the U.S., 2018



Source: IT spending and breakdown from IDC, GDP from IMF.

OUR MARKET OPPORTUNITIES

Cross-border and overseas online retail opportunities

Chinese consumers buying imported goods

Driven by the secular upgrade of consumption in China, Chinese consumers' increasing demand for broader and easier access to overseas products creates opportunities for exports to China. According to Analysys, the market size of online retail exports to China was estimated to be RMB381.4 billion (US\$55.6 billion) in 2018, representing a CAGR of 22.7% since 2015.

Overseas businesses and consumers buying Chinese goods

China is the number one country globally in terms of manufacturing value added, which was RMB26.5 trillion (US\$4.0 trillion) in 2018, according to the World Bank. There is strong global demand from businesses and consumers around the world to source and buy directly from manufacturers and distributors in China. According to Analysys, the market size of online exports from China was estimated to be RMB7.9 trillion (US\$1.2 trillion) in 2018, representing a CAGR of 26.9% since 2013.

Overseas online retail opportunities

Emerging economies with sizable populations, meaningful Internet penetration and growing disposable income, such as Southeast Asian and South Asian countries, present significant opportunities for the growth of online retail market. E-commerce companies that have a proven track record, as well as the technology and capabilities to scale globally, are well positioned to leverage proven business models and technology know-how to expand into overseas markets.

OUR BUSINESS

Our Mission

Our mission is to make it easy to do business anywhere.

Our founders started our company to champion small businesses, in the belief that the Internet would level the playing field by enabling small enterprises to leverage innovation and technology to grow and compete more effectively in domestic and global economies. We believe that concentrating on customer needs and solving their problems – whether those customers are consumers, merchants or enterprises – ultimately will lead to the best outcome for our business. We have developed a large digital economy that enables participants to create and share value on our platforms. Our decisions are guided by how they serve our mission over the long term, not by the pursuit of short-term gains.

Our Vision

We aim to build the future infrastructure of commerce. We envision that our customers will meet, work and live at Alibaba, and that we will be a company that lasts for 102 years.

Meet @ Alibaba. We enable commercial and social interactions among hundreds of millions of users, between consumers and merchants, and among businesses every day.

Work @ Alibaba. We empower our customers with the fundamental infrastructure for commerce and new technology, so that they can build businesses and create value that can be shared among our digital economy participants.

Live @ Alibaba. We strive to expand our products and services to become central to the everyday lives of our customers.

As we continue to expand our businesses from commerce to cloud computing, digital media and entertainment, among other sectors, Alibaba has evolved into a digital economy that is unique, energetic and innovative. We have set five-year goals to serve global consumers, of which more than 1 billion will be Chinese consumers, and facilitate more than RMB10 trillion of consumption on our platforms. We believe the five-year goals put us closer to achieving our vision for 2036: to be serving 2 billion global consumers, empowering 10 million profitable businesses and to have created 100 million jobs.

102 Years. We do not pursue size or power; we aspire to be a good company that will last for 102 years. For a company that was founded in 1999, lasting for 102 years means we will have spanned three centuries, an achievement that few companies can claim. Our culture, business models and systems are built to last, so that we can achieve sustainability in the long run.

Our Values

Our values are fundamental to the way we operate and how we recruit, evaluate and compensate our people.

Our six values are:

- ***Customers first, employees second, shareholders third*** – This reflects our choice of what's important, in order of priority. Only by creating sustained customer value can employees grow and shareholders achieve long-term benefit.

OUR BUSINESS

- ***Trust makes everything simple*** – Trust is both the most precious and fragile thing in the world. The story of Alibaba is a story of building and cherishing trust. Complexity begets complexity, and simplicity breeds simplicity. Aliren (阿里人) are straightforward – what you see is what you get. With trust, there is no second-guessing or suspicion, and the result is simplicity and efficiency.
- ***Change is the only constant*** – Whether you change or not, the world is changing, our customers are changing and the competitive landscape is changing. We must face change with respect and humility. Otherwise, we will fail to see it, fail to respect it, fail to understand it and fail to catch up with it. Whether you change yourself or create change, both are the best kinds of change. Embracing change is the most unique part of our DNA.
- ***Today's best performance is tomorrow's baseline*** – In Alibaba's most challenging times, this spirit has helped us overcome difficulties and survive. In bad times, we know how to motivate ourselves; in good times, we dare to set "dream targets" (stretch goals). Face the future, or we regress. We must shoot for the moon, challenge ourselves, motivate ourselves and exceed ourselves.
- ***If not now, when? If not me, who?*** – This was a tagline in Alibaba's first job advertisement and became our first proverb. It is not a question, but a call of duty. This proverb symbolizes the sense of ownership that each Aliren must possess.
- ***Live seriously, work happily*** – Work is now, life is forever. What you do in your job is up to you, but you have responsibility to the ones who love you. Enjoy work as you enjoy life; treat life seriously as you do work. If you live with purpose, you will find reward. You make Alibaba different and make your loved ones proud. Everyone has their own view of work and life; we respect each person's choice. Whether you live by this value depends on how you live your life.

Company Overview

To fulfill our mission "to make it easy to do business anywhere," we enable businesses to transform the way they market, sell and operate and improve their efficiencies. We provide the technology infrastructure and marketing reach to help merchants, brands and other businesses to leverage the power of new technology to engage with their users and customers and operate in a more efficient way.

Our businesses are comprised of core commerce, cloud computing, digital media and entertainment, and innovation initiatives. In addition, Ant Financial, an unconsolidated related party, provides payment and financial services to consumers and merchants on our platforms. A digital economy has developed around our platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses.

OUR BUSINESS

Core Commerce

Retail Commerce

Retail commerce in China

We are the largest retail commerce business in the world in terms of GMV in the twelve months ended March 31, 2019, according to Analysys. We operate Taobao Marketplace, China's largest mobile commerce destination with a large and growing social community, and Tmall, the world's largest third-party online and mobile commerce platform for brands and retailers, in each case in terms of GMV in the twelve months ended March 31, 2019, according to Analysys. In each of fiscal year 2019 and the three months ended June 30, 2019, we generated approximately 66% of our revenue from our retail commerce business in China.

We have introduced New Retail initiatives to reengineer the fundamentals of retail operations and transform the retail landscape. New Retail represents the convergence of online and offline retail by leveraging digitalized operating systems, in-store technology, supply chain systems, consumer insights and mobile ecosystem to provide a seamless shopping experience for consumers. For example, we operate Freshippo (known as “Hema” in Chinese), our proprietary grocery retail chain. Freshippo exemplifies the creation of a new shopping experience through the convergence of online and offline activities by using retail stores to warehouse and fulfill online orders, in addition to offering a rich and fun experience for customers who shop in-store.

Retail commerce – cross-border and global

We operate Lazada's leading e-commerce platform across Southeast Asia with local language mobile apps and websites in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. AliExpress, one of our global retail marketplaces, enables consumers from around the world to buy directly from manufacturers and distributors in China and around the world. Tmall Global allows overseas brands and retailers to reach Chinese consumers, and is the largest import e-commerce platform in China based on GMV in the twelve months ended March 31, 2019, according to Analysys. In September 2019, we acquired Kaola, an import e-commerce platform in China, to further broaden our offerings and strengthen our leadership in cross-border retail commerce. Additionally, Tmall World, a Chinese-language e-commerce platform, allows overseas Chinese consumers to shop directly from Chinese domestic brands and retailers. In fiscal year 2019, we also acquired Trendyol in Turkey, and Daraz, which primarily operates in Pakistan and Bangladesh. Both Trendyol and Daraz operate leading e-commerce platforms in their respective markets.

Wholesale Commerce

Wholesale commerce in China

1688.com, China's leading integrated domestic wholesale marketplace in 2018 by revenue, according to Analysys, connects wholesale buyers and sellers in a wide range of categories. Lingshoutong (零售通), a digital sourcing platform for retailers, connects FMCG brand manufacturers and their distributors directly to local mom-and-pop stores in China.

OUR BUSINESS

Wholesale commerce – cross-border and global

We operate Alibaba.com, China's largest integrated international online wholesale marketplace in 2018 by revenue, according to Analysys. As of March 31, 2019, buyers on Alibaba.com were located in over 190 countries.

Logistics Services

We operate Cainiao Network's logistics data platform and global fulfillment network that primarily leverage the capacity and capabilities of logistics partners. It offers domestic and international one-stop-shop logistics services and supply chain management solutions, fulfilling various logistics needs of merchants and consumers at scale, serving our digital economy and beyond. We use Cainiao Network's data insights and technology to facilitate the digitalization of the entire warehousing, fulfillment and delivery process, thereby improving efficiency across the logistics value chain. For example, it provides real-time access to data for merchants to better manage their inventory and warehousing, for consumers to track their orders, and for express courier companies to optimize delivery routes. In addition, we also operate Ele.me's local on-demand delivery network, known as Fengniao Logistics, to deliver food, beverages, groceries, among other products, to consumers on a timely basis.

Consumer Services

We use mobile and online technology to enhance the efficiency, effectiveness and convenience of consumer services for both service providers and their customers. We utilize this technology in Ele.me, a leading on-demand delivery and local services platform, to enable consumers to order food and beverages through a mobile app anytime and anywhere. Koubei, a leading restaurant and local services guide platform for in-store consumption, provides targeted marketing tools for merchants and allow consumers to discover local services content. Fliggy, a leading online travel platform, provides comprehensive services for consumers' travel needs.

Cloud Computing

Alibaba Cloud is the world's third largest, and Asia Pacific's largest IaaS and Infrastructure Utility Services provider by revenue in 2018 in U.S. dollars, according to Gartner's April 2019 report (Source: Gartner, Market Share: IT Services, 2018, Dean Blackmore et al., April 8, 2019) (Asia Pacific refers to Mature Asia/Pacific, Greater China, Emerging Asia/Pacific and Japan, and market share refers to both IaaS and Infrastructure Utility Services and Managed Services and Cloud Infrastructure Services). Alibaba Cloud is also China's largest provider of public cloud services by revenue in 2018, including PaaS and IaaS services, according to IDC (Source: IDC Semiannual Public Cloud Services Tracker, 2018). Alibaba Cloud offers a complete suite of cloud services, including elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform, and IoT services, serving our digital economy and beyond.

Digital Media and Entertainment

Digital media and entertainment is a natural extension of our strategy to capture consumption beyond our core commerce businesses. Insights we gain from our core commerce business and our proprietary data technology enable us to deliver relevant digital

OUR BUSINESS

media and entertainment content to consumers. This synergy delivers a superior entertainment experience, increases customer loyalty and return on investment for enterprises, and improves monetization for content providers across the digital economy.

Youku, the third largest online video platform in China in terms of monthly active users in March 2019, according to QuestMobile, and UC Browser, one of the top mobile browsers in the world by page views in March 2019, according to StatCounter (<http://gs.statcounter.com>), serve as our two key distribution platforms for digital media and entertainment content. In addition, to further implement our digital media and entertainment strategies, we increased our shareholding in Alibaba Pictures, an Internet-driven integrated platform that covers content production, promotion and distribution, intellectual property licensing and integrated management, cinema ticketing management and data services for the entertainment industry, to approximately 51% in fiscal year 2019. Youku, UC Browser, Alibaba Pictures and our other content platforms, such as news feeds, literature and music, allow users to discover and consume content as well as interact with each other.

Innovation Initiatives

We continue to innovate and develop new service offerings and products with the goals of meeting the needs and improving efficiency in the daily lives of our customers and creating synergies among our digital economy participants. Amap, the largest provider of mobile digital map, navigation and real-time traffic information in China by monthly active users in March 2019, according to QuestMobile, empowers our businesses and third-party mobile apps through its map data technology. Amap also provides a simple one-stop access point to end-users with services such as navigation, food delivery and taxi-hailing services. To enhance communication and efficiency of our business enterprise customers, DingTalk, the largest business efficiency app in China by monthly active users in March 2019, according to QuestMobile, enables communication in multiple formats, workflow management and network collaboration among team members and enterprises, all in a single interface. Through Tmall Genie, the No. 1 smart speaker in China by shipments in 2018, according to IDC (Source: IDC China Quarterly Smart Home Device Tracker, Fourth Quarter 2018), we have created a new and interactive interface for our customers to easily access services offered by our digital economy participants.

Our Digital Economy

A digital economy has developed around our platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses. At the nexus of this digital economy are our technology platform, our marketplace rules and the role we play in connecting these participants to make it possible for them to discover, engage and transact with each other and manage their businesses anytime and anywhere. Much of our effort, time and energy is spent on initiatives that are for the greater good of the digital economy and on balancing the interests of its participants. We feel a strong responsibility for the continued development of the digital economy and we take ownership in this development. Accordingly, we refer to this as “our digital economy.” Our digital economy has strong self-reinforcing network effects benefitting its various participants, who are in turn invested in our digital economy’s growth and success.

OUR BUSINESS

The following chart sets forth the key businesses and services provided by us and Ant Financial, our major cooperation partner.



Infrastructural Elements of Alibaba Digital Economy

* We do not consolidate Ant Financial in our financial statements.

OUR BUSINESS

Our Strengths

We believe that the following strengths contribute to our success and are differentiating factors that set us apart from our peers.

Innovative Culture and Capabilities

Since our founding, we have been an innovation leader in both technology and business. For example, through Tmall, we invented the 11.11 global shopping festival, as an annual promotional shopping festival which has become the most important shopping event in China and has been embraced globally by online retail platforms. Alipay was the first to offer online payment and escrow services in China which solved the trust issue between buyers and sellers at the time and laid the foundation for high growth in online shopping in China for the years after. Through Cainiao Network, we have created a scalable logistics data platform that leverages logistics partners to efficiently enable the delivery of 25.1 billion packages generated by our China retail marketplaces in fiscal year 2019. We have led the transformation of commerce through our New Retail initiatives which aim to elevate the consumer experience to new levels and provide traditional retailers with technological know-how, facilitating the digital transformation of their businesses. We pioneered the Electronic World Trade Platform initiative which was officially included in the 2016 G20 Leaders' Communique Hangzhou Summit and is now internationally recognized. Based on this proven track record, we believe we are in the best position to develop new technologies and innovative solutions to serve customer needs, enable small businesses and narrow the technology gap for those who have been underserved.

Management Team with Owner Mentality and Proven Track Record

Our management team's clear sense of mission, long-term focus and commitment to the values that define the Alibaba culture have been central to our successful track record. Our management team has been remarkably stable and has created and grown leading businesses organically, including Alibaba.com, Taobao Marketplace, Alipay, Tmall and Alibaba Cloud. In addition, we believe our partnership culture, as well as substantial long-term equity ownership by the management team, encourage our business leaders to think like owners. Our management team acts with a keen sense of responsibility for the success of our customers, employees and shareholders.

Trusted Brands

Alibaba, Taobao, Tmall and Alibaba Cloud are well recognized and trusted brands in China and globally. Due to the strength of these brands, a majority of our customers access our China retail marketplaces directly through installed mobile apps to find the products and services they are seeking instead of via third-party search engines. Our brands represent superior product selection, convenience and trust. We believe consumers perceive us to be a leader in the Internet industry, which engenders trust in our products and services. Through the mobile apps of our businesses such as Taobao, Tmall, Freshippo (known as "Hema" in Chinese), Ele.me, Youku, UC Browser and Amap, as well as of Alipay, products and services provided by our digital economy live in our users' smartphones and have become a part of people's daily lives in China. We believe merchants, brands and other businesses and retailers perceive us to be a leader in retail commerce in China with our technology and services offerings, which are supported by our cloud computing technology. According to BrandZ, Alibaba is China's most valuable brand and the world's second most valuable retail brand, both by brand value in 2019.

OUR BUSINESS

Consumer Insights

Data from consumer behavior and transactions completed on our marketplaces and interactions among participants in our digital economy provide us with valuable insights into consumer behavior and broader consumption trends. These insights help us and merchants, brands and retailers to improve the consumer experience, operate more efficiently and create innovative products and services. Our commerce technology and services enable merchants and brands to target, engage and manage their customers along the entire consumer journey from awareness, interest, purchase and repeat visits. For consumers, our Taobao app offers intelligent personalized recommendations and innovative content formats, which drive user engagement and conversion. We also leverage proprietary data from our marketplaces to help our logistics partners improve the efficiency and effectiveness of their services.

Reliable, Scalable and Cost-effective Proprietary Technology

The substantial volume of transactions and data generated on our marketplaces and interactions among participants in our digital economy necessitates a reliable, scalable and cost-effective technology infrastructure. We have made significant investments in our infrastructure and data technology to support the strong growth in our businesses. We have developed proprietary technology in infrastructure, distributed cloud architecture, big data analytics, AI, machine learning, middleware and security. The development of proprietary technology enables us to scale and enhance the efficiency of our businesses, as well as rapidly innovate on features and services for our users and develop cloud computing products and services for our enterprise customers.

Thriving Digital Economy with Powerful Network Effects

We view ourselves as the steward of a thriving and comprehensive digital economy with responsibility for developing and balancing the interests of all participants. This approach provides us with the following key advantages:

- The participants in our digital economy are invested in its success and growth. They include consumers, merchants, brands, retailers, other businesses, third party service providers and strategic alliance partners. These participants all derive significant economic value from the continued success of the digital economy. We believe our digital economy drives the livelihood of many of the merchants and third-party service providers, and as a result the interests of these participants are aligned with ours to ensure the continued success of our digital economy.
- The interactions among these participants create value for one another as our digital economy expands and generates strong network effects. More merchants on our marketplaces increase the choices available to consumers, and more consumers on our marketplaces increase the potential sales for merchants through network effects that make our marketplaces exponentially more valuable. These network effects increase the loyalty and frequency of use of our platforms by consumers and make it difficult to replicate our digital economy.

OUR BUSINESS

Our Strategies

We will continue to innovate in the areas of business models, products and services, and technology to create value for both consumers and businesses. We formulate and evolve strategies that aim to best serve consumers' and businesses' interests.

Drive User Growth and Engagement

We look at our businesses and service and product offerings through the lens of our users. To cater to each user's personal needs, we aim to expand and make available a broad range of products and services across our digital economy, including physical and virtual goods, local consumer services, travel, media and entertainment, healthcare and financial services, among others.

We intend to further address the consumption needs of users in less developed cities and rural areas, and to provide individuals at different income levels with access to quality merchandise and services suitable to their consumption capabilities.

We also intend to make our offerings available to more users outside of China as we implement our globalization initiatives. Starting with Southeast Asia, we aim to serve users around the world with localized operations as well as cross-border commerce with access to Chinese manufacturers and consumers.

Empower Businesses to Facilitate Digital Transformation and Improve Operational Efficiency

Our diverse commerce platforms and extensive consumer insights, combined with our cloud computing technologies, New Retail supply-chain management and sales and marketing systems, form a critical foundation that facilitate digital transformation for businesses. We refer to this foundation as the Alibaba Business Operation System, or ABOS.

ABOS allows us to enable the participants in our digital economy with our proprietary capabilities and know-how. To date, we have already enabled the transformation of the business operations, technology infrastructure and organizational systems of many of our enterprise customers. The enterprises that have leveraged our ABOS have already benefited from integrated online and offline operations, effective customer engagement, acquisition and retention, speedy delivery, innovative utilization of retail space, enhanced operating efficiencies and new business models.

ABOS currently serves a wide variety of businesses in our digital economy. We intend to make ABOS available to a broader range of enterprise customers in the future.

Continue to Innovate

We will continue to be an innovator in products and technology as well as an enabler of new business models. Traditionally unstructured, undiscovered and underutilized data can now be captured, activated and leveraged as a new source of intelligence that supports business growth and decisions, driving improved operating efficiency and targeted offerings to meet consumer needs.

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With cloud computing as an easily accessible and scalable service, and data as a value-enhancing resource, we believe that new technology will play a fundamental role in social and commercial interactions. With a strong commitment to data security and privacy, we will continue to apply machine learning technology to all aspects of our business and invest in our cloud computing platform to support our own and our customers' businesses.

Our Businesses

Core Commerce

Our core commerce business is comprised of the following businesses:

- Retail commerce in China;
- Retail commerce – cross-border and global;
- Wholesale commerce in China;
- Wholesale commerce – cross-border and global;
- Logistics services; and
- Consumer services.

Retail Commerce in China

Our retail commerce business in China, empowered by our commerce technologies and services, is primarily comprised of Taobao Marketplace, Tmall, New Retail initiatives and Alibaba Health. Together, they have become an important part of the everyday lives of Chinese consumers, as evidenced by the 674 million annual active consumers we had on our China retail marketplaces in the twelve months ended June 30, 2019.

Value Proposition to Consumers

Our retail commerce businesses in China offer the following value propositions to consumers:

- *Broad selection.* We offer a comprehensive selection of products and services. Our China retail marketplaces had over two billion product and service listings as of March 31, 2019. Our consumer services and New Retail initiatives through Freshippo and Intime and cooperation with Sun Art further enhance the richness of our offerings.
- *Convenience.* As our technology and innovation gradually eliminate the boundaries between online and offline commerce, consumers increasingly enjoy a seamless shopping experience anytime, anywhere.
- *Engaging, personalized experience.* Our Taobao app and Tmall app provide consumers with a unique social commerce experience through highly relevant content, personalized shopping recommendations, live streaming, short-form videos, social media, buyer community Q&As, and other opportunities for social engagement.

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- *Value for money.* Our marketplace business model ensures that merchants offer competitive prices to consumers.
- *Merchant quality.* Consumers can rate a merchant after completion of a transaction on Taobao Marketplace, Tmall and a number of our other platforms based on whether the product or service matches its description, the merchant's service level and delivery timeliness. Consumer feedback is factored into the search algorithm that determines the merchant's ranking on the search results pages of our China retail marketplaces and other platforms, including our consumer services platforms.
- *Authentic products.* Consumers can expect products purchased from our China retail marketplaces and a number of our other platforms to be protected by merchant quality ratings, clear refund and return policies and the Alipay escrow system. These protections are especially valuable in less developed areas where it has been difficult to distribute and purchase authentic branded products.

Our ability to offer and deliver value has driven increased consumer engagement over time. Generally, the longer consumers have been with us, the larger number of orders they tend to place, across a more diverse range of product categories, and the more they tend to spend on our China retail marketplaces. In addition, we believe our platforms appeal to a growing and increasingly-diversified consumer base, including those at different income levels. In fiscal year 2018, more than 100 million annual active consumers spent more than RMB10,000 on our China retail marketplaces and 98% of these consumers continued to be active in fiscal year 2019. For the twelve months ended June 30, 2019, more than 130 million annual active consumers spent more than RMB10,000 on our China retail marketplaces. Furthermore, consumers from less developed areas are important growth drivers of our user base, contributing to more than 70% of the increase in our annual active consumers on our China retail marketplaces in fiscal year 2019. While there has been an increasing number of active consumers from less developed areas, the overall average number of orders and amount spent (excluding those related to insurance) per annual active consumer on China retail marketplaces remained relatively stable. For the twelve months ended March 31, 2019, new consumers from less developed areas on our China retail marketplaces spent over RMB2,000 on average.

Value Proposition to Merchants

With data and technology, we are committed to enabling merchants, brands and retailers by delivering the following value propositions:

- *Customer acquisition, engagement and retention.* In June 2019, the various mobile apps that consumers use to access our China retail marketplaces had 755 million mobile MAUs. In addition, our China retail marketplaces had 674 million annual active consumers for the twelve months ended June 30, 2019, representing an unparalleled amount of purchasing power. Our consumer services and New Retail initiatives further allow us to engage a broader consumer base and drive user loyalty. Consumers who used all five of our Taobao, Amap, Youku, Ele.me and UC Browser apps, accessed at least one of these apps at least once a day for 27 days in the month ended June 30, 2019. Consumers come to our platforms with strong commercial intent, which drives high conversion rates and return on investment for merchants, brands, retailers and other service providers. The

OUR BUSINESS

consumer behavior data from our platforms enable merchants, brands, retailers and other service providers to more effectively acquire, engage and retain customers, through campaign testing, targeted marketing and personalized user interface.

- *Brand identity.* Brands use their Tmall storefronts to showcase their own brands and build brand proposition and awareness. They leverage the multi-media capabilities of our platforms, such as social media, videos and dynamic graphics, to tell their unique brand stories. Brands are increasingly recognizing us as the top marketing platform, where they can optimize the life-time value of their customers, both online and offline.
- *Efficient operations.* Merchants, brands and retailers use our commerce technologies and services to improve their sales channels, marketing, supply chain management and logistics, as well as our cloud computing services to lower their technology costs.
- *New consumer experience.* We offer mobile and enterprise technology to enable merchants, brands and retailers to offer consumers a seamless online and in-store shopping experience. These solutions integrate online and offline inventory, membership and services that enable merchants, brands and retailers to fulfill online orders with store-based inventories (through store pick-up or delivery from the nearest stores) and allow consumers to purchase a wide variety of products not in stock in stores.
- *Consumer insights.* Consumers come to our platforms to browse for ideas, look for new trends, receive merchant and product updates, compare products, share shopping experiences and to be entertained. Consumer actions on our platforms, such as searching, browsing, reading news feeds, bookmarking and adding products to shopping carts, generate valuable data about user intentions. We focus heavily on protecting the privacy and security of consumer-derived data. The consumer insights provided by these actions are unique to our platforms and are not easy for merchants to obtain anywhere else.

Taobao Marketplace

Taobao means “search for treasure” in Chinese. Through the Taobao app and the website at www.taobao.com, we have positioned Taobao Marketplace as the starting point and destination portal for the shopping journey. Consumers from both large cities and less developed areas come to Taobao Marketplace to enjoy an engaging, personalized shopping experience, optimized by our big data analytics. Through highly relevant and engaging content and real-time updates from merchants, consumers can learn about products and new trends. They can also interact with each other and their favorite merchants and key opinion leaders. Taobao Marketplace has a broad offering of interactive features such as live broadcast and short-form videos. Taobao Marketplace is China’s largest mobile commerce destination, with a large and growing social community, in terms of GMV for the twelve months ended March 31, 2019, according to Analysys.

Taobao Marketplace provides a top-level traffic funnel that directs users to the various marketplaces, channels and features within our digital economy. For example, a search result on Taobao Marketplace displays listings not only from Taobao Marketplace merchants but also from Tmall merchants and brands, thereby generating traffic for Tmall.

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Below is a visual presentation of various features of the Taobao app:

Taobao App – Homepage

Taobao app offers a unique social commerce experience through highly relevant content, personalized shopping recommendations and opportunities for social engagements

Browse different product categories

Personalized promotion and display marketing

Tap to access different marketplaces and services, e.g. second-hand market, fresh food, movie tickets, etc.

Rich discovery experience, e.g. group buy, flash sales, curated storefront list, shopping news

Recommendation feeds of product listings, multimedia contents, platform campaigns

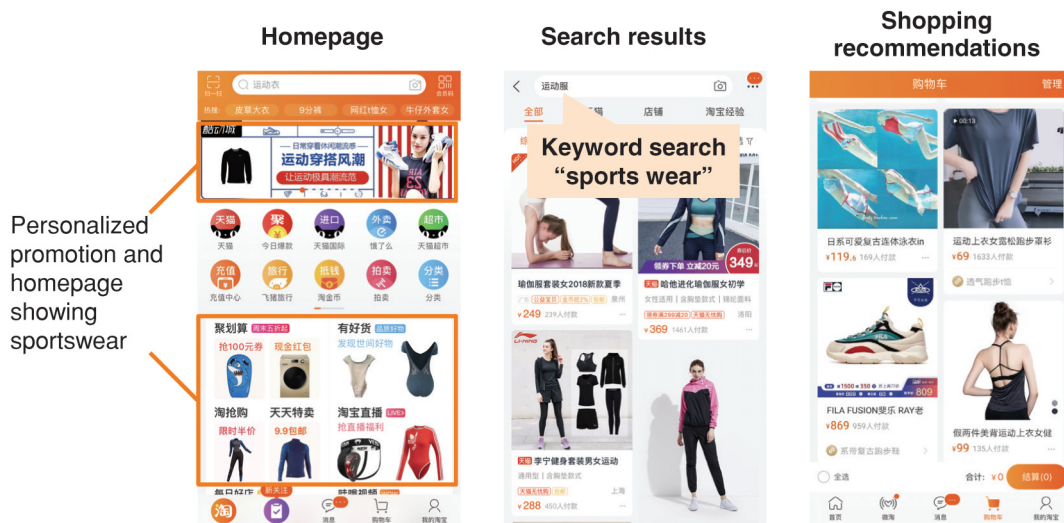


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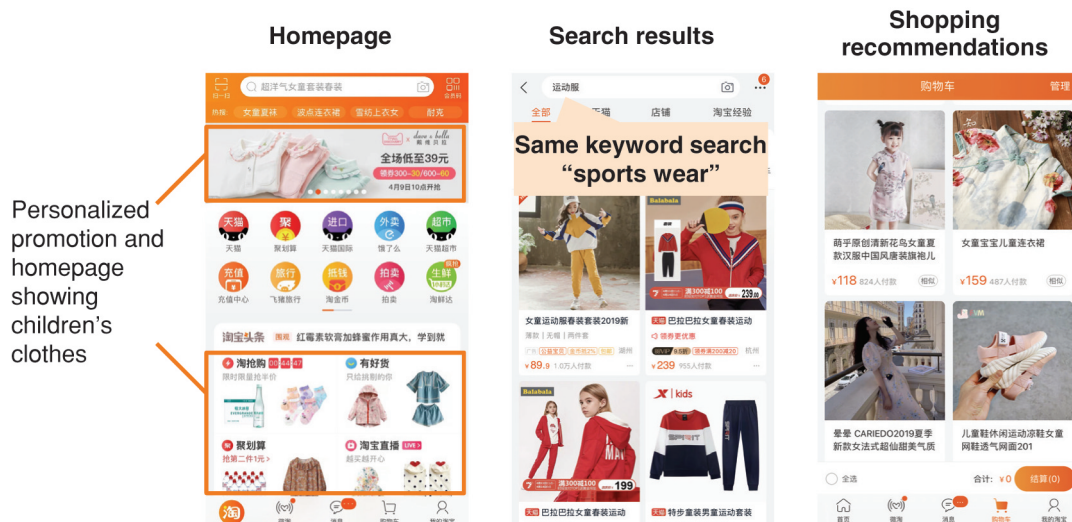
Taobao App – Personalized Shopping Experience

Consumers see targeted content based on relevancy

User 1: Woman with an Active Lifestyle



User 2: Married Woman with Kids



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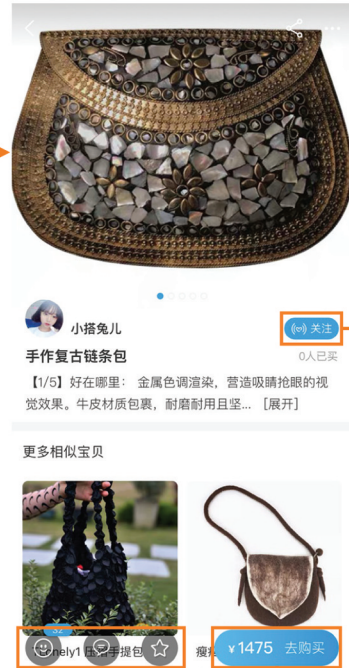
Taobao App – Rich and Engaging Content for Consumers

Consumers come to Taobao app to discover new trends and browse for ideas

Good Find – Curated Product Recommendations

Scroll for different themes, e.g. fashion, home and living, baby and maternity

Curated section showing product listings and content recommendations with great customer reviews, high merchant ratings and high conversion rates, among other quality metrics



Visual, media-like content

Follow blogger

Similar product listings enabled by knowledge graph technology

Tap to like, comment and save

Add to shopping cart

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Taobao App – Enabling Merchants to Engage with Consumers

Taobao app offers features like live streaming, short-form videos and social media which allow merchants to engage with consumers beyond their storefronts

Taobao Live – 24-hour Live Streaming

The diagram illustrates the Taobao Live interface and user interactions. It shows a live stream host, viewer comments, and product listings.

- Livestreams categorized by hosts, products and variety shows**: The interface shows a grid of live streams categorized by hosts, products, and variety shows.
- Livestream hosts interact with viewers**: The host's video feed is shown with a comment bubble indicating interaction.
- Viewers collect loyalty points through interaction with hosts and product purchases**: A comment bubble shows a viewer's interaction with the host.
- Real-time comments and questions by viewers**: A list of viewer comments and questions is displayed below the host's video.
- Like, share, leave comment**: The bottom of the interface shows icons for liking, sharing, and commenting.
- Access product listings related to the livestream**: A list of product listings related to the live stream is shown on the right.
- Add to shopping cart**: A button labeled "Add to shopping cart" is shown next to a product listing.

Wow Moment – Short-form Video

The diagram illustrates the Wow Moment interface and user interactions. It shows a grid of short-form videos and a detailed view of a video.

- Scroll for different themes, e.g. pick of the day, beauty tutorial, offline store discovery**: The interface shows a grid of short-form videos categorized by themes like "pick of the day", "beauty tutorial", and "offline store discovery".
- "Wow Moment" channel page**: The interface shows a channel page for a specific creator.
- Follow content creator**: A button labeled "Follow content creator" is shown next to the creator's profile.
- Access related product listing and add to shopping cart**: A list of product listings related to the video is shown on the right.
- Like, comment and share**: The bottom of the interface shows icons for liking, commenting, and sharing.
- Pre-recorded short-form videos**: The interface shows a grid of pre-recorded short-form videos.

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Taobao App – Enabling Massive Consumer Base to Interact with One Another

Interest-based interactive platform for consumers to share shopping experiences, interact with one another and answer each other's questions

Your Advice Please – Buyer Community Q&A



Access “Your Advice Please” from the product detail page



Join discussions to give advice and interact with other users

Filter questions by platform-generated tags, e.g. functionality, energy efficiency, ease of installation, etc.

Submit a question to thousands of people who have purchased this product

Similar questions are automatically grouped and categorized by tags

Rate usefulness of comment

Comment on answer

Give advice

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Taobao Marketplace is also the entry point to various specific product and service categories beyond general merchandise, such as second-hand auctions, and online travel booking, which may also be accessed through their respective independent mobile apps.

Merchants on Taobao Marketplace are primarily individuals and small businesses. Merchants can create storefronts and listings on Taobao Marketplace free of charge. The escrow payment services provided by Alipay are free of charge to consumers and merchants unless payment is funded through a credit product such as a credit card, in which case Alipay charges a fee to the merchant based on the related bank fees charged to Alipay. Taobao Marketplace merchants can purchase P4P and display marketing services to direct traffic to their storefronts. In addition, merchants can acquire additional traffic from third-party marketing affiliates. Taobao Marketplace merchants can also pay for advanced storefront software that helps to upgrade, decorate and manage their online storefronts.

Tmall

Tmall caters to consumers' ever-growing demand for high-quality products and premium shopping experience. A large number of international and Chinese brands and retailers have established storefronts on Tmall. We have positioned Tmall as a trusted platform for consumers in China and overseas to buy both homegrown and international-branded products as well as products not available in traditional retail outlets. As the brands and offerings on Tmall continue to grow and diversify, we have been able to more accurately target and meet different consumer demands. In the twelve months ended March 31, 2019, Tmall was the largest third-party online and mobile commerce platform for brands and retailers in the world in terms of GMV, according to Analysys, and continues to grow quickly.

In 2009, Tmall pioneered the 11.11 global shopping festival. 11.11 has become the most important shopping event in China and we believe it generated the highest one-day retail sales volume in the world in 2018. On November 11, 2018, our China retail marketplaces, Lazada and AliExpress generated GMV of RMB213.5 billion settled within a 24-hour period, reflecting the strength of our infrastructure and the scale of our entire digital economy in China and around the world.

Tmall is the partner of choice for brands. Brands and retailers operate their own stores on the Tmall platform with unique brand identities and look and feel, accompanied by full control over their own branding and merchandising. As of March 31, 2019, there were over 190,000 brands and merchants on Tmall, including 77% of the consumer brands ranked in the Forbes Top 100 World's Most Valuable Brands for 2019. Because of the presence of a large number of global brands and the stringent standards required for merchants, brands and retailers to join and operate on Tmall, a presence on Tmall has become a validation of quality, allowing merchants, brands and retailers to take advantage of our significant traffic to extend and build brand awareness and customer engagement. Major international brands that have physical operations in China are well represented on Tmall.

Brands and retailers turn to Tmall not only for its broad user base, but also for its data insights and technology. Tmall has driven the digitalization and transformation of brands and retailers by enabling them to digitalize their operations, engage, acquire and retain consumers, increase brand recognition, innovate product offerings, manage supply chains and enhance operational efficiency. Tmall also offers a variety of one-stop brand marketing and promotional products to help brands and retailers quickly acquire new users and enhance brand awareness.

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We also seek to build our mind-share among consumers to position Tmall as the premier shopping destination for everyday items, highlighting value and convenience. Consumer electronics, apparel and FMCG are among Tmall's most popular product categories, which are growing quickly. We have also strengthened consumer recognition of Tmall's value proposition in consumer electronics and home appliances through promotional events and strategic partnerships.

Like merchants on Taobao Marketplace, brands and merchants on Tmall have access to P4P, display marketing services and storefront software, which they can use to fully engineer, customize, and even code the software behind, their storefronts.

New Retail Initiatives

We have introduced New Retail initiatives to innovate models for retail businesses and reengineer and transform the fundamentals of traditional retail operations. New Retail represents the convergence of online and offline retail by leveraging digitalized operating systems, in-store technology, supply chain systems, consumer insights and the mobile ecosystem to provide a seamless shopping experience for consumers. We believe the lack of real-time consumer insights is one of the key issues facing China's traditional retailers today. Through consumer insights and technology, our New Retail initiatives not only incubate new business models, but also focus on enabling traditional retailer partners to reinvigorate their businesses by digitalizing their operations and increasing their catchment area online and offline, thereby improving sales productivity. We are also empowering retailers with our new technology to significantly improve operating efficiency and allow them to react to consumer demands on a real-time basis.

- *Creating a New Shopping Experience through Innovative Supply Chain Management – Freshippo.* Freshippo (known as “Hema” in Chinese), our proprietary grocery retail chain, exemplifies the creation of a new shopping experience through the convergence of online and offline activities by using retail stores to warehouse and fulfill online orders, in addition to offering a rich and fun experience for customers who shop in-store. Its proprietary fulfillment system enables 30-minute delivery to customers living within a three-kilometer radius of a Freshippo store. Freshippo offers a mobile app that allows consumers to search for products and place orders while browsing in store. To improve consumer experience, Freshippo uses transaction data to personalize recommendations and geographic data to help plan the most efficient delivery routes. Freshippo is also shortening the sourcing process and increasing supply chain transparency and visibility through data technology. As of June 30, 2019, there were 150 self-operated Freshippo stores, primarily located in tier-one and tier-two cities.
- *Transforming the Traditional Retail Model – Starbucks and Sun Art.* Through our New Retail strategy, we are at the forefront of transforming the retail industry by digitalizing all aspects of store-based operations. For example, in fiscal year 2019, Alibaba Group and Starbucks Coffee Company jointly announced a comprehensive strategic New Retail partnership to enhance the way customers enjoy their food and beverages. By September 19, 2019, the first anniversary of cooperation between Alibaba Group and Starbucks, we had enabled on-demand delivery of Starbucks offerings in more than 3,000 stores across 100 cities throughout China. We have also helped accelerate membership acquisition for its new Starbucks Reward program through the Alipay and Taobao apps. Furthermore, as of June 30, 2019, we have assisted Sun Art, the No. 1

OUR BUSINESS

hypermarket chain in China in 2018 by value of retail sales, according to Euromonitor International, with digitalizing over 480 stores. Our technology and know-how enable these stores to better manage their retail systems while allowing consumers to place orders through the Taobao app and secure delivery through our on-demand delivery platform, Ele.me.

We are also pursuing New Retail initiatives in product categories beyond daily consumption, such as electronics, home furnishings and FMCG, among others. Intime Department Store is a leading department store chain in China that intends to transform traditional retail models for fashion apparel and accessories. We and Suning.com Co., Ltd. are jointly testing and developing new ways for consumers to shop for and purchase consumer electronics. In the home furnishing sector, we have invested in Red Star Macalline Group Corporation Limited and Beijing Easyhome Furnishing Chain Group Co., Ltd., each of which is a leading retail chain for home-improvement supplies and furniture in China.

Alibaba Health

Alibaba Health is our flagship vehicle for bringing innovative solutions to the pharmaceutical and healthcare industries. Alibaba Health primarily engages in the operation of pharmaceutical e-commerce and consumer healthcare platforms, self-operated sales of pharmaceutical and healthcare products, the provision of product tracking services, and the development of intelligent medicine and Internet healthcare solutions.

Branding and Monetization Platforms

Alimama

Alimama is our monetization platform. Using data technology, this platform matches the marketing demands of merchants, brands and retailers with the media resources on our own platforms and third-party properties, and enables us to monetize our core commerce and digital media and entertainment businesses. The platform supports P4P marketing services based on keyword search rankings or display marketing in fixed positions that are bid on through auctions, as well as cost per thousand impression (CPM)-based, time-based marketing formats, or individual campaigns at fixed cost, through the display of photos, graphics and videos.

The ranking of P4P search results on our core commerce platforms is based upon proprietary algorithms that take into account the bid price of keywords, the popularity of an item or merchant, customer feedback ranking of merchants and quality of product displays. For display marketing, the Alimama platform delivers marketing messages based on data insights generated across our digital economy. The relevance and comprehensiveness of data based on commercial activity and user activity in our digital economy provide a unique advantage for Alimama to deliver the most relevant information to users.

Alimama also has an affiliate marketing program that places marketing displays on third-party apps and websites, thereby enabling marketers, if they so choose, to extend their marketing and promotional reach to properties and users beyond our own platforms. Our affiliate marketing program not only provides additional traffic to our core commerce platforms, but also generates revenue to us.

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Alimama operates the Taobao Ad Network and Exchange, or TANX, one of the largest real-time online bidding marketing exchanges in China. TANX helps publishers to monetize their media inventories both on mobile apps and web properties. TANX automates the buying and selling of billions of marketing impressions on a daily basis. Participants on TANX include publishers, marketers and demand side platforms operated by agencies.

Marketing for Brands

Drawing on our big data capabilities, we have developed a Uni Marketing approach that digitalizes consumer-brand relationships and empowers brands to build robust relationships with consumers throughout their lifecycles in our digital economy. We aim to help brands reach consumers by leveraging our marketplaces, Youku, UC Browser, strategic partners in our digital economy, as well as other major third-party Internet properties in China. We intend to become the key partner for brand building by creating an open, inclusive and transparent platform where brands and marketing agencies are able to design, execute, track and optimize their brand building activities using our data and tools.

Commerce Technologies and Services

We provide commerce technologies and services to enable merchants, brands and retailers on Taobao marketplace and Tmall to enhance their online and offline operational capabilities. With our commerce technologies, innovative services and data capabilities, merchants, brands and retailers can acquire, retain and further deepen their engagement with consumers in an efficient and effective manner, thereby enhancing merchants', brands' and retailers' loyalty to our platforms. These commerce technologies and services include the following key components:

Core Operations Control Panel

We provide an integrated online control panel that allows merchants, brands and retailers to conduct core operations through a unified interface. It offers essential business tools, such as an operations dashboard and direct messaging, access to business software marketplace and access to a wide range of offline services such as fashion modeling and photography, among others.

Merchants on our China retail marketplaces use this control panel to conduct day-to-day operations, such as managing storefronts and product listings, fulfilling orders, managing inventory and transactions, conducting sales and marketing activities, servicing customers, managing procurement process, interacting and collaborating with other businesses and seeking credit financing provided by Ant Financial.

Big Data Support and Engagement Platform

Equipped with our New Retail solutions, which are designed to improve offline retail operations, brands on our secure cloud-based data insights platform have access to sophisticated analytics services that consolidate online and offline data, which in turn help brands gain insights into each stage of the consumer journey and provide a personalized online and offline shopping experience for consumers.

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Knowledge Graph

We are the largest retail commerce business in the world in terms of GMV in the twelve months ended March 31, 2019, according to Analysys. In March 2019, over 250 million daily active users came to our China retail marketplaces, which featured extensive listings. We develop significant insights from our digital economy, empowered by our technology, which allow us to establish comprehensive understanding of the products' profile and correlation with consumers' needs as well as deepen our product insights throughout our digital economy. As a result, we are able to provide more accurate product recommendations to our consumers. We then aggregate and build on these insights to design standardized, themed and interconnected product categorization frameworks that recommend and sort product listings on behalf of merchants. As a result, we are able to help our merchants streamline their daily operations, generate more accurate search results across our platforms, and offer better recommendations and shopping experiences to our consumers.

Retail Commerce – Cross-border and Global

Our retail commerce – cross-border and global businesses include Lazada, AliExpress, Tmall Global, Kaola, Tmall World, Trendyol and Daraz. In the twelve months ended June 30, 2019, Lazada and AliExpress together served approximately 130 million annual active consumers overseas.

Lazada

We operate Lazada's leading e-commerce platform across Southeast Asia, with local language mobile apps and websites in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Lazada offers merchants and brands a one-stop marketplace solution to access consumers in these six countries. Lazada also sells products on its platform directly via its own retail operations. In addition, it has an extensive in-house logistics operations, which is supported by our highly scalable warehouse management system, to ensure quick and reliable order fulfillment that improve consumer experience and cost efficiency.

AliExpress

AliExpress is a global marketplace targeting consumers from around the world and enabling them to buy directly from manufacturers and distributors in China and around the world. In addition to the global English-language site, the AliExpress app is also available in 17 local languages, including Russian, Portuguese, Spanish and French. Consumers can access the marketplace through the AliExpress app or its websites. Top consumer markets where AliExpress is popular are Russia, the United States, Brazil, Spain and France. AliExpress' Russia business has been an important part of AliExpress' business. To further implement our globalization strategies, in October 2019, we contributed AliExpress' Russia business into AliExpress Russia Holding Pte. Ltd., a joint venture set up by us, Mail.ru Group, MegaFon and Russian Direct Investment Fund.

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Tmall Global

We launched Tmall Global to address increasing Chinese consumer demand for international products and brands. Tmall Global serves as the premier platform through which overseas brands and retailers reach Chinese consumers, build brand awareness and gain valuable consumer insights in forming their overall China strategy, without the need for physical operations in China. According to Analysys, Tmall Global was the largest import e-commerce platform in China in the twelve months ended March 31, 2019, in terms of GMV.

Tmall World

Tmall World allows overseas Chinese consumers to conveniently shop for products from China. Tmall World, a Chinese language e-commerce platform, leverages our commerce infrastructure and aims to fulfill the shopping needs of millions of overseas Chinese consumers.

Wholesale Commerce in China

1688.com China domestic wholesale marketplace

1688.com, China's leading integrated domestic wholesale marketplace in 2018 by revenue, according to Analysys, connects wholesale buyers and sellers in China who trade in apparel, general merchandise, home decoration and furnishing materials, electronics, packaging materials and shoes, among others. Listing items on 1688.com is free. Sellers may purchase a China TrustPass membership for an annual subscription fee to reach customers, provide quotations and transact on the marketplace. Paying members may also pay for additional services, such as premium data analytics and upgraded storefront management tools, as well as customer management services. As of March 31, 2019, 1688.com had over 910,000 paying members.

Lingshoutong (零售通) – digital eRTM (electronic route to market) platform

Lingshoutong connects FMCG brand manufacturers and their distributors directly with local mom-and-pop stores in China. It provides digital supply chain services to FMCG brands and their distributors and improves their distribution efficiency by digitalizing offline distribution data through setting up point-of-sale, or POS, systems at the mom-and-pop stores, thereby enabling visibility to data throughout the transaction value chain. Lingshoutong also enables FMCG brands and their distributors to achieve efficient distribution and precise marketing by providing more targeted and accurate marketing recommendations. With these technologies and data, Lingshoutong also makes it easier for mom-and-pop store owners to do business by digitalizing their operations and offering their customers a broader selection of FMCG products.

Wholesale Commerce – Cross-border and Global

Alibaba.com is China's largest integrated international online wholesale marketplace in 2018 by revenue, according to Analysys. Sellers on Alibaba.com may purchase an annual Gold Supplier membership to reach customers, provide quotations and transact on the marketplace. Sellers may also purchase an upgraded membership package to receive value-added services such as upgraded storefront management tools and P4P services. Buyers on Alibaba.com were located in over 190 countries as of March 31, 2019. Buyers are typically trade agents, wholesalers, retailers, manufacturers and SMEs engaged in the import and export business.

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Alibaba.com also offers its members and other SMEs import/export supply chain services, including customs clearance, trade financing and logistics services. As of March 31, 2019, Alibaba.com had over 165,000 paying members.

Logistics Services

Through Cainiao Network, we are committed to further strengthening the capabilities of our global logistics network. Our logistics vision is to be able to fulfill consumer orders within 24 hours in China and within 72 hours anywhere else in the world. To realize this vision, Cainiao Network establishes and operates a global fulfillment network together with logistics partners. It offers domestic and international one-stop-shop logistics services and supply chain management solutions, addressing various logistics needs of merchants and consumers at scale.

Enhanced point-to-point network and on-demand delivery

Cainiao Network uses data insights and technology to digitalize the entire logistics process and empower logistics partners, thereby improving efficiency across the logistics value chain. For example, powered by large-scale computing and machine learning capabilities, Cainiao Network's e-shipping label and value-added services optimize delivery routes and improve efficiencies for express delivery couriers, leading to more accurate and speedy delivery to consumers. As an important complement to the last-mile delivery network of Cainiao's express delivery partners, Cainiao Network has also developed neighborhood delivery solutions with a combination of community and campus stations and residential self-pickup lockers, which we call Cainiao Post. Consumers can pick up packages from stations around urban communities and college campuses, as well as from smart pick-up lockers. In addition, we also operate Ele.me's local on-demand delivery network, known as Fengniao Logistics, to deliver food, beverages, groceries, among other products, to consumers on a timely basis.

Through technology innovation and open collaboration, Cainiao Network has further strengthened its strategic partnership with major express delivery companies. As of March 31, 2019, Cainiao Network's 15 strategic express courier partners employed over 1.6 million delivery personnel in more than 700 cities and 31 provinces in China, according to data provided by these partners. Collectively these partners operate more than 190,000 hubs and sorting stations. During fiscal year 2019, Cainiao Network and its logistics partners enabled the delivery of 25.1 billion packages that originated from our China retail marketplaces.

Scalable fulfillment network

The vast geographical area of China and wide distribution of Chinese consumers and merchants require a large and distributed logistics infrastructure. Cainiao Network has established a scalable network that consists of fulfillment hubs at key strategic locations, package sorting and distribution centers, which are owned, leased or partnered with logistics partners. The fulfillment network is connected by Cainiao Network's proprietary logistics data platform. To facilitate the execution of our New Retail strategy, Cainiao Network provides a full-fledged fulfillment network at provincial, city, and county levels to offer integrated supply chain management solutions to medium-sized and large brands and merchants. This network allows them to place inventory across multiple locations in advance based on sales forecasts to optimize supply chain efficiency and provide fast delivery to consumers.

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International logistics

Cainiao Network and the logistics arm of Lazada have developed a strong and growing network of assets and partners to support our international commerce retail businesses (Lazada, AliExpress and Tmall World). From a China import standpoint, Cainiao Network is focused on developing cross-border fulfillment solutions for Tmall Global, utilizing a combination of bonded warehouses in China and direct shipping from foreign countries.

Consumer Services

Our consumer services businesses consist of:

Ele.me (餓了麼) (which means “Are you hungry?” in Chinese), a leading on-demand delivery and local services platform in China, enables consumers to use the Ele.me, Taobao, Alipay and Koubei mobile apps to order meals, snacks and beverages online. In addition, Ele.me’s on-demand delivery network is highly synergistic with our other businesses, such as New Retail initiatives and Alibaba Health, which can now leverage the network to deliver fresh food, groceries and pharmaceutical products. As of March 31, 2019, Ele.me’s network covered approximately 96% of cities in China.

Koubei, one of China’s leading restaurant and local services guide platforms for in-store consumption, provides targeted, data-driven marketing tools and integrated digital operational services for restaurants and local services providers.

Ele.me and Koubei operate under a single management team. Our strategy is for the combined business to leverage the 674 million annual active consumers on our China retail marketplaces and our data technology to expand our offerings from shopping to services, further tapping into new addressable markets for consumption in China. For the twelve months ended June 30, 2019, 25% of the annual active consumers on our China retail marketplaces were also Ele.me and Koubei’s annual active consumers. For the twelve months ended June 30, 2019, spending on Ele.me and Koubei grew 40% year-over-year.

Fliggy, a leading online travel platform in China, provides comprehensive reservation services for airline tickets, train tickets, accommodation, car rental, package tours and local attractions. Fliggy enhances user experience through data technology that enables partner hotels to identify travelers with good credit and provide travel privileges such as zero-deposit hotel bookings, express check-out and automatic post-stay billing.

Cloud Computing

Alibaba Cloud is the world’s third largest, and Asia Pacific’s largest, IaaS and Infrastructure Utility Services provider by revenue in 2018 in U.S. dollars, according to Gartner’s April 2019 report (Source: Gartner, Market Share: IT Services, 2018, Dean Blackmore et al., April 8, 2019) (Asia Pacific refers to Mature Asia/Pacific, Greater China, Emerging Asia/Pacific and Japan, and market share refers to both IaaS and Infrastructure Utility Services and Managed Services and Cloud Infrastructure Services). Alibaba Cloud is also China’s largest provider of public cloud services by revenue in 2018, including PaaS and IaaS services, according to IDC (Source: IDC Semiannual Public Cloud Services Tracker, 2018). The technologies that power Alibaba Cloud grew out of our own need to operate at the massive scale and to address the complexity of our core commerce business, including related payments and logistics elements. In 2009, we founded Alibaba Cloud to

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make these technologies available to third-party customers. In fiscal year 2019, Alibaba Cloud had more than 1.4 million paying customers, covering approximately 50% of the Top 500 Chinese brands, as ranked by Fortune, and more than half of the A-share listed companies in China.

Alibaba Cloud offers a complete suite of cloud services to customers worldwide, including elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and IoT services. Products that differentiate Alibaba Cloud from our domestic peers include proprietary security and middleware products, large scale computing services and analytic capabilities supported by our big data analytics platform. These products not only enable customers to quickly build IT infrastructure services on-line without on-premises work, but also equip them with leading big data analytics capabilities, providing deep data insights by efficiently handling the complex computing tasks of hundreds of millions of data dimensions. We also operate data centers in a number of countries including Indonesia, Malaysia, India, Australia, Singapore, Germany, Japan, the United States and others.

As a major part of our partnership with the International Olympic Committee, we unveiled Alibaba Cloud sports-related intelligent capabilities, built on Alibaba Cloud's high-performance infrastructure of world-class data centers, network virtualization services and market-leading security services, which integrate data intelligence and machine learning to re-define engagement between fans, organizers, venues and athletes.

Digital Media and Entertainment

Our digital media and entertainment business leverages our deep data insights to serve the broader interests of consumers through two key distribution platforms, Youku and UC Browser, and through Alibaba Pictures and our other diverse content platforms that provide online videos, films, live events, news feeds, literature and music, among other areas.

Key Distribution Platforms

Youku

Youku is the third largest online video platform in China in terms of monthly active users in March 2019, according to QuestMobile. It enables users to search, view and share high-quality video content quickly and easily across multiple devices. The Youku brand is among the most recognized online video brands in China.

Insights we gain from our retail commerce business and our proprietary data technology enable Youku to deliver relevant digital media and entertainment content to its users. At the same time, Youku helps drive customer loyalty to our core commerce business in the form of complementary content offerings for users. For example, a loyalty program member of our core commerce business can purchase a Youku membership at a preferential rate or be rewarded a membership free of charge. Youku is also the exclusive online video platform to live stream major events of our core commerce business such as the countdown gala celebration for the 11.11 global shopping festival, which is supported by interactive features to drive consumer engagement. In fiscal year 2019, Youku's average daily paying subscribers increased by 88% from the prior fiscal year.

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UC Browser

UC Browser is one of the top mobile browsers in the world by page views in March 2019, according to StatCounter (<http://gs.statcounter.com>). It is the second largest third-party browser in terms of monthly active users in China in March 2019, according to QuestMobile. It is also the No. 2 mobile browser in India and Indonesia by page view during the same period.

Key Content Platforms

We offer a diverse range of digital media and entertainment content using a sustainable production and acquisition approach. First, we provide self-produced content. We also jointly produce content through arrangements with studios that commission them to produce and distribute some or all of their content exclusively on our platforms. Third, we acquire rights to display content on our digital media and entertainment platforms pursuant to licensing agreements with rights holders. Last, we offer an open-platform on which user-generated content and professionally-generated content are generated and distributed. Our digital media and entertainment offerings include online videos, films, live events, news feeds, literature and music.

In fiscal year 2019, we increased our shareholding in Alibaba Pictures to approximately 51%. Alibaba Pictures is an Internet-driven integrated platform that covers content production, promotion and distribution, intellectual property licensing and integrated management, cinema ticketing management and data services for the entertainment industry. Alibaba Pictures was involved in the production, promotion and distribution of a number of highly popular films in the twelve months ended March 31, 2019. *Green Book*, for example, won the Oscar for best picture. *The Wandering Earth*, widely cited as China's first major science-fiction film, has already generated more than RMB4.6 billion of ticket sales since its opening in February 2019. Through Damai, the largest online ticketing platform for live events in China in 2018, according to Analysys, we provide users with ticketing services for popular concerts, plays and sporting events. Alibaba Literature is our platform for distributing literature online, and it offers content for use in derivative works or tie-in entertainment. Our music platform provides music streaming and digital music online publishing services, as well as enabling the discovery and support of independent musicians.

Innovation Initiatives

Amap

Amap is the largest provider of mobile digital map, navigation and real-time traffic information in China by monthly active users in March 2019, according to QuestMobile. Amap provides these services to end users directly and operates a leading open platform in China that powers many major mobile apps in different industries, such as food delivery, ride service, taxi-hailing and social networking with its big data-enabled digital mapping technology. In addition, Amap provides digital map data, navigation software and real-time traffic information to international and domestic automobile manufacturers and aftermarket consumers in China. It also empowers major platforms and infrastructural service providers in our digital economy, including our China retail marketplaces, Cainiao Network and Alipay.

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DingTalk

According to QuestMobile, DingTalk is the largest business efficiency app in China by monthly active users in March 2019. DingTalk is a digital working platform that serves enterprises and organizations of various types and sizes with unified communication services, intelligent mobile workplaces and network collaboration services. Through both PC and mobile devices, DingTalk provides a unified interface for communications in different forms (such as text messages, photo, audio, video and e-mail), workflow management and network collaborations. Its open platform also supports independent software developers and enterprise service providers to develop third-party enterprise apps or services that are seamlessly integrated with DingTalk.

Tmall Genie

Tmall Genie, our AI-powered smart speaker, is the No. 1 smart speaker in China by shipments in 2018, according to IDC (Source: IDC China Quarterly Smart Home Device Tracker, Fourth Quarter 2018). It connects our customers with services offered by digital economy participants in an interactive way. Tmall Genie has focused on entertainment and educational content for families in order to broaden its user base and drive their engagement with their devices. Tmall Genie is our gateway to link customers with new services and experiences to be generated by IoT and smart home appliances. As of March 31, 2019, over 10 million Tmall Genie units had been activated since its official launch in August 2017.

Ant Financial – Financial Technology Services

Ant Financial, an unconsolidated related party in which we have held an 33% equity interest since September 2019, is a technology company focused on providing inclusive financial services to consumers and small and micro businesses, or SMBs, in China and across the world. It primarily operates digital payment services and financial technology platform services through sustained technological innovation and cooperation with financial institutions, and is also pursuing a globalization strategy. During fiscal year 2019, Ant Financial has implemented a series of strategic marketing initiatives to further grow its user base and enhance user mind-share. During the twelve months ended March 31, 2019, the number of global AAUs served by Ant Financial and its nine local e-wallet partners increased to over one billion. During the twelve months ended March 31, 2019, seven out of ten of Ant Financial's domestic AAUs used three or more of the following five service categories: digital payment, wealth management, micro financing, insurance and Zhima Credit.

Digital payment services

Ant Financial operates Alipay, a leading global third-party mobile payment platform. Through Alipay, Ant Financial provides digital payment processing services predominantly to online and offline merchants and consumers globally. In the twelve months ended March 31, 2019, Ant Financial experienced rapid growth in payment transactions, which was primarily driven by the expansion of the offline payment market. With deep customer insights derived from increasing numbers of payments, Ant Financial continuously expands use cases to better serve both consumers and merchants. Ant Financial has also continued to improve the user experience through product innovation. For example, it has been promoting an innovative payment device by leveraging facial recognition technology across its merchant network. Ant Financial is dedicated to establishing Alipay as a leading one-stop financial and lifestyle platform.

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Financial technology platform services

Ant Financial's financial technology services platform is a comprehensive and open platform through which users can access and purchase a wide variety of wealth management, micro financing and insurance products and related services. The vast majority of these financial products are provided by third-party financial institutions. Ant Financial's platform primarily serves three sectors in China:

- *Wealth management.* Financial institutions, including fund management companies and insurance companies, offer money market funds, fixed income products, debt and equity securities funds, as well as other wealth management products, through Ant Financial's wealth management platform, Ant Fortune. The platform also partners with Ant Financial's subsidiary Tianhong Fund and other third-party fund management companies to provide money market fund products under the name of Yu'eobao.
- *Micro financing.* Through Ant Financial's micro financing platform, banks and lenders offer credit services to SMBs, and also offer small-amount, short-term consumer credit services to consumers. Through the platform model and by leveraging its deep user insights and technology capabilities, Ant Financial provides its partners with relevant technology services, thereby enabling financial institutions to serve more SMBs and customers, reduce their credit risk and enhance the user experience.
- *Insurance.* Ant Financial partners with insurance companies to provide innovative insurance products, including goods return freight insurance for e-commerce transactions and bank account security insurance, helping to meet the insurance needs inherent to the new Internet economy. Through its insurance platform, Ant Financial also helps insurance company partners to continuously pursue product innovation and customer engagement as well as improving the user experience.

Globalization

Ant Financial also seeks to leverage its leading technology capabilities to provide inclusive financial services globally. Primarily focusing on emerging markets, Ant Financial has cooperated with strategic partners in nine regions or countries, including Bangladesh, Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines and Thailand, to launch local e-wallets by leveraging its know-how and technological capabilities developed in China. Ant Financial is also building a global network that connects all of its users to its rapidly-expanding global acceptance network. Starting in early 2019, users of Alipay Hong Kong are able to make offline payments in mainland China and Japan.

For additional details on our commercial relationship with Ant Financial and Alipay, see "Related Party Transactions — Agreements and Transactions Related to Ant Financial and Its Subsidiaries."

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Customer Services for China Retail Marketplaces

Our customer service representatives serve consumers and merchants on our marketplaces through telephone hotlines, real-time instant messaging and online inquiry systems. In addition, merchants on our platforms serve their customers with commerce technologies and services we provide. Based on big data analytics, we provide numerous methods to facilitate the resolution of disputes. Aside from disputes referred to our customer service representatives for resolution and disputes handled automatically by our system, consumers may choose adjudication by a large panel of experienced and independent consumers and merchants in certain situations, such as those involving contractual disputes.

With certain exceptions, consumers on our China retail marketplaces may return the purchased goods within seven days from receipt. Alipay's escrow payment services ensure efficient refunds. In addition, for qualified consumers with good credit record, we may accelerate refund procedure by making the refund payment upon the buyer's submission of a refund application and proof of shipment for the returned goods.

Consumer Protection

We believe every consumer has the right to protection from false and misleading claims and harmful products. We encourage our merchants to make product quality a priority and have established various safeguard mechanisms. All Tmall merchants are required to contribute to and maintain a fund deposit for the benefit of consumers. Fund deposit requirements vary by product category and typically range from RMB10,000 to RMB1,000,000 per storefront. For Tmall Global merchants, the fund deposit requirement typically ranges from RMB150,000 to RMB800,000 for standard storefronts. In most circumstances, Taobao Marketplace merchants maintain individual fund deposit with minimum amounts ranging from RMB1,000 to RMB100,000. All Tmall and Taobao Marketplace merchants are required to sign agreements with us authorizing us to deduct fund deposit from their consumer protection fund accounts in the event of confirmed consumer claims. Merchants who have failed to maintain a minimum amount in their fund deposit are blocked from showing product listings in our P4P, recommendation feeds and search results, among others.

The consumer protection fund amounts are displayed on each merchant's information page. Many merchants on Tmall and Taobao Marketplace provide a larger deposit than required and make additional service commitments, such as expedited shipment, free maintenance for electronics and installation services for furniture purchases, to demonstrate to their customers their confidence in the quality of their services and products. In addition, Alipay's escrow payment services offer consumers further protection by only releasing the relevant payment upon consumer confirming the receipt of the merchandise, unless specified otherwise.

Transaction Platform Safety Programs

Preserving the integrity of our marketplaces is fundamental to our business. We are committed to protecting intellectual property rights and eliminating counterfeit merchandise and fictitious activities. Infringement of intellectual property, both online and offline, is an industry-wide issue globally. By working with rights holders, trade associations and governments around the world, we have made significant progress in combating the issue

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of intellectual property rights infringement. As of March 31, 2019, there were over 190,000 brands on Tmall, including 77% of the consumer brands among the Forbes Top 100 World's Most Valuable Brands for 2019, a demonstration of the trust these brands place in the integrity of our marketplaces.

Product Authenticity

We are committed to offering authentic, high-quality products across our marketplaces, including premium overseas products on Tmall Global, grocery and daily consumption products on Tmall Mart. At the same time, we are proactive in partnering with rights holders and law enforcement authorities both online and offline to monitor product authenticity and protect intellectual property. We have called for collective efforts in the fight against counterfeiting that include stronger law enforcement measures and harsher penalties for those found to be engaged in criminal activity. In addition, we also initiate civil actions against counterfeiters using our platforms. In May 2019, Alibaba Group was awarded World Trademark Review's Asia Pacific Team of the Year for its work in brand protection.

Our product authenticity initiatives have produced effective results. As part of our commitment to allow only authentic product listings on our platforms, we employ big data and technology to proactively identify and shut down storefronts selling infringing products and remove suspicious product listings. Our offline product authenticity initiatives also have borne tangible results as we regularly provide law enforcement authorities with evidence to successfully track down and arrest violators of intellectual property rights.

By leveraging our advanced technologies, as well as engaging in close collaboration with stakeholders, including rights holders, trade associations and government bodies, we have implemented the following best practices around a three-pronged strategy:

- *World-class notice-and-takedown system.* We operate a rigorous notice-and-takedown system that allows rights holders to request the removal of potentially infringing listings from our platforms with ease via the Alibaba Intellectual Property Protection (IPP) portal. We also offer qualified rights holders a simplified takedown program pursuant to which we expedite claims and simplify evidentiary requirements.
- *Proactive monitoring powered by big data.* We utilize our proprietary algorithms to proactively detect the presence of suspicious goods and remove them from our marketplaces without requiring the notice of a rights holder. To enable proactive monitoring at its best, we have developed the capability to perform real-time scanning of suspicious product specifications during a merchant's listing creation process, which helps us prevent merchants from uploading infringing content in the first place. For example, we employ Optical Character Recognition (OCR) and logo recognition technologies to conduct text and logo detection on images used in product listings in order to detect the brands being sold and flag any potential issues. Our detection technology continuously improves through machine learning, which means we become quicker and more efficient at removing problematic products all the time. Furthermore, to support this effort, an increasing number of rights holders also contribute information about their products and online trends they observe so we can further optimize our algorithms and detection methods.

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- *Offline enforcement.* We also work closely with brands and law enforcement authorities to assist in their offline investigations against counterfeiting. With insights drawn from our data analytics, we help law enforcement authorities to identify manufacturers and dealers of suspicious goods so they can be brought to justice.

Alibaba Anti-Counterfeiting Alliance, or AACA

In January 2017, Alibaba, along with 30 domestic and international intellectual property rights holders, founded the AACA, the first alliance of its kind. Owners of famous global consumer brands, such as 3M, Amway, Ford, Johnson & Johnson, Mars, Procter & Gamble, and Spalding, have participated as founding members in the AACA since its establishment. After more than two years, AACA membership has expanded to 155 rights holder members from 17 different countries and regions, and now encompasses 12 industries, such as electronics, automotive, pharmaceuticals and luxury goods, which regularly collaborate through Industry Working Groups, or IWGs.

Alibaba contributes its Internet technology and data to support the AACA through a number of cooperation programs that rights holders can opt into. The cooperation programs encourage rights holders, e-commerce platforms, and law enforcement agencies to work collaboratively to protect intellectual property rights through increased communication and the exchange of information. The AACA facilitates sharing of best practices among its members, as well as with wider society via educational programs for public bodies and consumers about the damage counterfeit products cause, including with respect to health, the environment and safety.

The AACA has also established an Advisory Board consisting of rights owners from all IWGs that acts as a channel for rights holders to provide feedback on significant intellectual property enforcement-related strategies and policies to each other, Alibaba, and other parties. The Advisory Board acts as a leading industry forum to discuss new trends in online intellectual property infringement activities, litigation and platform practices.

Combating Fictitious Transactions

We have and will continue to invest significant resources in protecting the trust and credit systems we have built on our marketplaces. Measures to prevent, detect and reduce the occurrence of fictitious transactions on Taobao Marketplace and Tmall that we have implemented include:

- requiring the use of merchants' real identities when opening accounts;
- analyzing transaction patterns to identify anomalies;
- enabling consumers and merchants to report suspicious transactions;
- maintaining a "blacklist" of merchants who have previously been involved in fictitious transactions; and
- collaborating with law enforcement authorities to combat fictitious activities by merchants and websites and mobile apps that enable fictitious activities.

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Penalties

We aim to protect consumers by excluding suspicious merchandise and fictitious transactions from ranking systems, credit systems and transaction volume statistics. When these activities are confirmed, we penalize the parties involved, based on the severity of the violation, through a number of means, including but not limited to:

- permanently banning merchants from opening accounts on our marketplaces,
- closing down storefronts,
- limiting merchants' ability to add listings and/or
- imposing restrictions on participation in promotional activities on our marketplaces.

Our Technology

Technology is key to our success in achieving efficiency, improving user experience, and enabling innovation. Our world-class proprietary technology supports peak order volumes of up to hundreds of thousands per second, delivers tens of billions of online marketing impressions per day, and enables millions of merchants, brands and other businesses to conduct their operations efficiently and effectively. The uniqueness of our technology lies in the unparalleled large-scale application environment due to the scale of our businesses. By constantly applying our technology across our businesses, we generate knowledge and innovations that drive improvements and further technological development.

Members of our research and development team play key roles in various international standardization organizations in areas such as e-commerce, security and IoT. In addition, we are also active in open source communities. In October 2017, we established DAMO Academy, a global research program in cutting-edge technology that aims to integrate science with industry and speed up information exchange between them. It encourages a collaborative environment where scientific discoveries can be more quickly applied to real-life problems.

Key components of our technology include those described below:

Technology Infrastructure

Our data centers utilize leading technologies in distributed structure, innovative cooling techniques, distributed power technology and intelligent monitoring, and we believe our data centers are one of the most efficient in the world as indicated by a low power usage effectiveness ratio. The multi-region availability of our transaction system data centers provides scalability and stable redundancy.

Cloud Operating System

Aspara, our cloud computing operating system, is a proprietary general purpose distributed computing operating system that provides Alibaba Cloud customers with enhanced computing power to support their business growth in the new technology era.

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Database

We have developed the next generation cloud native database, POLARDB, which enables our customers to meet their requirements for on-demand storage and computation, pay-per-use elasticity and scalability. POLARDB significantly increases the throughput and performance of transaction and query processing as compared to other open-source relational database management systems. We have also developed a distributed online analytics database, AnalyticDB, which supports real-time interactive and complex analytics over massive data.

Big Data Analytics Platform

We have developed a distributed data analytics platform that can efficiently handle the complex computing tasks of millions of gigabytes of data per day, providing deep data insights to our businesses and our cloud computing customers. Our big data analytics platform includes MaxCompute, an offline data storage and computing platform, Blink, a real-time data storage and computing platform, and OneData, a data integration and management system.

Artificial Intelligence

We believe we are one of the few companies in the world with a proprietary, distributed deep learning platform that has access to consumer insights across diverse businesses involving a rich variety of consumer experiences. As a result, we believe we are in a unique position to develop large-scale commercial use of AI. We have applied various AI technologies across our digital economy to enhance the consumer experience. These enhancements include personalized search results and shopping recommendations empowered by deep learning and data analytics, speech recognition and image analysis technology adopted in search functions, and intelligent customer service. In addition, our AI capabilities enable us to introduce innovative products, such as Tmall Genie, our AI-powered smart speaker.

Internet of Things

We are engaged in the development of a wide range of IoT technologies, such as PaaS, microchip design and development framework, operating systems and cloud computing capabilities for transportation, home, mobile, public and industrial applications. Our IoT PaaS and data allow hardware to work in more application scenarios and solutions as well as for applications to have more hardware options.

Security

We have established a comprehensive situational awareness and risk management security infrastructure that spans across our entire network, covering our systems, apps, data, services and individual end users. Our back-end security system handles hundreds of millions of instances of malicious attacks each day to provide effective security for our commerce and cloud platforms.

Sales and Marketing

As Taobao Marketplace is China's largest mobile commerce destination, with a large and growing social community and an exceptionally wide range of product offerings, and Tmall is the world's largest third-party online and mobile commerce platform for brands and

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retailers, we have wide consumer recognition of our brands and enjoy significant organic traffic through word-of-mouth. We believe the reputation and ubiquitous awareness of our brands and platforms in China and, increasingly, abroad, provide us with the best and most cost-efficient marketing channel. In addition, we also use other marketing initiatives to promote our platforms. In January 2017, we launched a historic long-term partnership with the International Olympic Committee that will last through 2028. Joining The Olympic Partner worldwide sponsorship program, Alibaba has become the official “E-Commerce Services” Partner and “Cloud Services” Partner and a founding partner of the Olympic Channel through the 2028 Games in Los Angeles. During the most recent fiscal year, we increased our marketing efforts, such as a highly coordinated marketing and promotional campaigns on Tmall for the 11.11 global shopping festival, to expand our user base. We expect to continue to leverage our resources in future marketing activities. We also expect to enhance our monetization capability through leveraging our data technologies to develop and offer more personalized and innovative services, so as to improve customer experience and wallet share. Furthermore, our major business segments and other elements in our digital economy provide synergetic advantages and create cross-promotional opportunities. For example, the large number of consumers on our marketplaces attracts a large number of merchants who become customers for our online marketing services, while an increasing number of key opinion leaders are actively producing content to engage with consumers and fans on our platforms, thereby driving revenue for merchants, brands and retailers.

Socially Responsible Mindset

At Alibaba, we believe acting in a socially responsible way is an integral part of our business model. Since our founding, we have been highly committed to supporting and participating in charitable and socially responsible projects that align with our core values and mission, and to establishing a technology-driven charitable digital economy to extend the benefits of our technological capabilities to the community at large.

Our major corporate social responsibility achievements and initiatives include:

Creating Job Opportunities and Enabling Small Businesses

The breadth of our digital economy and the range of service providers needed within it create substantial employment opportunities. In addition to providing direct business opportunities for merchants, our digital economy has created new opportunities for service providers in logistics, marketing, consulting, operations outsourcing, training and other online and mobile commerce professions. According to a report published in 2019 by China’s Renmin University, it is estimated that we contributed to the creation of about 40 million direct and indirect job opportunities in China via our retail platforms. The international expansion of our business also creates job opportunities by enabling merchants from different parts of the world to do business online.

With the power of new technology, our platforms have leveled the playing fields for businesses in many respects, helping to foster an inclusive economy where everyone and small businesses can thrive and prosper. Female sellers represented approximately half of the sellers who had one or more orders confirmed by a buyer on our China retail marketplaces in fiscal year 2019, as declared by these sellers.

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Supporting Poverty Relief and Rural Development in China

We are committed to contributing to China's poverty relief initiatives. Apart from using our own resources, we also leverage our platforms' reach to maximize our influence and our technological capabilities to increase the efficiency of these initiatives.

In December 2017, we launched a RMB10 billion Alibaba Poverty Relief Program that focuses on education, rural commerce advancement, women's empowerment, healthcare and environmental sustainability. The program is primarily funded by donations from us and the partners in the Alibaba Partnership. We aim to leverage the power of our digital economy to discover sustainable and replicable ways to work with impoverished communities to break the poverty cycle. To advance rural commerce, in fiscal year 2019, we connected people from over 200 impoverished counties to our platforms, which led to the development of many new agricultural product brands. In 2018, sellers in impoverished counties sold over RMB60 billion (US\$8.9 billion) GMV through our China retail marketplaces. Furthermore, as part of our environmental sustainability initiatives, we have provided sustainable business solutions for villagers living in conservation zones to increase their income through developing local products while protecting the environment. To reduce intergenerational poverty through better healthcare, we have provided health insurance to cover major illnesses to over four million people in over 60 impoverished counties as of March 31, 2019. To empower women, we have developed a comprehensive insurance plan that covers women's education, pregnancy and illness in impoverished counties, affording young women opportunities to be educated without worrying about their families' financial situation.

Contributing to Environmental Sustainability

We are committed to raising public awareness of environmental issues and promoting an eco-friendly mindset among the public. In 2011, we established the Alibaba Foundation, a private charity fund that primarily focuses on supporting environmental protection in China. The Alibaba Foundation has funded and spearheaded projects to help protect drinking water sources in China, allow the public to contribute to and monitor air quality on Amap app and research international environmental policies for local survey and legislative purposes.

We also work with enterprises to implement environmentally-sustainable business models across various sectors, such as manufacturing, retail, logistics and cloud computing. Alibaba Cloud not only helps enterprises reduce their need for computing hardware, its technology is also built to promote environmental sustainability. For example, we launched a data center featuring an innovative cooling system that uses fresh water from a nearby lake to reduce energy consumption. Furthermore, Cainiao Network actively spearheads and promotes "green" initiatives with its courier partners and within our digital economy. Key initiatives include "green packages" and "green delivery." "Green packages" refers to promoting the use of biologically degradable courier bags and reusable packages, minimizing repackaging of products and using algorithms to optimize package size and materials used. In fiscal year 2019, Cainiao Network's package material optimization algorithm was used in over 290 million packages. Approximately 50% of Tmall Mart's packages used the manufacturers' original packages during the same period. These measures contribute to reducing the amounts of materials needed for packaging. Cainiao Network further promotes "green delivery" not only through the use of electric delivery vehicles, but also through its neighborhood delivery solutions and fully-fledged multi-location fulfillment network. These measures significantly shorten the package delivery distances from warehouses, thereby reducing the carbon footprint of the logistics industry.

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Charitable Contributions and Community Service

We have consistently been active, and also have always encouraged our employees to be active, in participating in community service.

Since 2010, we have established a special fund to encourage environmental awareness and conservation as well as other corporate social responsibility initiatives. In addition, since September 2015, we have encouraged our employees to perform a minimum of three hours of community service every year, which led to the creation of projects such as a public online platform for vaccine production information. In fiscal year 2019, we contributed over RMB250 million to charitable causes and initiatives.

We also leverage our digital economy to extend the reach of our charitable initiatives and encourage merchants, consumers and other digital economy participants to engage in community service. For instance, in support of the United Nation's annual International Day of Charity on September 5 each year, we hosted the "95 Philanthropy Week," where we initiated multiple public charity activities.

Charitable organizations can also set up storefronts on our marketplaces to raise funds and engage with volunteers. Merchants on China retail marketplaces and Tmall Global can designate a percentage of their sales proceeds generated on our platforms to go to charitable organizations. Consumers can contribute to charitable causes by purchasing public interest products, participating in charity auctions hosted on our platforms or directly making donations. Through our China retail marketplaces, we supported over two million merchants and over 440 million users to donate to domestic and overseas charitable projects and enabled charitable organizations to raise approximately RMB470 million in donations in fiscal year 2019, which benefited over 4.8 million disadvantaged people.

Furthermore, "Reunion," a platform that our employees created during their free time, connects our mobile apps and our partners' mobile apps to help locate missing children across China. Since its initial launch in mid-2016 and up to March 15, 2019, our platform has helped law enforcement authorities solve 98.2% of the cases announced through our platform, successfully locating over 3,500 children. In March 2019, we presented our "Reunion" platform to representatives from the United Nations and countries along the Mekong River Delta, including Cambodia, Laos, Myanmar, Thailand and Vietnam. We are committed to providing technological support to countries along the Mekong River Delta to set up similar systems in order to help prevent trafficking of children in the region.

Competition

We face competition principally from established Chinese Internet companies, such as Tencent, and their respective affiliates, global and regional e-commerce players, cloud computing service providers, such as Amazon, and digital media and entertainment providers. These competitors generate significant traffic and have established strong brand recognition, robust technological capabilities and significant financial resources. Although foreign e-commerce companies currently have a limited presence in China, we face significant competition from them in the areas of cross-border commerce. The areas in which we compete primarily include:

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- *Consumers* — We compete to attract, engage and retain consumers based on the variety and value of products and services listed on our platforms, the engagement of digital media and entertainment content available on our platforms, the overall user experience of our products and services and the effectiveness of our consumer protection measures.
- *Merchants, Brands, Retailers and other Businesses* — We compete to attract and retain merchants, brands and retailers based on the size and the engagement of consumers on our platforms and the effectiveness of our products and services to help them build brand awareness and engagement, acquire and retain customers, complete transactions, expand service capabilities, protect intellectual property rights and enhance operating efficiency. In addition, we compete to attract and retain businesses of different sizes across various industries based on the effectiveness of our cloud service offerings to help them enhance operating efficiency and realize their digitalization transformation ambitions.
- *Marketers* — We compete to attract and retain marketers, publishers and demand side platforms operated by agencies based on the reach and engagement of our properties, the depth of our consumer insights and the effectiveness of our branding and marketing solutions.
- *Talent* — We compete for motivated and capable talent, including engineers and product developers to build compelling apps, tools, and functions and to provide services for all participants in our digital economy.

As we acquire new businesses and expand into new industries and sectors, we face competition from major players in these industries and sectors. In addition, as we expand our businesses and operations into an increasing number of international markets, such as Southeast Asia, India and Russia, we increasingly face competition from domestic and international players operating in these markets. See “Risk Factors — Risks Related to Our Business and Industry — If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected.”

Seasonality

Our overall operating results fluctuate from quarter to quarter as a result of a variety of factors, including seasonal factors and economic cycles that influence consumer spending as well as promotions.

Historically, we have experienced the highest levels of revenues in the fourth calendar quarter of each year due to a number of factors, including merchants allocating a significant portion of their online marketing budgets to the fourth calendar quarter, promotions, such as the 11.11 global shopping festival, and the impact of seasonal buying patterns in respect of certain merchandise categories such as apparel. We also have experienced lower levels of revenues in the first calendar quarter of each year due to a lower level of operating activities by merchants early in the calendar year and during the Chinese New Year holiday, during which time consumers generally spend less and businesses in China are generally closed. Moreover, as our fixed costs and expenses, such as payroll and benefits, bandwidth and location fees, grow at a relatively stable rate compared to our revenue growth, we expect to enjoy increased operating leverage in seasonally strong quarters, but will face significant margin pressure in seasonally weak quarters.

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Customers and Suppliers

We have a broad base of customers, and our top five customers accounted for less than 5% of our total revenues for each of the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively. Our top five suppliers accounted for less than 30% of our purchases for each of the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

Employees

As of March 31, 2017, 2018 and 2019 and June 30, 2019, we had a total of 50,097, 66,421, 101,958 and 103,699 full-time employees, respectively. The increase in our employees was primarily due to our recent acquisitions and consolidation of certain businesses, as well as our organic business growth. A substantial majority of our employees are based in China. We believe that we have a good working relationship with our employees, and we have not experienced any significant labor disputes.

Research and Development

We have built our core technology for our online and mobile commerce and cloud computing businesses in-house. We employ research and development personnel to build our technology platform and develop new online and mobile products. We recruit top and experienced talent locally and overseas, and we have advanced training programs designed specifically for new campus hires.

Intellectual Property

We believe the protection of our trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights is critical to our business. We rely on a combination of trademark, fair trade practice, copyright and trade secret protection laws and patent protection in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our trademarks. We also enter into confidentiality and invention assignment agreements with all of our employees, and we rigorously control access to our proprietary technology and information. We have developed proprietary technology, including patented technology, in a range of areas, including technology infrastructure, distributed cloud architecture, big data analytics, AI, IoT, communications, fulfillment and logistics systems, middleware and security. As of June 30, 2019, we had 6,175 issued patents and 13,336 publicly filed patent applications in China and 3,112 issued patents and 9,742 publicly filed patent applications in various other countries and jurisdictions. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims.

Insurance

As at the Latest Practicable Date, we maintained various insurance policies relating to our business operations. We consider that the coverage from the insurance policies maintained by us is adequate for our present operations and is in line with the industry norm. See “Risk Factors — Risks Related to Our Business and Industry — We may not have sufficient insurance coverage to cover our business risks.” During the Track Record Period and up to the Latest Practicable Date, we have not made, nor been the subject of, any material insurance claim.

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Properties

As of June 30, 2019, we occupied facilities around the world with an aggregate gross floor area of office buildings, logistics warehouses, retail space and other facilities owned by us totaling approximately 6.9 million square meters, reflecting the continuous expansion of our business through organic growth and acquisition and consolidation of new businesses. We maintain offices in many countries and regions, including China, Hong Kong, Singapore and the United States. In addition, we maintain data centers in a number of countries including China, Indonesia, Malaysia, India, Australia, Singapore, Germany, Japan, the United States and others.

Legal and Administrative Proceedings

We are involved from time to time, and may in the future be involved in, litigation, claims or other disputes in the ordinary course of business regarding, among other things, contract disputes with our customers, copyright, trademark and other intellectual property infringement claims, consumer protection claims, employment related cases and other matters in the ordinary course of our and disputes between our merchants and consumers. We have also been, and may in the future be, involved in litigation, regulatory investigations or inquiries and administrative proceedings that may not necessarily arise from our ordinary course of business, such as securities class action lawsuits and investigations or inquiries by securities regulators.

We establish balance sheet provisions relating to potential losses from litigation based on estimates of the losses. For this purpose, we classify potential losses as remote, reasonably possible or probable. We analyze potential outcomes from current and potential litigation and proceedings as loss contingencies in accordance with U.S. GAAP.

Shareholder Class Action Lawsuits

In 2015, we and certain of our current and former officers and directors were named as a defendant in seven putative shareholder class action lawsuits filed in the United States District Courts by shareholders asserting claims pursuant to the U.S. Exchange Act and three putative shareholder class action lawsuits filed in the Superior Court of the State of California by shareholders asserting claims pursuant to the U.S. Securities Act. The lawsuits allege that the registration statement and prospectus filed in connection with our initial public offering and various other public statements contained misrepresentations regarding our business operations and financial prospects, and failed to disclose, among other things, regulatory scrutiny by the SAIC prior to our initial public offering.

The District Court lawsuits were centralized in the Southern District of New York under the master caption *Christine Asia Co., Ltd. et al. v. Alibaba Group Holding Limited et al.*, No. 1:15-md-02631-CM (S.D.N.Y.). In June 2016, the Southern District of New York issued an order granting Defendants' motion to dismiss without leave to amend. The order held that Plaintiffs failed to plead that Defendants made actionable misstatements or omissions or that Defendants acted with scienter. In December 2017, following an appeal by the plaintiffs, the Second Circuit Court of Appeals issued a summary order vacating the Southern District of New York's dismissal order and remanding the case to the Southern District of New York for further proceedings. In May 2018, the Southern District of New York certified a class of all persons and/or entities that purchased or otherwise acquired our ADSs or purchased call options or sold put options on our ADSs between September 19, 2014 and January 28, 2015, inclusive, with certain exclusions. On April 29, 2019, we announced that defendants had entered into a settlement agreement to resolve the lawsuits.

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Under the terms of the settlement agreement, we agreed to pay US\$250 million in exchange for a full release of all claims brought in the lawsuit. The settlement agreement expressly provides that the settlement does not constitute an admission or finding that the claims asserted had any merit. On October 16, 2019, the Southern District of New York entered a judgment approving the settlement and dismissing the lawsuit.

The California lawsuits were consolidated under the caption *Gary Buelow, et al. v. Alibaba Group Holding Limited, et al.*, No. CIV-535692 (San Mateo Sup. Ct.). In December 2016, the Superior Court sustained our demurrer to the complaint in part and denied it in part. In January 2017, we answered the consolidated complaint, asserting a general denial as to all allegations and setting forth affirmative defenses. In March 2018, plaintiffs filed a motion for class certification, requesting, among other things, that the Superior Court certify a class of all persons who purchased or otherwise acquired our ADSs pursuant or traceable to the Registration Statement issued in connection with our IPO. This motion was not ruled on by the Superior Court. On December 31, 2018, we announced that defendants had entered into a settlement agreement to resolve the consolidated class action lawsuit. Under the terms of the settlement agreement, we agreed to pay US\$75 million to settle the lawsuit in exchange for a full release of all claims brought in the lawsuit. The settlement agreement expressly provides that the settlement does not constitute an admission or finding that the claims asserted in the lawsuit had any merit. The settlement was approved by the Superior Court on May 17, 2019 and a final judgment concluding the lawsuit was entered that same date.

Pending SEC Inquiry

In early 2016, the SEC informed us that it had initiated an investigation into whether there have been any violations of the federal securities laws. The SEC has requested that we voluntarily provide it with documents and information relating to, among other things, our consolidation policies and practices (including our prior practice of accounting for Cainiao Network as an equity method investee), our policies and practices applicable to related party transactions in general, and our reporting of operating data from the 11.11 global shopping festival. We are voluntarily disclosing this SEC request for information and cooperating with the SEC and, through our legal counsel, have been providing the SEC with requested documents and information. The SEC advised us that the initiation of a request for information should not be construed as an indication by the SEC or its staff that any violation of the federal securities laws has occurred.

Our management believes that the risk of loss in connection with this proceeding is currently remote and that this proceeding will not have a material adverse effect on our financial condition. However, in light of the inherent uncertainties involved in this and similar proceedings, some of which are beyond our control, the risk of loss may become more likely and an adverse outcome could be material to our results of operations or cash flows for any particular reporting period. See note 2 to the Accountant's Report in Appendix IA to this prospectus for more information on our provisioning policy with regard to legal and administrative proceedings.

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The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountant's Report in Appendix IA to this prospectus and in particular, "Our Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on March 31 and references to fiscal years 2017, 2018 and 2019 are to the fiscal years ended March 31, 2017, 2018 and 2019, respectively.

Overview

We achieved significant growth and strong operating results during the Track Record Period. Our total revenue increased by 58% from RMB158,273 million in fiscal year 2017 to RMB250,266 million in fiscal year 2018, and further increased by 51% to RMB376,844 million in fiscal year 2019. Our total revenue increased by 42% from RMB80,920 million for the three months ended June 30, 2018 to RMB114,924 million (US\$16,741 million) for the three months ended June 30, 2019. Our net income increased by 49% from RMB41,226 million in fiscal year 2017 to RMB61,412 million in fiscal year 2018, and further increased by 31% to RMB80,234 million in fiscal year 2019. Our net income increased by 150% from RMB7,650 million for the three months ended June 30, 2018 to RMB19,122 million (US\$2,785 million) for the three months ended June 30, 2019.

Our non-GAAP net income, which excludes the effect of disposal and revaluation gains, share-based compensation and certain other items, increased by 44% from RMB57,871 million in fiscal year 2017 to RMB83,214 million in fiscal year 2018, and further increased by 12% to RMB93,407 million in fiscal year 2019. Our non-GAAP net income increased by 54% from RMB20,101 million for the three months ended June 30, 2018 to RMB30,949 million (US\$4,508 million) for the three months ended June 30, 2019. For further information on non-GAAP financial measures we use in evaluating our operating results and for financial and operational decision-making purposes, see "— Non-GAAP Measures."

Our Operating Segments

We organize and report our business in four operating segments:

- Core commerce;
- Cloud computing;
- Digital media and entertainment; and
- Innovation initiatives and others.

This presentation reflects how we manage our business to maximize efficiency in allocating resources. This presentation also provides further transparency to our various businesses that are executing different phases of growth and operating leverage trajectories.

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We present segment information after elimination of inter-company transactions. In general, revenue, cost of revenue and operating expenses are directly attributable, and are allocated, to each segment. We allocate costs and expenses that are not directly attributable to individual segments, such as those that support infrastructure across different operating segments, to different operating segments mainly on the basis of usage, revenue or headcount, depending on the nature of the relevant costs and expenses.

In discussing the operating results of these four segments, we present each segment's revenue, income from operations and adjusted earnings before interest, taxes and amortization, or adjusted EBITA.

Our reported segments are described below:

- **Core commerce.** The core commerce segment is comprised of platforms operating in retail and wholesale commerce in China, retail and wholesale commerce – cross-border and global, logistics services, local consumer services and others.
- **Cloud computing.** The cloud computing segment is comprised of Alibaba Cloud, which offers a complete suite of cloud services to customers worldwide, including elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and IoT services.
- **Digital media and entertainment.** The digital media and entertainment businesses leverage our deep data insights to serve the broader interests of consumer through two key distribution platforms, Youku and UC Browser, and through Alibaba Pictures and our other diverse content platforms that provide online videos, films, live events, news feeds, literature and music, among other areas.
- **Innovation initiatives and others.** The innovation initiatives and others segment includes businesses such as Amap, DingTalk, Tmall Genie and others.

Please see “— Segment Information.”

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Our Monetization Model

Our marketplaces and businesses are highly synergetic which create a digital economy that enables consumers, merchants, brands, retailers, other businesses, third party service providers and strategic partners to interconnect and interact with each other. We leverage our leading technologies to provide various value propositions to participants in our digital economy and realize monetization by offering different services and creating value under each of our business segments.

We derive most of our revenue from our core commerce segment, which accounted for 85%, 86%, 86%, 86% and 87% of our total revenue in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively, while cloud computing, digital media and entertainment, and innovation initiatives and others contributed in aggregate 15%, 14%, 14%, 14% and 13% in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

The following table sets forth the principal components of our revenue for the periods indicated:

	Year ended March 31,						Three months ended June 30,				
	2017		2018		2019		2018		2019		
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue	RMB	US\$	% of revenue
(unaudited)											
(in millions, except percentages)											
Core commerce:											
China commerce retail	114,109	72%	176,559	71%	247,615	66%	53,968	67%	75,601	11,013	66%
China commerce wholesale	5,679	4%	7,164	3%	9,988	3%	2,250	3%	2,992	436	3%
International commerce retail ...	7,336	5%	14,216	6%	19,558	5%	4,316	6%	5,567	811	5%
International commerce											
wholesale	6,001	4%	6,625	2%	8,167	2%	1,837	2%	2,245	327	2%
Cainiao logistics services	–	–	6,759	3%	14,885	4%	3,327	4%	5,005	729	4%
Local consumer services	–	–	–	–	18,058	5%	2,612	3%	6,180	900	5%
Others	755	0%	2,697	1%	5,129	1%	878	1%	1,954	284	2%
Total core commerce	133,880	85%	214,020	86%	323,400	86%	69,188	86%	99,544	14,500	87%
Cloud computing	6,663	4%	13,390	5%	24,702	7%	4,698	6%	7,787	1,134	7%
Digital media and entertainment ..	14,733	9%	19,564	8%	24,077	6%	5,975	7%	6,312	920	5%
Innovation initiatives and others ..	2,997	2%	3,292	1%	4,665	1%	1,059	1%	1,281	187	1%
Total	158,273	100%	250,266	100%	376,844	100%	80,920	100%	114,924	16,741	100%

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Our monetization and profit model primarily consists of the following elements:

Core Commerce

Our core commerce segment is primarily comprised of our China commerce retail, China commerce wholesale, retail commerce – cross-border and global, wholesale commerce – cross-border and global, logistics services, local consumer services and others. The marketplaces of our core commerce business attract and retain a large number of consumers and merchants. We primarily generate revenue from merchants.

China Commerce Retail

We generate revenue from merchants by leveraging our data technology and consumer insights which enable brands and merchants to attract, retain and engage consumers, complete transactions, improve their branding, enhance operating efficiency, and offer various services.

The revenue model of our China commerce retail business is primarily performance-based marketing services that are typically set by market-based bidding systems. Revenue from this model primarily consists of customer management revenue, commission and other revenue. The following table sets forth the revenue from our China commerce retail business, in absolute amounts and as percentages of our total revenue, for the fiscal years presented:

	Year ended March 31,						Three months ended June 30,				
	2017		2018		2019		2018		2019		
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue	RMB	US\$	% of revenue
	(unaudited)										
	(in millions, except percentages)										
China commerce retail											
Customer management	77,530	49%	114,285	46%	145,684	39%	33,053	41%	41,954	6,111	37%
Commission	34,066	21%	46,525	19%	61,847	16%	13,756	17%	16,902	2,462	15%
Others	2,513	2%	15,749	6%	40,084	11%	7,159	9%	16,745	2,440	14%
Total	114,109	72%	176,559	71%	247,615	66%	53,968	67%	75,601	11,013	66%

Customer management

We derive a substantial majority of our China commerce retail revenue from customer management, which primarily consists of:

- *P4P marketing services*, where merchants primarily bid for keywords through our online auction system that matches product or service listings appearing in search or browser results on a cost-per-click, or CPC, basis. Whether and where the listing will be displayed, and the corresponding prices for the display are determined by the algorithm of our online auction system based on a number of factors with various weights and through a market-based bidding mechanism.

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- *Display marketing services*, where merchants bid for display positions at fixed prices or prices established by a market-based bidding system on a CPM basis.

In addition to the above-mentioned P4P marketing services and display marketing services directly provided on our marketplaces, we also provide these services through collaboration with other third-party marketing affiliates. These third parties are primarily third-party online media, such as search engines, news feeds and video entertainment websites and mobile apps. These third-party online media enter into agreements with us to connect their designated online resources to our online auction system so that the merchants' listings or other marketing information can be displayed on those third-party online resources. Revenue from P4P and display marketing services provided through third-party marketing affiliates represented 3%, 2%, 1%, 1% and 1% of our total revenue in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

- *Taobaoke program*, where we collaborate with shopping guide platforms, medium- and small-sized websites and mobile apps, individuals and other third parties, collectively "Taobaokes," to offer marketing services. Taobaokes display the marketing information of our merchants on their media which facilitate our merchants to market and transact. Merchants pay commissions to the Taobaokes based on a percentage of transaction value generated from users under the Taobaoke program. Commission rates to the Taobaokes are set by the merchants. Revenue from the Taobaoke program represented 3%, 3%, 2%, 2% and 2% of our total revenue in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

Commissions

In addition to purchasing customer management services, merchants also pay a commission based on a percentage of transaction value generated on Tmall and certain other marketplaces. The commission percentages typically range from 0.3% to 5.0% depending on the product category.

Others

Other revenue from our China commerce retail is primarily generated by our New Retail and direct sales businesses, mainly Freshippo, Intime, Tmall Global and Tmall Mart, and primarily consists of revenue from product sales, commissions on transactions and software service fees.

China Commerce Wholesale

We generate revenue from our China commerce wholesale business primarily through membership fees, value-added services and customer management services. Revenue from membership fees are primarily fixed annual fees from the sale of China TrustPass memberships for paying members to reach customers, provide quotations and transact. Paying members may also purchase additional value-added services, such as premium data analytics and upgraded storefront management tools, the prices of which are determined based on the types and duration of the value-added services. Revenue from customer management services is primarily derived from P4P marketing services.

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International Commerce Retail

We generate revenue from our international commerce retail businesses primarily through direct sales, commissions, logistics and customer management services from Lazada and AliExpress. Merchants pay a commission based on a percentage of the transaction value they generate, mainly on AliExpress. The commissions on AliExpress are typically 5% to 8% of the transaction value. In addition, we generate revenue from logistics services provided by Lazada and customer management services, primarily from AliExpress's collaboration with third-party websites and mobile apps.

International Commerce Wholesale

We generate revenue from our wholesale commerce – cross-border and global primarily through membership fees, value-added services and customer management services. Revenue from membership fees are primarily fixed annual fees from the sale of Gold Supplier memberships for paying members to reach customers, provide quotations and transact. Revenue from value-added services primarily consists of fees for services such as customs clearance services, the prices of which are determined based on the types, usage and duration of the value-added services. Revenue from customer management services is primarily derived from P4P marketing services.

Logistics Services

We charge merchants and third-party logistics service providers fees based on the number of contracted orders completed and other value-added services we provide.

Local Consumer Services

We generate revenue from local consumer services primarily through platform commissions and on-demand delivery service fees by Ele.me.

Cloud Computing

We primarily generate cloud computing revenue from enterprise customers based on the duration and usage of the services.

Digital Media and Entertainment

Revenue from digital media and entertainment business is primarily comprised of customer management services and membership subscription fees. Customer management services fees are generally generated from businesses and advertising agencies and the monetization model is substantially similar to the customer management services fees for our China commerce retail business. Membership subscription fees are mainly generated from paying consumers.

Innovation Initiatives and Others

In this segment we primarily generate revenue from enterprise customers and consumers. For example, Amap charges a software service fee to enterprise customers, and Tmall Genie generates revenue from product sale. Other revenue includes annual fees payable by Ant Financial or its affiliates in relation to the SME loans business that we transferred to Ant Financial in February 2015. See “Related Party Transactions — Agreements and Transactions Related to Ant Financial and Its Subsidiaries.”

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Factors Affecting Our Results of Operations

Our Ability to Create Value for Our Users and Generate Revenue. Our ability to create value for our users and generate revenue is driven by the factors described below:

- *Number and engagement of consumers.* Consumers are attracted to our platforms by the breadth of curated products and services, personalized content and the interactive user experience these platforms offer. Our platforms include a comprehensive selection of product and service offerings as well as engaging content, such as news feeds on our Taobao app and UC Browser and entertainment content on Youku. Consumers enjoy an engaging social experience by interacting with each other and with merchants, brands and key opinion leaders on our platforms. We leverage our data insights to further optimize the relevance of this rich content we provide to our users. The engagement of consumers in our digital economy is affected by our ability to continue to enhance and expand our product and service offerings and improve user experience.
- *Broader value offered to merchants, brands, retailers and other businesses.* Merchants, brands, retailers and other businesses use our products and services to help them reach, acquire and retain customers, build brand awareness and engagement, complete transactions, and enhance their operating efficiency. We offer merchants and retailers a complete suite of services and tools, powered by our consumer insights, to help them effectively engage consumers, efficiently manage their operations and provide a seamless online and offline consumer experience. With our proprietary data and technologies, we also facilitate the digital transformation of traditional merchants and retailers. In addition, we empower businesses of different sizes across various industries through our comprehensive enterprise cloud service offerings.
- *Empowering data and technology.* Our ability to engage consumers and empower merchants, brands, retailers and other businesses is affected by the breadth and depth of our consumer insights, such as the accuracy of our shopping recommendations and of our targeted marketing, and our technology capabilities and infrastructure, such as cloud computing, and our continued ability to develop scalable products and services that adapt to the quickly evolving industry trends and consumer preferences.

Operating Leverage of Our Business Model. Our primary business model has significant operating leverage and our digital economy enables us to realize structural cost savings. For example, Taobao Marketplace drives significant traffic to Tmall as Tmall product listings also appear on Taobao Marketplace search result pages. Furthermore, the large number of consumers on our marketplaces attracts a large number of merchants, who become customers for our customer management and storefront services. In addition, the vast consumer base of our digital economy presents cross-selling opportunities across our various platforms. For example, we can offer consumer services, such as Ele.me, and promote our digital media and entertainment services, including Youku, to consumers on our marketplaces. These network effects allow for lower traffic acquisition costs and provide synergies across our businesses.

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Our Investment in User Base, Technology, People, Infrastructure, and Innovative Business Model. We have made, and will continue to make, significant investments in our platforms and digital economy to attract consumers and merchants, enhance user experience and expand the capabilities and scope of our platforms. We expect our investments will include expanding our core commerce offerings, implementing our New Retail initiatives, enhancing our cloud computing business, acquiring content and users to further develop our digital media and entertainment business, cultivating innovation initiatives and new technologies as well as executing our globalization strategy. Our operating leverage and margin levels enable us to continue to invest in our people, particularly engineers, scientists and product management personnel, as well as in our technology capabilities and infrastructure. Our investment in the above mentioned new and existing businesses has and will continue to lower our margins but we believe the investment will deliver overall long-term growth.

Strategic Investments and Acquisitions. We have made, and intend to make, strategic investments and acquisitions. We do not make investments and acquisitions for purely financial reasons. Our investment and acquisition strategy is focused on strengthening our digital economy, creating strategic synergies across our businesses, and enhancing our overall value. Our strategic investments and acquisitions may affect our future financial results, including our margins and our net income. For example, we expect that our acquisitions of Youku and Kaola and controlling stakes in Lazada, Cainiao Network and Ele.me and our privatization of Intime will have a negative effect on our financial results, at least in the short term. In addition, some of our acquisitions and investments may not be successful. We have incurred impairment charges in the past and may incur impairment charges in the future.

Recent Investment, Acquisition and Strategic Alliance Activities

In addition to organic growth, we have made, or have entered into agreements to make, strategic investments, acquisitions and alliances that are intended to further our strategic objectives. The financial results for these strategic transactions that were completed are reflected in our operating results beginning with the period of their respective completion. Investments in which we did not obtain control are accounted for under the equity method if we have significant influence over the investee through investment in common stock or in-substance common stock. Otherwise, investments are accounted for as investment securities based on our accounting policies over different categories of investments and merger and acquisition activities. For the details of our accounting policies for each category of our investments, see notes 2(d), 2(t) and 2(u) to the Accountant's Report in Appendix IA to this prospectus.

We take a deliberate and staged approach to our investment and acquisition strategy. In some cases, we may begin with an initial minority investment followed by business cooperation. We have chosen to make minority investments in some circumstances instead of full acquisitions for one or more of the following reasons: (i) the investee has strong management, where we allow them to have operating independence and potential upside tied to their business in order to retain them; (ii) the investee does not fit within our core business operations but can generate strategic synergies through an equity relationship; and/or (iii) the investee demonstrates clear strategic value to us but capital or integration risk in the near term suggests a deliberate and phased-in approach. When the business results, cooperation and the overall relationship established with the management of the investee company show increasing value to our ongoing business strategy, we may increase our investment or acquire the investee company completely. Examples of this type of approach include our investments in UCWeb, Amap, Youku, Intime, Cainiao Network and Ele.me, where the period from initial investment to eventual acquisition and/or consolidation spanned more than one fiscal year.

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We have funded our strategic acquisitions and investments primarily from cash generated from our operations and through debt and equity financing. Our debt financing primarily consists of unsecured senior notes and bank borrowings, including an aggregate of US\$8.0 billion unsecured senior notes issued in November 2014, of which US\$1.3 billion was repaid in November 2017 and US\$2.25 billion will be repaid by November 28, 2019, an additional aggregate US\$7.0 billion unsecured senior notes issued in December 2017, a five-year term loan facility of US\$4.0 billion drawn down in fiscal year 2017, the maturity of which has been extended to May 2024 in May 2019, as well as a US\$5.15 billion revolving credit facility which we have not yet drawn. Going forward, we expect to fund additional investments through cash generated from our operations and through debt and equity financing when opportunities arise in the future. Although we expect our margins to be negatively affected by acquisitions of target companies with lower or negative margins, such as our acquisitions and consolidations of Youku, Lazada, Intime, Cainiao Network and Ele.me, we do not expect our investment activities to have any significant negative impact on our liquidity or operations. We believe acquired businesses operating at a loss do not detract from our total value because they bring clear strategic value to us in the long run. However, there can be no assurance that our future financial results would not be materially and adversely affected if our strategic investments and acquisitions are not successful. See “Risk Factors — Risks Related to Our Business and Industry — Sustained investment in our business, strategic acquisitions and investments, as well as our focus on long-term performance and on maintaining the health of our digital economy, may negatively affect our margins and our net income” and “Risk Factors — Risks Related to Our Business and Industry — We face risks relating to our acquisitions, investments and alliances.”

Our significant strategic investments and acquisitions (including those that are under definitive agreement but have not closed) during the Track Record Period and the period through the Latest Practicable Date are set forth below. For those investments and acquisitions described below that have not yet closed, there can be no assurance that the closing conditions will be satisfied in a timely manner or at all.

Core Commerce and New Retail

Meinian Onehealth Healthcare Holdings Co Ltd, or Meinian, offers health examination, health evaluation, health consulting, and other services and is listed on the Shenzhen Stock Exchange. In October 2019, we, together with Ant Financial, agreed to acquire new and existing shares of Meinian, representing a minority stake in Meinian for a total consideration of RMB6,700 million. The completion of the transaction is subject to customary closing conditions including receipt of the required regulatory approval.

HQG, Inc., or Kaola, an import e-commerce platform in China. In September 2019, we acquired a 100% equity interest in Kaola from NetEase, Inc. for an aggregate purchase price of US\$1,825 million, comprising cash and approximately 14.3 million of our newly issued ordinary shares (equivalent to approximately 1.8 million American depositary shares) valued at US\$316 million. The purchase price is subject to post-closing purchase price adjustments as set out in the definitive agreements for the transaction. With this acquisition, we aim to further elevate our import service and experience for Chinese consumers through synergies across the Alibaba digital economy.

Red Star Macalline Group Corporation Limited, or Red Star, a leading home improvement and furnishings shopping mall operator in China that is listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange. In May 2019, we completed the subscription of exchangeable bonds issued by the controlling shareholder of Red Star for a cash consideration of RMB4,359 million (US\$635 million). The exchangeable bonds have a term of five years and are exchangeable into ordinary shares of Red Star at an initial price of RMB12.28 per share. In addition, we acquired an approximately 2% equity interest in Red Star for a total consideration of HK\$447 million (US\$57 million).

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Focus Media Information Technology Co., Ltd., or Focus Media, operates a media network for advertisements, including within cinemas, and advertising posters and displays in elevators of office and residential buildings, and is listed on the Shenzhen Stock Exchange. During fiscal year 2019, we acquired a total equity interest of approximately 7% in Focus Media for a cash consideration of approximately RMB10.7 billion (US\$1.6 billion). We have also entered into an arrangement with Hangzhou Hanyun Xinling Equity Investment Fund, or the Onshore Retail Fund, our affiliated investment fund, under which the Onshore Retail Fund will participate in the gain and loss related to a certain portion of the equity interest in Focus Media held by us. In addition, we agreed to acquire a 10% equity interest of an entity controlled by the founder and chairman of Focus Media, which holds an approximately 23% equity interest in Focus Media, for a cash consideration of US\$511 million. This transaction has not been completed as of the Latest Practicable Date.

Kaiyuan Commerce Co., Ltd., or Kaiyuan, a leading department store operator in the northwestern part of China. In April 2018, we acquired a 100% equity interest in Kaiyuan for a cash consideration of RMB3.4 billion. We expect that the acquisition will complement our New Retail initiatives to reengineer the fundamentals of retail operations and transform the retail landscape.

Shiji Retail Information Technology Co., Ltd., or Shiji Retail, a company that is engaged in the provision of retail information system solutions. In April 2018, we acquired a 38% equity interest of Shiji Retail for a cash consideration of US\$486 million.

Beijing Easyhome Furnishing Chain Group Co., Ltd., or Easyhome, a company that operates one of the largest home improvement supplies and furniture chains in China. In March 2018, we acquired a 10% equity interest in Easyhome for a cash consideration of RMB3.6 billion. The business cooperation between Easyhome and us will provide both online and offline customers with a comprehensive home improvement solution.

Sun Art, a leading hypermarket operator in China that is listed on the Hong Kong Stock Exchange. In December 2017 and January 2018, we completed investments in existing ordinary shares of Sun Art and existing ordinary shares of A-RT Retail Holdings Limited, a limited liability company incorporated in Hong Kong that holds an approximately 51% equity interest in Sun Art, for an aggregate consideration of HK\$19.3 billion, representing an approximately 31% effective equity interest in Sun Art.

Intime, a leading department store operator in China that was previously listed on the Hong Kong Stock Exchange. Pursuant to an initial investment in July 2014 and a conversion of convertible debt securities into equity in June 2016, we owned an approximately 28% equity interest in Intime immediately before its privatization. In May 2017, we and Mr. Shen Guo Jun, the founder of Intime, completed the privatization of Intime. We paid a total cash consideration of HK\$12.6 billion in the privatization. Upon the completion of the privatization, we increased our shareholding in the company to approximately 74% and became the controlling shareholder. In February 2018 and October 2018, we acquired additional equity interest of Intime from certain minority shareholders of Intime for a total cash consideration of HK\$6.7 billion and HK\$203 million, respectively. Upon the completion of the purchase of additional equity interest in October 2018, our shareholding in the company increased to approximately 99%. We expect Intime to support our strategy to transform conventional retail by leveraging our substantial consumer reach, rich data and technology.

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Suning.com Co., Ltd. (formerly known as Suning Commerce Group Co., Ltd.), or Suning, one of the largest consumer electronics retail chains in China that is listed on the Shenzhen Stock Exchange. In May 2016, we invested RMB28.2 billion for 19.99% of the enlarged equity capital of Suning. We have formed a strategic alliance with Suning to build on synergies in e-commerce, logistics and incremental business through joint omni-channel initiatives.

Local Consumer Services

Ele.me (饿了么), a leading on-demand delivery and local services platform in China, and *Koubei Holding Limited*, or Koubei, one of China's leading restaurant and local services guide platforms for in-store consumption. In April and August 2017, we and Ant Financial, through a joint investment vehicle, invested a total of US\$1.2 billion in the preferred shares of Ele.me, of which our investment totaled US\$864 million. In May 2018, we invested, through the joint investment vehicle, a total of US\$5.5 billion to acquire all outstanding shares of Ele.me that it did not already own. Upon the completion of the transaction, Ele.me became our consolidated subsidiary. In December 2018, we completed the integration of Ele.me and Koubei under a newly-established holding company and paid a cash consideration of US\$465 million. Immediately prior to the integration, we held an approximately 90% equity interest in Ele.me and an approximately 38% equity interest in Koubei on a fully diluted basis. Upon the completion of the integration, we held an approximately 72% equity interest in this new holding company, which owns substantially all of the equity interest in Ele.me and Koubei. Subsequent to the integration, we acquired additional equity interest in this holding company for a cash consideration of US\$2,805 million. Our local consumer services business is an important part of our consumer-facing platform, which leverages our massive consumer base to further penetrate the local consumer services market, increasing our ability to tap into China's ongoing consumption upgrade.

Xiaoju Kuaizhi Inc., or Didi Chuxing, a leading transportation network company that provides vehicles and taxis for hire in China via smartphone applications. During fiscal years 2017 and 2018, we completed additional investments in the preferred shares of Didi Chuxing for a total consideration of US\$400 million. In September 2017, we completed a partial disposal of our investment in Didi Chuxing. Upon the completion of the partial disposal, and subsequent investments by other investors, we owned an approximately 5% equity interest in Didi Chuxing on a fully-diluted basis.

Cloud Computing

China TransInfo Technology Co Ltd, or China TransInfo, a China-based smart city infrastructure and service provider, including intelligent transportation operation services. In June 2019, we acquired a 15% equity interest in China TransInfo for a cash consideration of RMB3,595 million (US\$524 million).

Digital Media and Entertainment

Alibaba Pictures, an Internet-driven integrated platform that covers content production, promotion and distribution, IP licensing and integrated management, cinema ticketing management and data services for the entertainment industry that is listed on the Hong Kong Stock Exchange. In March 2019, we subscribed for newly issued ordinary shares of Alibaba Pictures for a cash consideration of HK\$1,250 million. Upon the completion of the transaction, our equity interest in Alibaba Pictures increased from approximately 49% to approximately 51%, and Alibaba Pictures became our consolidated subsidiary. We expect

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greater integration and synergies between Alibaba Pictures and related business in Alibaba Group on both content production and distribution to deliver high-quality entertainment experiences for consumers in China.

Wanda Film Holding Co., Ltd., or Wanda Film, a company that is principally engaged in the investment and management of cinemas and film distribution businesses and is listed on the Shenzhen Stock Exchange. In March 2018, we acquired an approximately 8% equity interest in Wanda Film from an existing shareholder of Wanda Film for a cash consideration of RMB4.7 billion. We believe that our partnership with Wanda Film will complement other digital media and entertainment businesses in our digital economy, such as the Youku platform and the online ticketing platform.

Youku, a leading online video platform in China that was previously listed on the NYSE. In April 2016, we completed an acquisition of all then outstanding shares of Youku from other shareholders, except for an approximately 2% noncontrolling interest held by a Yunfeng Fund, for total cash consideration of US\$4.4 billion and Youku became our consolidated subsidiary. Subsequent to the completion of the privatization and as a resolution to negotiations with certain former members of management and shareholders of Youku with respect to an option to purchase up to 15% of its equity, we issued our ordinary shares and RSUs to certain former members of management and shareholders in April 2017. In November 2016, we consolidated our digital media and entertainment businesses, including Youku, under a single management team to realize greater synergies within the segment and with our other businesses. In December 2017, we made a capital injection of US\$132 million in Youku, and we currently hold all of the shares in Youku. Youku is a core part of our strategy to offer digital entertainment to consumers in our digital economy, thereby strengthening user engagement and loyalty as well as enabling a new marketing channel for the merchants and brands in our digital economy.

Logistics

STO Express Co., Ltd., or STO Express, one of the leading express delivery services companies in China that is listed on the Shenzhen Stock Exchange. In March 2019, we made a loan to the controlling shareholder of STO Express with a principal amount of RMB5.0 billion for a term of three years. The controlling shareholder of STO Express has pledged a portion of its equity interest in STO Express in relation to the loan. In July 2019, we acquired a 49% equity interest in an investment vehicle which holds a 29.9% equity interest in STO Express (equivalent to an effective equity interest of approximately 14.7% in STO Express) for a cash consideration of RMB4.7 billion (US\$685 million). The investment vehicle was established by the controlling shareholder of STO Express, and we subsequently entered into an option agreement with this controlling shareholder. Under the terms of the agreement, we may elect to acquire an additional effective equity interest of approximately 31.3% in STO Express through exercise of call options for a total consideration of RMB10.0 billion (US\$1.5 billion). We can exercise our options to acquire effective equity interests in STO Express at any time during a three-year period beginning on December 28, 2019.

ZTO Express (Cayman) Inc., or ZTO Express, one of the leading express delivery services companies in China that is listed on the NYSE. In June 2018, we completed an investment in newly issued ordinary shares of ZTO Express for a cash consideration of US\$1,100 million, representing an approximately 8% equity interest in ZTO Express. We expect that ZTO Express will complement other logistics businesses in our digital economy.

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Cainiao Network, a company that operates a logistics data platform which leverages the capacity and capabilities of logistics partners to offer domestic and international one-stop-shop logistics services and supply chain management solutions, fulfilling various logistics needs of merchants and consumers at scale. It uses data insights and technology to improve efficiency across the logistics value chain. In October 2017, as a further step to implement our New Retail strategy, we completed a subscription for newly issued ordinary shares of Cainiao Network for a cash consideration of US\$803 million. Following the completion of the transaction, our equity interest in Cainiao Network increased from an approximately 47% to an approximately 51% and Cainiao Network became our consolidated subsidiary. In September 2019, we purchased additional equity interests in Cainiao Network for a cash consideration of US\$157 million. In November 2019, we subscribed for newly issued ordinary shares of Cainiao Network together with certain of Cainiao Network's existing shareholders in connection with its equity financing transaction and to purchase certain equity interest from an existing Cainiao Network shareholder, for a total consideration of US\$3,325 million. Upon the completion of these transactions, our equity interest in Cainiao Network increased from approximately 51% to approximately 63%. We expect that Cainiao Network will help enhance the overall logistics experience for consumers and merchants across our digital economy, and enable greater efficiencies and lower costs in the logistics sector in China.

International Expansion

AliExpress Russia Holding Pte. Ltd., or AliExpress Russia Joint Venture, a joint venture set up by us, Mail.ru Group Limited, or Mail.ru Group, a leading internet company in Russia, Public Joint Stock Company MegaFon, or MegaFon, a Russian mobile telecommunications operator and Joint Stock Company “Managing Company of Russian Direct Investment Fund,” or RDIF, a Russian sovereign wealth fund. In October 2019, we invested US\$100 million into the joint venture and contributed our AliExpress Russia businesses into the joint venture. The other shareholders of the joint venture also made cash and non-cash contributions to the joint venture pursuant to the transaction documents. As of the date of this prospectus, we hold an approximately 56% equity interest and less-than-majority voting rights in the joint venture. As part of the transaction, we have also taken a minority stake in Mail.ru Group. In connection with the establishment of the joint venture, we entered into a strategic cooperation agreement relating to, among other things, traffic and product initiatives.

PT Tokopedia, or Tokopedia, a company that operates one of the leading e-commerce platforms in Indonesia. During fiscal year 2018, we completed a minority investment in existing and newly issued preferred shares of Tokopedia for a total cash consideration of US\$445 million. In connection with the initial investment, we also agreed to subscribe for additional preferred shares of Tokopedia if so elected by Tokopedia. Pursuant to the agreement, we acquired additional newly issued preferred shares of Tokopedia for a total cash consideration of US\$500 million in December 2018. Upon the completion of this investment, we held an approximately 29% equity interest in Tokopedia on a fully diluted basis. The investment in Tokopedia further expands our presence in the Southeast Asia consumer market.

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DSM Grup Danışmanlık İletişim ve Satış Ticaret A.Ş., or Trendyol, a leading online fashion retailer in Turkey. In July 2018, we acquired an approximately 85% equity interest in Trendyol for a cash consideration of US\$728 million. In connection with the transaction, we also entered into an agreement with the founders of Trendyol, allowing them to acquire additional equity interests in Trendyol from us or sell a portion of their equity interests in Trendyol to us in the future. In December 2018, we purchased additional equity interests in Trendyol for a cash consideration of US\$2 million. The investment underscores our commitment to international expansion.

Daraz Singapore Private Limited, or Daraz, a leading e-commerce platform in South Asia. In May 2018, we acquired a 100% equity interest in Daraz for a cash consideration of US\$194 million. The investment reflects our continued focus on implementing our globalization initiatives.

Lazada, a company that operates leading e-commerce platforms in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, with local language websites and mobile apps in each of the six markets. In April 2016, we completed the acquisition of a controlling stake in Lazada for a total cash consideration of US\$1.0 billion. Subsequent to this acquisition, we made additional investments in Lazada amounting to an aggregate of US\$3,006 million through acquisition of additional shares and capital injections. Upon the completion of these transactions, we owned approximately 98% of equity interest in Lazada.

Others

Huatai Securities Co, Ltd., or Huatai Securities, a leading integrated securities group in China that is listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. In July 2018, we acquired an approximately 3% interest in Huatai Securities for a cash consideration of RMB3.5 billion.

Huitongda Network Co., Ltd., or Huitongda, a company that operates a rural online services platform in China. In April 2018, we acquired existing and newly issued shares of Huitongda for a cash consideration of RMB4.5 billion, representing a 20% equity interest in Huitongda. The investment in Huitongda complements our strategic initiative in rural expansion.

China United Network Communications Ltd., or China Unicom, a major telecommunications company in China that is listed on the Shanghai Stock Exchange. In October 2017, we completed a RMB4.3 billion investment in newly issued ordinary shares of China Unicom, representing an approximately 2% equity interest in China Unicom. We expect that this investment can help us build an alliance relationship with China Unicom. By leveraging China Unicom's expertise in network operations and customer service, we believe that our alliance will help expand our cloud computing coverage across different industries in China.

Intangible Assets and Goodwill

When we make an acquisition, consideration that exceeds the fair value of the acquired assets and liabilities is allocated to intangible assets and goodwill. We have and will continue to incur amortization expenses as we amortize intangible assets over their estimated useful life on a straight-line basis. We do not amortize goodwill. We test intangible assets and goodwill periodically or whenever necessary for impairment, and any impairment may materially and adversely affect our financial condition and results of

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operations. Some of our acquisitions and investments may not be successful, and we may incur impairment charges in the future. It should further be noted that most of our businesses grouped under the digital media and entertainment segment, cloud computing segment, and innovation initiatives and others segment are still in the early stage of development. While these businesses were loss-making for the year ended March 31, 2019, we took a longer term view of the outlook of the businesses in its qualitative goodwill impairment assessments, and concluded that it is more likely than not that the fair value of the reporting units under these segments exceeded their carrying amount. For additional information, see “— Critical Accounting Policies and Estimates — Impairment Assessment on Goodwill and Intangible Assets” and “Risk Factors — Risks Related to Our Business and Industry — We face risks relating to our acquisitions, investments and alliances.”

Components of Results of Operations

Revenue

The following table sets forth the principal components of our revenue for the periods indicated:

	Year ended March 31,						Three months ended June 30,				
	2017		2018		2019		2018		2019		
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue	RMB	US\$	% of revenue
	(unaudited)										
	(in millions, except percentages)										
Core commerce:											
China commerce retail	114,109	72%	176,559	71%	247,615	66%	53,968	67%	75,601	11,013	66%
China commerce wholesale	5,679	4%	7,164	3%	9,988	3%	2,250	3%	2,992	436	3%
International commerce retail	7,336	5%	14,216	6%	19,558	5%	4,316	6%	5,567	811	5%
International commerce											
wholesale	6,001	4%	6,625	2%	8,167	2%	1,837	2%	2,245	327	2%
Cainiao logistics services	—	—	6,759	3%	14,885	4%	3,327	4%	5,005	729	4%
Local consumer services	—	—	—	—	18,058	5%	2,612	3%	6,180	900	5%
Others	755	0%	2,697	1%	5,129	1%	878	1%	1,954	284	2%
Total core commerce	133,880	85%	214,020	86%	323,400	86%	69,188	86%	99,544	14,500	87%
Cloud computing	6,663	4%	13,390	5%	24,702	7%	4,698	6%	7,787	1,134	7%
Digital media and entertainment ...	14,733	9%	19,564	8%	24,077	6%	5,975	7%	6,312	920	5%
Innovation initiatives and others ...	2,997	2%	3,292	1%	4,665	1%	1,059	1%	1,281	187	1%
Total	158,273	100%	250,266	100%	376,844	100%	80,920	100%	114,924	16,741	100%

We generate most of our revenue from our core commerce segment. We also earn revenue from services associated with our cloud computing segment, digital media and entertainment segment as well as innovation initiatives and others segment. A substantial majority of our revenue is attributable to our businesses in China. See “— Our Monetization Model” for additional information regarding our revenue.

Cost of Revenue

The principal components of our cost of revenue include: logistics costs; cost of inventories; expenses associated with the operation of our mobile platforms and websites, such as bandwidth and co-location fees, and depreciation and maintenance expenses for our servers and computers, call centers and other equipment; content acquisition costs paid to third parties and production costs of original content for our online media properties;

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salaries, bonuses, benefits and share-based compensation expense relating to customer service, mobile platform and platform operation personnel as well as payment processing consultants; traffic acquisition costs paid to third-party marketing affiliates either at a fixed price or on a revenue-sharing basis; payment processing fees paid to Alipay or other financial institutions; and other miscellaneous costs.

Product Development Expenses

Product development expenses primarily include salaries, bonuses, benefits and share-based compensation expense for research and development personnel and other expenses that are directly attributable to the development of new technologies and products for our businesses, such as the development of the Internet infrastructure, applications, operating systems, software, databases and networks. We expense all of our product development costs as they are incurred.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of online and offline advertising expenses, promotion expenses, salaries, bonuses, benefits and share-based compensation expense for our employees engaged in sales and marketing functions, and sales commissions paid for membership acquisition for our wholesale marketplaces.

General and Administrative Expenses

General and administrative expenses consist mainly of salaries, bonuses, benefits and share-based compensation expense for our management and administrative employees, professional services fees, office facilities, other support overhead costs, charitable contributions, as well as non-recurring items, such as settlement of a U.S. federal class action lawsuit.

Interest and Investment Income, Net

Interest and investment income, net consists of interest income, gain or loss on deemed disposals, disposals and revaluation of our long term equity investments and impairment of equity investments. We obtained control over Cainiao Network in fiscal year 2018 and Koubei and Alibaba Pictures in fiscal year 2019. We recognized gains of RMB22,442 million in fiscal year 2018 and RMB27,815 million in fiscal year 2019 from the revaluation of our previously held equity interest in Cainiao Network, Koubei and Alibaba Pictures. Any revaluation gains or losses from step acquisitions and disposal gain or losses of investments may fluctuate and may vary significantly from period to period. See “Risk Factors — Risks Relating to Our Business — Our results of operations fluctuate significantly from quarter to quarter which may make it difficult to predict our future performance.”

We adopted ASU 2016-01, “Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” beginning in fiscal year 2019. After the adoption of this new accounting update, equity investments other than those accounted for under the equity method or those that result in the consolidation of the investee are required to be measured at fair value, with subsequent changes in fair value recognized in the income statement. We have adopted this new accounting update using the modified retrospective method. The adoption of this new accounting update resulted in an increase of RMB10,610 million in interest and investment income, net for the fiscal year 2019.

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Interest Expense

Our interest expense is comprised of interest payments and amortization of upfront fees and incidental charges primarily associated with our unsecured senior notes issued in November 2014, the US\$4.0 billion five-year term loan facility drawn down in fiscal year 2017 and an additional aggregate of US\$7.0 billion unsecured senior notes issued in December 2017. In addition, in April 2017, we obtained a new US\$5.15 billion revolving credit facility, which we have not yet drawn as of the Latest Practicable Date. Interest expense in fiscal year 2019 was RMB5,190 million, an increase of 46% compared to RMB3,566 million in fiscal year 2018. The increase was primarily due to an increase in average debt outstanding in fiscal year 2019 as compared to fiscal year 2018, reflecting primarily an additional US\$7.0 billion of unsecured senior notes issued in December 2017.

Other Income, Net

Other income, net primarily consists of royalty fees and software technology service fees paid by Ant Financial, exchange gain or loss, as well as government grants. Ant Financial pays us royalty fees and software technology service fees pursuant to an intellectual property and software technology services agreement, as amended in August 2014, or the 2014 IPLA. Exchange gain or loss, arising from our operations and treasury management activities, recognized in our income statement is largely a result of appreciation or depreciation of RMB, respectively. The amount is also partially affected by the currency movements on our hedging activities related to the portion that is deemed ineffective from an accounting perspective. Government grants primarily relate to grants by central and local governments in connection with our contributions to technology development and investments in local business districts. These grants may not be recurring in nature, and we recognize the income when the grants are received and no further conditions need to be met. Following our receipt of the 33% equity interest in Ant Financial in September 2019, the profit share payments, consisting of the abovementioned royalty fees and software technology service fees paid by Ant Financial, have terminated. See “Related Party Transactions — Agreements and Transactions, Related to Ant Financial and Its Subsidiaries — Alipay Intellectual Property License and Software Technology Services Agreement” for further information on the arrangements between us and Ant Financial.

Income Tax Expense

Our income tax expense is comprised primarily of current tax expense, mainly attributable to certain profitable subsidiaries in China, and deferred tax expense, mainly including withholding tax on dividends to be distributed by our major subsidiaries operating in China.

Taxation

Cayman Islands Tax

Under Cayman Islands law, we are not subject to income, corporation or capital gains tax, and no withholding tax is imposed upon the payment of dividends.

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Hong Kong Profits Tax

Our subsidiaries incorporated in Hong Kong were subject to Hong Kong profits tax at a rate of 16.5% in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

PRC Income Tax

Under the EIT Law, the standard EIT rate is 25%.

Entities qualifying as High and New Technology Enterprises enjoy a preferential tax rate of 15%. Entities recognized as Software Enterprises are exempt from the EIT for two years beginning from their first profitable calendar year and are entitled to a 50% reduction in EIT for the following three calendar years. Furthermore, entities recognized as Key Software Enterprises within the PRC national plan enjoy a preferential EIT rate of 10%.

Certain subsidiaries received the above preferential tax treatments during calendar years 2016, 2017, 2018 and 2019. Three of our subsidiaries in China, Zhejiang Tmall Technology Co., Ltd., Taobao (China) Software Co., Ltd. and Alibaba (China) Technology Co., Ltd., which are our wholly-owned entities primarily involved in the operations of Tmall, Taobao Marketplace and wholesale marketplaces, respectively, were recognized as Key Software Enterprises in calendar years of 2016, 2017 and 2018, and they were subject to an EIT rate of 10%.

Key Software Enterprise status is subject to review by the relevant authorities every year and the timing of annual review and notification by the relevant authorities may vary from year to year. The related tax adjustments in relation to the change in applicable EIT rate as a result of notification of qualification are accounted for prospectively in the period in which the Key Software Enterprise status is recognized and notified. The annual review and notification relating to the renewal of the Key Software Enterprise status for the calendar year of 2019 has not yet been obtained. Accordingly Alibaba (China) Technology Co., Ltd., Taobao (China) Software Co., Ltd. and Zhejiang Tmall Technology Co., Ltd. continued to apply an EIT rate of 15% as High and New Technology Enterprises for the calendar year of 2019.

VAT and Other Levies

Our major PRC subsidiaries are subject to VAT on revenue earned for our services under a national VAT reform program. In general, the applicable VAT rate on the revenue earned for services is 6% with companies entitled to credit VAT paid on certain purchases against VAT on sales. Revenue is recognized net of VAT in our consolidated income statement.

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PRC Withholding Tax

Pursuant to the EIT Law, a 10% withholding tax is generally levied on dividends declared by companies in China to their non-resident enterprise investors. A lower withholding tax rate of 5% is applicable for direct foreign investors incorporated in Hong Kong with at least 25% equity interest in the PRC company and meeting the relevant conditions or requirements pursuant to the tax arrangement between the PRC and Hong Kong. As the equity holders of our major subsidiaries in China are qualified Hong Kong incorporated companies, our deferred tax liabilities for distributable earnings are calculated at a 5% withholding tax rate. As of June 30, 2019, we have accrued the withholding tax on substantially all of the distributable earnings of the PRC subsidiaries, except for those undistributed earnings that we intend to invest indefinitely in the PRC, which amounted to RMB88.0 billion (US\$12.8 billion).

Share-based Compensation

We have various equity incentive plans pursuant to which the employees, consultants and directors of our Company, our affiliates and/or certain other companies, such as Ant Financial, are awarded RSUs or granted options to acquire our ordinary shares. We believe share-based awards are vital to attract, incentivize and retain our employees and consultants. In addition to on-hire grants for new recruits above a specific job level, we also make performance grants on an annual basis and promotion grants on a semi-annual basis to our top performing employees. RSUs and options granted in the above categories are generally subject to a four-year vesting schedule. Depending on the nature and the purpose of the grant, RSUs and options generally vest 25% upon the first anniversary of the vesting commencement date or 50% upon the second anniversary of the vesting commencement date, and thereafter 25% every year. Certain RSUs and options granted to our senior management members are subject to a six-year vesting schedule. We believe share-based awards are the appropriate tool to align the interests of the grantees with those of our shareholders.

In addition, since March 2014, Junhan has granted certain share-based awards similar to share appreciation awards linked to the valuation of Ant Financial to certain of our employees, and Ant Financial, through its subsidiary, has granted certain RSUs to certain of our employees since April 2018. The awards granted by Junhan will be settled in cash by Junhan upon disposal of these awards by the holders. The awards granted by the Ant Financial subsidiary may be settled in cash or equity by the Ant Financial subsidiary upon the vesting of these awards. These awards are generally subject to a four-year vesting schedule as determined by the administrator of the plan. Depending on the nature and the purpose of the grant, these awards generally vest 25% or 50% upon the first or second anniversary of the vesting commencement date, respectively, as provided in the grant agreement, and 25% every year thereafter. Certain awards granted to our senior management members are subject to a six-year vesting schedule. We have no obligation to reimburse Junhan, Ant Financial or its subsidiaries for the cost associated with these awards. See “Related Party Transaction — Agreements and Transactions Related to Ant Financial and Its Subsidiaries — Equity-based Award Arrangements.”

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We recognized share-based compensation expense of RMB15,995 million, RMB20,075 million and RMB37,491 million in fiscal years 2017, 2018 and 2019, respectively, representing 10%, 8% and 10% of our revenue in those respective periods. Share-based compensation expense decreased from RMB16,378 million for the three months ended June 30, 2018 to RMB7,115 million (US\$1,036 million) for the three months ended June 30, 2019, respectively, representing 20% and 6% of our revenue in the respective periods. The following table sets forth an analysis of share-based compensation expense by function for the periods indicated.

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited) (in millions)					
Cost of revenue	3,893	5,505	8,915	3,816	1,747	254
Product development expenses	5,712	7,374	15,378	6,512	3,009	438
Sales and marketing expenses	1,772	2,037	4,411	2,063	862	126
General and administrative expenses ...	4,618	5,159	8,787	3,987	1,497	218
Total	<u>15,995</u>	<u>20,075</u>	<u>37,491</u>	<u>16,378</u>	<u>7,115</u>	<u>1,036</u>

Share-based compensation expense continued to increase during the years ended March 31, 2017, 2018 and 2019, primarily due to the increase in the average fair market value of the awards granted. In addition, as a result of “mark-to-market” accounting required under U.S. GAAP, the increase in share-based compensation expense also reflected the increase in the fair value relating to share-based awards relating to Ant Financial granted to our employees by Junhan or the Ant Financial subsidiary. The expense was significantly higher in the three months ended June 30, 2018 compared to the three months ended June 30, 2019 because Ant Financial completed an equity financing at a higher valuation during the three months ended June 30, 2018, which required us to recognize the increase in value of these awards. The following table sets forth an analysis of share-based compensation expense by type of awards:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited) (in millions)					
Alibaba Group share-based awards ⁽¹⁾ ...	13,087	16,870	22,727	4,584	5,898	859
Ant Financial share-based awards granted to our employees ⁽²⁾	2,188	2,278	12,855	11,477	352	51
Others ⁽³⁾	720	927	1,909	317	865	126
Total share-based compensation expense	<u>15,995</u>	<u>20,075</u>	<u>37,491</u>	<u>16,378</u>	<u>7,115</u>	<u>1,036</u>

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- (1) This includes awards we have granted to our employees, Ant Financial employees and other consultants. Awards we have granted to non-employees were subject to mark-to-market accounting treatment until March 31, 2019. Beginning on April 1, 2019, we adopted ASU 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” under U.S. GAAP. As a result of adopting this new accounting update, these awards are no longer subject to mark-to-market accounting treatment.
- (2) Awards subject to mark-to-market accounting treatment.
- (3) Others primarily relate to share-based awards underlying the equity of our subsidiaries.

The expense arising from share-based awards relating to Ant Financial granted to our employees represents a non-cash charge that will not result in any economic costs or equity dilution to our shareholders. We believe that the grant of these equity awards to our employees will encourage mutually beneficial cooperation between us and Ant Financial.

We expect that our share-based compensation expense will continue to be affected by changes in the fair value of our shares, our subsidiaries’ share-based awards and the quantity of awards we grant to our employees and consultants in the future. Furthermore, we expect that our share-based compensation expense will continue to be affected by future changes in the valuation of Ant Financial. See “— Critical Accounting Policies and Estimates — Share-based Compensation Expense and Valuation of the Underlying Awards” for additional information regarding our share-based compensation expense.

Non-GAAP Measures

We use adjusted EBITDA (including adjusted EBITDA margin), adjusted EBITA (including adjusted EBITA margin), marketplace-based core commerce adjusted EBITA, non-GAAP net income, non-GAAP diluted earnings per share/ADS and free cash flow, each a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes.

We believe that adjusted EBITDA, adjusted EBITA, marketplace-based core commerce adjusted EBITA, non-GAAP net income and non-GAAP diluted earnings per share/ADS help identify underlying trends in our business that could otherwise be distorted by the effect of certain income or expenses that we include in income from operations, net income and diluted earnings per share/ADS. We believe that these non-GAAP measures provide useful information about our core operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making. We present three different income measures, namely adjusted EBITDA, adjusted EBITA and non-GAAP net income, as well as one measure that provides supplemental information on our core commerce segment, namely marketplace-based core commerce adjusted EBITA, in order to provide more information and greater transparency to investors about our operating results.

We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic corporate transactions, including investing in our new business initiatives, making strategic investments and acquisitions and strengthening our balance sheet.

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Adjusted EBITDA, adjusted EBITA, marketplace-based core commerce adjusted EBITA, non-GAAP net income, non-GAAP diluted earnings per share/ADS and free cash flow should not be considered in isolation or construed as an alternative to income from operations, adjusted EBITA for core commerce, net income, diluted earnings per share/ADS, cash flows or any other measure of performance or as an indicator of our operating performance. These non-GAAP financial measures presented here do not have standardized meanings prescribed by U.S. GAAP and may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data.

Adjusted EBITDA represents net income before (i) interest and investment income, net, interest expense, other income or loss, net, income tax expenses and share of results of equity investees, (ii) certain non-cash expenses, consisting of share-based compensation expense, amortization, depreciation, operating lease cost relating to land use rights, impairment of goodwill and (iii) settlement of a U.S. federal class action lawsuit, which we do not believe are reflective of our core operating performance during the periods presented.

Adjusted EBITA represents net income before (i) interest and investment income, net, interest expense, other income or loss, net, income tax expenses and share of results of equity investees, (ii) certain non-cash expenses, consisting of share-based compensation expense, amortization and impairment of goodwill and (iii) settlement of a U.S. federal class action lawsuit, which we do not believe are reflective of our core operating performance during the periods presented.

Marketplace-based core commerce adjusted EBITA represents adjusted EBITA for core commerce excluding the effects of (i) local consumer services, (ii) Lazada, (iii) New Retail and direct import and (iv) Cainiao Network. Marketplace-based core commerce adjusted EBITA reflects the performance of our most established businesses, namely, those of our China retail marketplaces and wholesale marketplaces which primarily adopt a marketplace-based approach. By excluding certain businesses that are in the earlier stages of their development and with business approaches that continue to evolve, marketplace-based core commerce adjusted EBITA enables investors to clearly evaluate the performance of our most established businesses on a like-for-like basis.

Non-GAAP net income represents net income before share-based compensation expense, amortization, impairment of investments and goodwill, gain or loss on deemed disposals/disposals/revaluation of investments, gain in relation to the receipt of the 33% equity interest in Ant Financial, settlement of a U.S. federal class action lawsuit, amortization of excess value receivable arising from the restructuring of commercial arrangements with Ant Financial, immediate recognition of unamortized professional fees and upfront fees upon early repayment/termination of bank borrowings and others, as adjusted for the tax effects on non-GAAP adjustments.

Non-GAAP diluted earnings per share represents non-GAAP net income attributable to ordinary shareholders divided by the weighted average number of shares outstanding during the periods on a diluted basis. Non-GAAP diluted earnings per ADS represents non-GAAP diluted earnings per share after adjustment to the ordinary share-to-ADS ratio.

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Free cash flow represents net cash provided by operating activities as presented in our consolidated cash flow statement less purchases of property and equipment (excluding acquisition of land use rights and construction in progress relating to office campus), licensed copyrights and other intangible assets, as well as adjustments to exclude from net cash provided by operating activities the consumer protection fund deposits from merchants on our China retail marketplaces and changes in loan receivables relating to micro loans of our SME loan business (which we transferred to Ant Financial in February 2015) and others. We deduct certain items of cash flows from investing activities in order to provide greater transparency into cash flow from our revenue-generating business operations. We exclude “acquisition of land use rights and construction in progress relating to office campus” because the office campus is used by us for corporate and administrative purposes and is not directly related to our revenue-generating business operations. We also exclude consumer protection fund deposits from merchants on our China retail marketplaces because these deposits are restricted for the purpose of compensating consumers for claims against merchants. We present the adjustment for changes in loan receivables because these receivables are reflected under cash flows from operating activities, whereas the secured borrowings and other bank borrowings used to finance them are reflected under cash flows from financing activities, and accordingly, the adjustment is made to show cash flows from operating activities net of the effect of changes in loan receivables.

The following table sets forth a reconciliation of our net income to adjusted EBITA and adjusted EBITDA for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited) (in millions)					
Net income	41,226	61,412	80,234	7,650	19,122	2,785
Less: Interest and investment income, net	(8,559)	(30,495)	(44,106)	(7,246)	(187)	(27)
Add: Interest expense	2,671	3,566	5,190	1,213	1,346	196
Less: Other income (loss), net	(6,086)	(4,160)	(221)	83	(2,101)	(306)
Add: Income tax expenses	13,776	18,199	16,553	5,665	6,712	978
Add: Share of results of equity investees	5,027	20,792	(566)	655	(517)	(75)
Income from operations	48,055	69,314	57,084	8,020	24,375	3,551
Add: Share-based compensation expense	15,995	20,075	37,491	16,378	7,115	1,036
Add: Amortization of intangible assets ..	5,122	7,120	10,727	2,104	3,066	447
Add: Impairment of goodwill	—	494	—	—	—	—
Add: Settlement of U.S. federal class action lawsuit ⁽¹⁾	—	—	1,679	—	—	—
Adjusted EBITA	69,172	97,003	106,981	26,502	34,556	5,034
Add: Depreciation and amortization of property and equipment, and operating lease cost relating to land use rights ..	5,284	8,789	14,962	2,857	4,682	682
Adjusted EBITDA	<u>74,456</u>	<u>105,792</u>	<u>121,943</u>	<u>29,359</u>	<u>39,238</u>	<u>5,716</u>

(1) For a description of the relevant federal class action lawsuit and settlement, see “Our Business — Legal and Administrative Proceedings.”

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The following table sets forth a reconciliation of adjusted EBITA for core commerce to marketplace-based core commerce adjusted EBITA for the periods indicated:

	Year ended March 31,		Three months ended June 30,		
	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	US\$
	(unaudited) (in millions)				
Adjusted EBITA for core commerce	114,100	136,167	32,797	41,025	5,976
Less: Effects of local consumer services, Lazada, New Retail and direct import and Cainiao Network	8,783	25,422	4,159	5,775	841
Marketplace-based core commerce adjusted EBITA	122,883	161,589	36,956	46,800	6,817

The following table sets forth a reconciliation of our net income to non-GAAP net income for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited) (in millions)					
Net income	41,226	61,412	80,234	7,650	19,122	2,785
Add: Share-based compensation expense	15,995	20,075	37,491	16,378	7,115	1,036
Add: Amortization of intangible assets ..	5,122	7,120	10,727	2,104	3,066	447
Add: Impairment of goodwill and investments	2,542	20,463	11,360	–	250	36
Less: Gain (loss) on deemed disposals/disposals/revaluation of investments and others	(7,346)	(25,945)	(47,525)	(5,408)	1,626	237
Add: Settlement of U.S. federal class action lawsuit ⁽¹⁾	–	–	1,679	–	–	–
Add: Amortization of excess value receivable arising from the restructuring of commercial arrangements with Ant Financial	264	264	264	66	66	10
Add: Immediate recognition of unamortized professional fees and upfront fees upon early repayment/termination of bank borrowings	–	92	–	–	–	–
Adjusted for tax effects on non-GAAP adjustments ⁽²⁾	68	(267)	(823)	(689)	(296)	(43)
Non-GAAP net income	57,871	83,214	93,407	20,101	30,949	4,508

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- (1) For a description of the relevant federal class action lawsuit and settlement, see “Our Business — Legal and Administrative Proceedings.”
- (2) Tax effects on non-GAAP adjustments are comprised of tax provisions on the amortization of intangible assets and certain gains or losses from investments, as well as tax benefits from share-based awards.

The following table sets forth a reconciliation of our diluted earnings per share/ADS to non-GAAP diluted earnings per share/ADS for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited)					
	(in millions, except per share data)					
Net income attributable to ordinary shareholders	43,675	63,985	87,600	8,685	21,252	3,096
Less: Dilution effect on earnings arising from share-based awards operated by a subsidiary and equity investees	(11)	(21)	(42)	(3)	(11)	(2)
Net income attributable to ordinary shareholders for computing diluted earnings per share/ADS	43,664	63,964	87,558	8,682	21,241	3,094
Add: Non-GAAP adjustments to net income ⁽¹⁾	16,645	21,802	13,173	12,451	11,827	1,723
Non-GAAP net income attributable to ordinary shareholders for computing non-GAAP diluted earnings per share/ADS	60,309	85,766	100,731	21,133	33,068	4,817
Weighted average number of shares on a diluted basis (million shares)	20,579	20,881	20,988	21,014	21,075	
Diluted earnings per share ⁽²⁾	2.12	3.06	4.17	0.41	1.01	0.15
Add: Non-GAAP adjustments to net income per share ⁽³⁾	0.81	1.05	0.63	0.60	0.56	0.08
Non-GAAP diluted earnings per share ⁽⁴⁾	2.93	4.11	4.80	1.01	1.57	0.23
Diluted earnings per ADS ⁽²⁾	16.97	24.51	33.38	3.30	8.06	1.17
Add: Non-GAAP adjustments to net income per ADS ⁽³⁾	6.47	8.35	5.02	4.74	4.49	0.66
Non-GAAP diluted earnings per ADS ⁽⁴⁾	23.44	32.86	38.40	8.04	12.55	1.83

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- (1) See the table above regarding the reconciliation of net income to non-GAAP net income for more information of these non-GAAP adjustments.
- (2) Diluted earnings per share is derived from net income attributable to ordinary shareholders for computing diluted earnings per share divided by weighted average number of shares on a diluted basis. Diluted earnings per ADS is derived from the diluted earnings per share after adjustment to the ordinary share-to-ADS ratio.
- (3) Non-GAAP adjustments to net income per share is derived from non-GAAP adjustments to net income divided by weighted average number of shares on a diluted basis. Non-GAAP adjustment to net income per ADS is derived from the non-GAAP adjustment to net income per share after adjustment to the ordinary share-to-ADS ratio.
- (4) Non-GAAP diluted earnings per share is derived from non-GAAP net income attributable to ordinary shareholders for computing non-GAAP diluted earnings per share divided by weighted average number of shares on a diluted basis. Non-GAAP diluted earnings per ADS is derived from the non-GAAP diluted earnings per share after adjustment to the ordinary share-to-ADS ratio.

The following table sets forth a reconciliation of net cash provided by operating activities to free cash flow for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited) (in millions)					
Net cash provided by operating activities ⁽¹⁾	82,854	125,805	150,975	36,117	34,612	5,042
Less: Purchase of property and equipment (excluding land use rights and construction in progress relating to office campus)	(5,680)	(15,601)	(32,336)	(5,005)	(5,856)	(853)
Less: Acquisition of licensed copyrights and other intangible assets	(6,540)	(10,208)	(14,161)	(4,754)	(2,395)	(349)
Add: Changes in loan receivables, net and others	684	—	—	—	—	—
Free cash flow	<u>71,318</u>	<u>99,996</u>	<u>104,478</u>	<u>26,358</u>	<u>26,361</u>	<u>3,840</u>

- (1) We adopted ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” beginning in the first quarter of fiscal year 2019. As a result of adopting this new accounting update, we retrospectively adjusted the consolidated statements of cash flows to include restricted cash and escrow receivables in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The impact of our retrospective reclassification on cash flows from operating activities for the years ended March 31, 2017 and 2018 was an increase of RMB2,528 million and RMB634 million, respectively.

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Results of Operations

The following table sets out our consolidated results of operations for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
(unaudited)						
(in millions, except per share data)						
Revenue						
Core commerce	133,880	214,020	323,400	69,188	99,544	14,500
Cloud computing	6,663	13,390	24,702	4,698	7,787	1,134
Digital media and entertainment	14,733	19,564	24,077	5,975	6,312	920
Innovation initiatives and others	2,997	3,292	4,665	1,059	1,281	187
Total	158,273	250,266	376,844	80,920	114,924	16,741
Cost of revenue	(59,483)	(107,044)	(206,929)	(43,720)	(59,987)	(8,738)
Product development expenses	(17,060)	(22,754)	(37,435)	(11,510)	(10,478)	(1,526)
Sales and marketing expenses	(16,314)	(27,299)	(39,780)	(8,921)	(10,698)	(1,558)
General and administrative expenses	(12,239)	(16,241)	(24,889)	(6,645)	(6,320)	(921)
Amortization of intangible assets	(5,122)	(7,120)	(10,727)	(2,104)	(3,066)	(447)
Impairment of goodwill	—	(494)	—	—	—	—
Income from operations	48,055	69,314	57,084	8,020	24,375	3,551
Interest and investment income, net	8,559	30,495	44,106	7,246	187	27
Interest expense	(2,671)	(3,566)	(5,190)	(1,213)	(1,346)	(196)
Other income (loss), net	6,086	4,160	221	(83)	2,101	306
Income before income tax and share of results of equity investees	60,029	100,403	96,221	13,970	25,317	3,688
Income tax expenses	(13,776)	(18,199)	(16,553)	(5,665)	(6,712)	(978)
Share of results of equity investees	(5,027)	(20,792)	566	(655)	517	75
Net income	41,226	61,412	80,234	7,650	19,122	2,785
Net loss attributable to noncontrolling interests	2,449	2,681	7,652	1,070	2,326	339
Net income attributable to Alibaba Group Holding Limited	43,675	64,093	87,886	8,720	21,448	3,124
Accretion of mezzanine equity	—	(108)	(286)	(35)	(196)	(28)
Net income attributable to ordinary shareholders	43,675	63,985	87,600	8,685	21,252	3,096
Earnings per share attributable to ordinary shareholders						
Basic	2.19	3.13	4.24	0.42	1.02	0.15
Diluted	2.12	3.06	4.17	0.41	1.01	0.15
Earnings per ADS attributable to ordinary shareholders						
Basic	17.52	25.06	33.95	3.36	8.18	1.19
Diluted	16.97	24.51	33.38	3.30	8.06	1.17

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	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	%	%	%	%	%
(unaudited)					
(as percentage of revenue)					
Revenue					
Core commerce	85	86	86	86	87
Cloud computing	4	5	7	6	7
Digital media and entertainment ...	9	8	6	7	5
Innovation initiatives and others ...	2	1	1	1	1
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Cost of revenue	(38)	(43)	(55)	(54)	(53)
Product development expenses	(11)	(9)	(10)	(14)	(9)
Sales and marketing expenses	(10)	(11)	(11)	(11)	(9)
General and administrative expenses ..	(8)	(6)	(6)	(8)	(5)
Amortization of intangible assets	(3)	(3)	(3)	(3)	(3)
Impairment of goodwill	—	—	—	—	—
	<u>30</u>	<u>28</u>	<u>15</u>	<u>10</u>	<u>21</u>
Income from operations	30	28	15	10	21
Interest and investment income, net ..	6	12	12	9	—
Interest expense	(2)	(1)	(1)	(2)	(1)
Other income (loss), net	4	1	—	—	2
	<u>38</u>	<u>40</u>	<u>26</u>	<u>17</u>	<u>22</u>
Income before income tax and share of results of equity investees	38	40	26	17	22
Income tax expenses	(9)	(7)	(5)	(7)	(6)
Share of results of equity investees ..	(3)	(8)	—	—	—
	<u>26</u>	<u>25</u>	<u>21</u>	<u>10</u>	<u>16</u>
Net income	26	25	21	10	16
Net loss attributable to noncontrolling interests	2	1	2	1	2
	<u>28</u>	<u>26</u>	<u>23</u>	<u>11</u>	<u>18</u>
Net income attributable to Alibaba Group Holding Limited	28	26	23	11	18
Accretion of mezzanine equity	—	—	—	—	—
	<u>28</u>	<u>26</u>	<u>23</u>	<u>11</u>	<u>18</u>
Net income attributable to ordinary shareholders	<u>28</u>	<u>26</u>	<u>23</u>	<u>11</u>	<u>18</u>

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Segment Information

The table below sets forth certain financial information of our operating segments for the periods indicated:

Three months ended June 30, 2019							
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	Consolidated	
	RMB	RMB	RMB	RMB	RMB	RMB	US\$
(in millions, except percentages)							
Revenue	99,544	7,787	6,312	1,281	–	114,924	16,741
Income (loss) from operations	35,049	(1,509)	(3,159)	(3,000)	(3,006)	24,375	3,551
Add: Share-based compensation expense .	3,310	1,147	596	1,015	1,047	7,115	1,036
Add: Amortization of intangible assets	2,666	4	330	20	46	3,066	447
Adjusted EBITA	<u>41,025</u>	<u>(358)</u>	<u>(2,233)</u>	<u>(1,965)</u>	<u>(1,913)</u>	<u>34,556</u>	<u>5,034</u>
Adjusted EBITA margin .	41%	(5)%	(35)%	(153)%		30%	

Three months ended June 30, 2018						
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB
(unaudited) (in millions, except percentages)						
Revenue	69,188	4,698	5,975	1,059	–	80,920
Income (loss) from operations	23,022	(2,074)	(4,290)	(3,775)	(4,863)	8,020
Add: Share-based compensation expense ...	8,095	1,581	818	2,564	3,320	16,378
Add: Amortization of intangible assets	1,680	5	340	9	70	2,104
Adjusted EBITA	<u>32,797</u>	<u>(488)</u>	<u>(3,132)</u>	<u>(1,202)</u>	<u>(1,473)</u>	<u>26,502</u>
Adjusted EBITA margin ...	47%	(10)%	(52)%	(114)%		33%

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Year ended March 31, 2019						
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB
(in millions, except percentages)						
Revenue	323,400	24,702	24,077	4,665	–	376,844
Income (loss) from operations	109,312	(5,508)	(20,046)	(11,795)	(14,879)	57,084
Add: Share-based compensation expense	17,694	4,332	2,988	5,774	6,703	37,491
Add: Amortization of intangible assets	9,161	18	1,262	50	236	10,727
Add: Settlement of U.S. federal class action lawsuit ⁽²⁾	–	–	–	–	1,679	1,679
Adjusted EBITA	<u>136,167</u>	<u>(1,158)</u>	<u>(15,796)</u>	<u>(5,971)</u>	<u>(6,261)</u>	<u>106,981</u>
Adjusted EBITA margin	42%	(5)%	(66)%	(128)%		28%

Year ended March 31, 2018						
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB
(in millions, except percentages)						
Revenue	214,020	13,390	19,564	3,292	–	250,266
Income (loss) from operations	102,743	(3,085)	(14,140)	(6,901)	(9,303)	69,314
Add: Share-based compensation expense	8,466	2,274	2,142	3,707	3,486	20,075
Add: Amortization of intangible assets	2,891	12	3,693	198	326	7,120
Add: Impairment of goodwill	–	–	–	–	494	494
Adjusted EBITA	<u>114,100</u>	<u>(799)</u>	<u>(8,305)</u>	<u>(2,996)</u>	<u>(4,997)</u>	<u>97,003</u>
Adjusted EBITA margin	53%	(6)%	(42)%	(91)%		39%

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	Year ended March 31, 2017					Consolidated
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Unallocated ⁽¹⁾	
	RMB	RMB	RMB	RMB	RMB	RMB
	(in millions, except percentages)					
Revenue	133,880	6,663	14,733	2,997	–	158,273
Income (loss) from operations	74,180	(1,681)	(9,882)	(6,798)	(7,764)	48,055
Add: Share-based compensation expense ...	5,994	1,201	1,454	3,017	4,329	15,995
Add: Amortization of intangible assets	2,258	4	1,886	656	318	5,122
Adjusted EBITA	82,432	(476)	(6,542)	(3,125)	(3,117)	69,172
Adjusted EBITA margin ...	62%	(7)%	(44)%	(104)%		44%

(1) Unallocated expenses are primarily related to corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

(2) For a description of the relevant federal class action lawsuit and settlement, see “Our Business — Legal and Administrative Proceedings.”

Comparison of Three Months Ended June 30, 2018 and 2019

Revenue

	Three months ended June 30,			% Change
	2018	2019		
	RMB	RMB	US\$	
	(unaudited)	(in millions, except percentages)		
Core commerce:				
China commerce retail	53,968	75,601	11,013	40%
China commerce wholesale	2,250	2,992	436	33%
International commerce retail	4,316	5,567	811	29%
International commerce wholesale	1,837	2,245	327	22%
Cainiao logistics services	3,327	5,005	729	50%
Local consumer services	2,612	6,180	900	137%
Others	878	1,954	284	123%
Total core commerce	69,188	99,544	14,500	44%
Cloud computing	4,698	7,787	1,134	66%
Digital media and entertainment	5,975	6,312	920	6%
Innovation initiatives and others	1,059	1,281	187	21%
Total revenue	80,920	114,924	16,741	42%

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Total revenue increased by 42% from RMB80,920 million in the three months ended June 30, 2018 to RMB114,924 million (US\$16,741 million) in the three months ended June 30, 2019. The increase was mainly driven by the robust revenue growth of our China commerce retail business, Ele.me (which we consolidated in May 2018) and Alibaba Cloud.

Core commerce segment

China commerce retail

	Three months ended June 30,			% Change
	2018	2019		
	RMB	RMB	US\$	
	(unaudited)	(in millions, except percentages)		
Revenue				
China commerce retail business				
Customer management	33,053	41,954	6,111	27%
Commission	13,756	16,902	2,462	23%
Others ⁽¹⁾	7,159	16,745	2,440	134%
Total	53,968	75,601	11,013	40%

(1) “Others” revenue under China commerce retail is primarily generated by our New Retail and direct sales businesses, mainly Freshippo, Tmall Supermarket, Tmall Direct Import and Intime.

Revenue from our China commerce retail business in the three months ended June 30, 2019 was RMB75,601 million (US\$11,013 million), an increase of 40% compared to RMB53,968 million in the corresponding period of 2018. Revenue from our China retail marketplaces continued to see strong growth. Combined customer management and commission revenues grew 26% year-over-year, which represents an increase of 27% in customer management revenue and an increase of 23% in commission revenue. The growth of customer management revenue was primarily the result of increases in the volume of paid clicks due to user growth and more relevant listings driven by better algorithms, which resulted in better consumer experience. The growth of commission revenue was primarily due to the strong 34% year-over-year growth of Tmall physical goods GMV (excluding unpaid orders), partly offset by the revenue mix shift within Tmall Supermarket from commission-based revenue towards direct sales, which is classified as “Others” revenue under China commerce retail business. “Others” revenue under China commerce retail business was RMB16,745 million (US\$2,440 million), a significant increase compared to RMB7,159 million in the corresponding period of 2018, primarily driven by contributions from direct sales businesses, including Tmall Supermarket and Freshippo. We expect that the proportion of revenue of our direct sales businesses will continue to increase as we further implement our New Retail strategy.

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China commerce wholesale

Revenue from our China commerce wholesale business in the three months ended June 30, 2019 was RMB2,992 million (US\$436 million), an increase of 33% compared to RMB2,250 million in the corresponding period of 2018. The increase was primarily due to an increase in the average revenue from paying members on 1688.com, our domestic wholesale marketplace.

International commerce retail

Revenue from our international commerce retail business in the three months ended June 30, 2019 was RMB5,567 million (US\$811 million), an increase of 29% compared to RMB4,316 million in the corresponding period of 2018. The increase was primarily due to our consolidation of Trendyol, Turkey's leading e-commerce platform, and an increase in revenue from AliExpress.

International commerce wholesale

Revenue from our international commerce wholesale business in the three months ended June 30, 2019 was RMB2,245 million (US\$327 million), an increase of 22% compared to RMB1,837 million in the corresponding period of 2018. The increase was primarily due to increases in the average revenue from paying members and the number of paying members on Alibaba.com, our global wholesale marketplace.

Cainiao logistics services

Revenue from Cainiao logistics services, which represents revenue from the domestic and international one-stop-shop logistics services and supply chain management solutions provided by Cainiao Network, after elimination of inter-company transactions, was RMB5,005 million (US\$729 million) in the three months ended June 30, 2019, an increase of 50% compared to RMB3,327 million in the corresponding period of 2018, mainly due to the increase in the volume of orders fulfilled.

Local consumer services

Revenue from local consumer services, which primarily represents platform commissions, fees from provision of delivery services and other services provided by our on-demand delivery and local services platform Ele.me, was RMB6,180 million (US\$900 million) in the three months ended June 30, 2019, an increase of 137% compared to RMB2,612 million in the corresponding period of 2018. We started to consolidate Ele.me in May 2018 and Koubei in December 2018.

Cloud computing segment

Revenue from our cloud computing business in the three months ended June 30, 2019 was RMB7,787 million (US\$1,134 million), an increase of 66% compared to RMB4,698 million in the corresponding period of 2018, primarily driven by an increase in average revenue per customer.

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Digital media and entertainment segment

Revenue from our digital media and entertainment business in the three months ended June 30, 2019 was RMB6,312 million (US\$920 million), an increase of 6% compared to RMB5,975 million in the corresponding period of 2018. The increase was primarily due to our consolidation of Alibaba Pictures in March 2019.

Innovation initiatives and others segment

Revenue from innovation initiatives and others in the three months ended June 30, 2019 was RMB1,281 million (US\$187 million), an increase of 21% compared to RMB1,059 million in the corresponding period of 2018. The increase was mainly due to an increase in revenue from Amap.

Cost of Revenue

	Three months ended June 30,			
	2018	2019		
	RMB	RMB	US\$	% Change
	(unaudited)	(in millions, except percentages)		
Cost of revenue	43,720	59,987	8,738	37%
Percentage of revenue	54%	53%		
Share-based compensation expense				
included in cost of revenue	3,816	1,747	254	(54)%
Percentage of revenue	4%	2%		
Cost of revenue excluding share-based				
compensation expense	39,904	58,240	8,484	46%
Percentage of revenue	50%	51%		

Cost of revenue in the three months ended June 30, 2019 was RMB59,987 million (US\$8,738 million), or 53% of revenue, compared to RMB43,720 million, or 54% of revenue, in the corresponding period of 2018. Without the effect of share-based compensation expense, cost of revenue as a percentage of revenue would have increased from 50% in the three months ended June 30, 2018 to 51% in the three months ended June 30, 2019. The increase was primarily due to an increase in the cost of inventory from our direct sales and New Retail businesses, as well as an increase in logistics cost from our on-demand delivery service by Ele.me, partly offset by a decrease in content spending by Youku. As we continue to invest in New Retail, globalization, local consumer services, user acquisition, user experience and infrastructure, we expect our cost of revenue will increase in absolute dollar amounts and will likely increase as a percentage of revenue.

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Product Development Expenses

	Three months ended June 30,			
	2018	2019		
	RMB	RMB	US\$	% Change
	(unaudited)	(in millions, except percentages)		
Product development expenses	11,510	10,478	1,526	(9)%
Percentage of revenue	14%	9%		
Share-based compensation expense included in product development expenses	6,512	3,009	438	(54)%
Percentage of revenue	8%	2%		
Product development expenses excluding share-based compensation expense . . .	4,998	7,469	1,088	49%
Percentage of revenue	6%	7%		

Our product development expenses in the three months ended June 30, 2019 were RMB10,478 million (US\$1,526 million), or 9% of revenue, compared to RMB11,510 million, or 14% of revenue, in the corresponding period of 2018. Without the effect of share-based compensation expense, product development expenses as a percentage of revenue would have increased from 6% in the three months ended June 30, 2018 to 7% in the three months ended June 30, 2019. We expect our product development expenses will increase in absolute amounts and may increase as a percentage of revenue, as we increase our investments in technology, research and development.

Sales and Marketing Expenses

	Three months ended June 30,			
	2018	2019		
	RMB	RMB	US\$	% Change
(unaudited)				
	(in millions, except percentages)			
Sales and marketing expenses	8,921	10,698	1,558	20%
Percentage of revenue	11%	9%		
Share-based compensation expense included in sales and marketing expenses	2,063	862	126	(58)%
Percentage of revenue	3%	1%		
Sales and marketing expenses excluding share-based compensation expense . . .	6,858	9,836	1,432	43%
Percentage of revenue	8%	8%		

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Our sales and marketing expenses in the three months ended June 30, 2019 were RMB10,698 million (US\$1,558 million), or 9% of revenue, compared to RMB8,921 million, or 11% of revenue, in the corresponding period of 2018. Without the effect of share-based compensation expense, sales and marketing expenses as a percentage of revenue would have remained stable at 8% in the three months ended June 30, 2019 and the corresponding period last year. We expect our sales and marketing expenses will increase in absolute amounts and may increase as a percentage of revenue as we continue to invest in marketing and promotion.

General and Administrative Expenses

	Three months ended June 30,			
	2018	2019		
	RMB	RMB	US\$	% Change
	(unaudited)	(in millions, except percentages)		
General and administrative expenses . . .	6,645	6,320	921	(5)%
Percentage of revenue	8%	5%		
Share-based compensation expense included in general and administrative expenses	3,987	1,497	218	(62)%
Percentage of revenue	5%	1%		
General and administrative expenses excluding share-based compensation expense	2,658	4,823	703	81%
Percentage of revenue	3%	4%		

Our general and administrative expenses in the three months ended June 30, 2019 were RMB6,320 million (US\$921 million), or 5% of revenue, compared to RMB6,645 million, or 8% of revenue, in the corresponding period of 2018. Without the effect of share-based compensation expense, general and administrative expenses as a percentage of revenue would have increased from 3% in the three months ended June 30, 2018 to 4% in the three months ended June 30, 2019.

Amortization of Intangible Assets

	Three months ended June 30,			
	2018	2019		
	RMB	RMB	US\$	% Change
	(unaudited)			
	(in millions, except percentages)			
Amortization of intangible assets	2,104	3,066	447	46%
Percentage of revenue	3%	3%		

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Amortization of intangible assets in the three months ended June 30, 2019 was RMB3,066 million (US\$447 million), an increase of 46% from RMB2,104 million in the corresponding period of 2018, primarily due to an increase in amortization of intangible assets acquired from business combinations of Koubei. As we consolidate newly acquired businesses, we expect that our amortization of intangible assets will increase in the future.

Income from Operations and Operating Margin

	Three months ended June 30,			
	2018	2019		
	RMB	RMB	US\$	% Change
(unaudited)				
	(in millions, except percentages)			
Income from operations	8,020	24,375	3,551	204%
Percentage of revenue	10%	21%		
Share-based compensation expense included in income from operations . .	16,378	7,115	1,036	(57)%
Percentage of revenue	20%	6%		
Income from operations excluding share- based compensation expense	24,398	31,490	4,587	29%
Percentage of revenue	30%	27%		

Our income from operations in the three months ended June 30, 2019 was RMB24,375 million (US\$3,551 million), or 21% of revenue, an increase of 204% compared to RMB8,020 million, or 10% of revenue, in the corresponding period of 2018. The increase would have been 27% excluding share-based compensation expense resulting from Ant Financial's awards to our employees. This expense was significantly higher in the three months ended June 30, 2018 because during the quarter Ant Financial completed an equity financing at a higher valuation, which required us to recognize the increase in value of these awards.

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Adjusted EBITA and adjusted EBITA margin

Adjusted EBITA and adjusted EBITA margin by segments are set forth in the table below. See the section entitled “— Segment Information” above for a reconciliation of income from operations to adjusted EBITA.

	Three months ended June 30,				
	2018		2019		
		% of			% of
	RMB	Segment	RMB	US\$	Segment
		Revenue			Revenue
	(unaudited)				
	(in millions, except percentages)				
Core commerce	32,797	47%	41,025	5,976	41%
Cloud computing	(488)	(10)%	(358)	(52)	(5)%
Digital media and entertainment	(3,132)	(52)%	(2,233)	(325)	(35)%
Innovation initiatives and others	(1,202)	(114)%	(1,965)	(286)	(153)%

Core commerce segment

Adjusted EBITA increased by 25% to RMB41,025 million (US\$5,976 million) in the three months ended June 30, 2019, compared to RMB32,797 million in the corresponding period of 2018. Marketplace-based core commerce adjusted EBITA increased 27% year-over-year to RMB46,800 million (US\$6,817 million). Adjusted EBITA margin decreased from 47% in the three months ended June 30, 2018 to 41% in the three months ended June 30, 2019 due to strategic investments, primarily including aggressive investment in local consumer services and gradual revenue mix shift towards self-operated New Retail and direct sales businesses where revenue is recorded on a gross basis including the cost of inventory. We expect that our core commerce adjusted EBITA margin will continue to be affected by the pace of our investments in new businesses and revenue mix shift to self-operated New Retail and direct sales businesses.

Cloud computing segment

Adjusted EBITA in the three months ended June 30, 2019 was a loss of RMB358 million (US\$52 million), compared to a loss of RMB488 million in the corresponding period of 2018. Adjusted EBITA margin improved to negative 5% in the three months ended June 30, 2019 from negative 10% in the three months ended June 30, 2018, primarily due to economies of scale.

Digital media and entertainment segment

Adjusted EBITA in the three months ended June 30, 2019 was a loss of RMB2,233 million (US\$325 million), compared to a loss of RMB3,132 million in the corresponding period of 2018. Adjusted EBITA margin improved to negative 35% in the three months ended June 30, 2019 from negative 52% in the three months ended June 30, 2018, primarily due to the decrease of content spending by Youku.

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Innovation initiatives and others segment

Adjusted EBITA in the three months ended June 30, 2019 was a loss of RMB1,965 million (US\$286 million), compared to a loss of RMB1,202 million in the corresponding period of 2018. The increase in adjusted EBITA loss was primarily due to our investments in technological research and innovation, as well as investments in other business initiatives.

Interest and Investment Income, Net

Our interest and investment income, net, in the three months ended June 30, 2019 was RMB187 million (US\$27 million), compared to RMB7,246 million in the corresponding period of 2018, which was primarily due to net losses arising from changes in fair value of our equity investments in the three months ended June 30, 2019 as opposed to net gains in the corresponding period of 2018. The above-mentioned net gains/losses arising from changes in fair value of equity investments were excluded from our non-GAAP net income.

Interest Expense

Our interest expense increased by 11% from RMB1,213 million in the three months ended June 30, 2018 to RMB1,346 million (US\$196 million) in the three months ended June 30, 2019.

Other Income, Net

Our other income, net in the three months ended June 30, 2019 was RMB2,101 million (US\$306 million), compared to other loss, net of RMB83 million in the corresponding period of 2018. The increase in other income was primarily due to a decrease in exchange loss and an increase in royalty fees and software technology service fees from Ant Financial. Royalty fees and software technology service fees under our profit sharing arrangement with Ant Financial amounted to RMB1,627 million (US\$237 million) in the three months ended June 30, 2019, compared to RMB910 million in the corresponding period of 2018.

Income Tax Expenses

Our income tax expenses in the three months ended June 30, 2019 were RMB6,712 million (US\$978 million), compared to RMB5,665 million in the corresponding period of 2018. Our effective tax rate was 27% in the three months ended June 30, 2019, compared to 41% in the corresponding period of 2018. Excluding share-based compensation expense, revaluation gains/losses and impairment of investments, our effective tax rate would have been 20% in the three months ended June 30, 2019.

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Share of Results of Equity Investees

Share of results of equity investees in the three months ended June 30, 2019 was a profit of RMB517 million (US\$75 million), compared to a loss of RMB655 million in the corresponding period of 2018, mainly due to the general improvements in the financial performance of our equity investees, as well as the cessation of equity pick-up from Alibaba Pictures upon our consolidation in March 2019. We record our share of results of equity investees one quarter in arrears.

Share of results of equity investees in the three months ended June 30, 2018 and 2019 consisted of the following:

	Three months ended June 30,		
	2018	2019	
	RMB	RMB	US\$
	(unaudited)	(in millions)	
Share of (loss) profit of equity investees	(66)	941	137
Dilution loss	(108)	(5)	(1)
Others ⁽¹⁾	(481)	(419)	(61)
	<u>(655)</u>	<u>517</u>	<u>75</u>

(1) Others mainly include amortization of intangible assets of equity investees and share-based compensation expense.

Net Income

As a result of the foregoing, our net income increased by 150% from RMB7,650 million in the three months ended June 30, 2018 to RMB19,122 million (US\$2,785 million) in the three months ended June 30, 2019.

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Comparison of Fiscal Years 2018 and 2019

Revenue

	Year ended March 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except percentages)		
Core commerce:			
China commerce retail	176,559	247,615	40%
China commerce wholesale	7,164	9,988	39%
International commerce retail	14,216	19,558	38%
International commerce wholesale	6,625	8,167	23%
Cainiao logistics services	6,759	14,885	120%
Local consumer services	–	18,058	N/A
Others	2,697	5,129	90%
Total core commerce	214,020	323,400	51%
Cloud computing	13,390	24,702	84%
Digital media and entertainment	19,564	24,077	23%
Innovation initiatives and others	3,292	4,665	42%
Total revenue	250,266	376,844	51%

Total revenue increased by 51% from RMB250,266 million in fiscal year 2018 to RMB376,844 million in fiscal year 2019. The increase was mainly driven by the robust revenue growth of our China commerce retail business, the consolidation of newly acquired businesses, mainly Ele.me, as well as the strong revenue growth of Alibaba Cloud.

Core commerce segment

China commerce retail

	Year ended March 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except percentages)		
Revenue			
China commerce retail business			
Customer management	114,285	145,684	27%
Commission	46,525	61,847	33%
Others	15,749	40,084	155%
Total	176,559	247,615	40%

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Revenue from our China commerce retail business in fiscal year 2019 was RMB247,615 million, an increase of 40% compared to RMB176,559 million in fiscal year 2018. Revenue from our China retail marketplaces continued to see strong growth. Combined customer management and commission revenues grew 29% year-over-year, which represents an increase of 27% in customer management revenue and an increase of 33% in commission revenue. The growth of customer management revenue was primarily the result of increases in the volume of paid clicks and to a lesser extent an increase in price per click. The growth of commission revenue was primarily due to strong 31% year-over-year growth of Tmall physical goods GMV (excluding unpaid orders). “Others” revenue in fiscal year 2019 was RMB40,084 million, a significant increase compared to RMB15,749 million in fiscal year 2018, primarily driven by contributions from direct sales businesses, including Tmall Direct Import and Freshippo.

China commerce wholesale

Revenue from our China commerce wholesale business in fiscal year 2019 was RMB9,988 million, an increase of 39% compared to RMB7,164 million in fiscal year 2018. The increase was primarily due to an increase in average revenue from paying members on 1688.com, our domestic wholesale marketplace.

International commerce retail

Revenue from our international commerce retail business in fiscal year 2019 was RMB19,558 million, an increase of 38% compared to RMB14,216 million in fiscal year 2018. The increase was primarily due to an increase in revenue from Lazada, our consolidation of Trendyol, Turkey’s leading e-commerce platform, as well as an increase in revenue from AliExpress.

International commerce wholesale

Revenue from our international commerce wholesale business in fiscal year 2019 was RMB8,167 million, an increase of 23% compared to RMB6,625 million in fiscal year 2018. The increase was primarily due to increases in average revenue from paying members and the number of paying members on Alibaba.com, our global wholesale marketplace.

Cainiao logistics services

Revenue from Cainiao logistics services, which represents revenue from domestic and international one-stop-shop logistics services and supply chain management solutions provided by Cainiao Network, after elimination of inter-company transactions, was RMB14,885 million in fiscal year 2019, an increase of 120% compared to RMB6,759 million in fiscal year 2018. The increase mainly reflected the full year effect of consolidation of Cainiao in fiscal year 2019. We started to consolidate Cainiao Network in mid-October 2017.

Local consumer services

Revenue from local consumer services, which primarily represents platform commissions, fees from provision of delivery services and other services provided by our on-demand delivery and local services platform Ele.me, was RMB18,058 million. We started to consolidate Ele.me in May 2018 and Koubei in December 2018.

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Cloud computing segment

Revenue from our cloud computing business in fiscal year 2019 was RMB24,702 million, an increase of 84% compared to RMB13,390 million in fiscal year 2018, primarily driven by an increase in average spending per customer.

Digital media and entertainment segment

Revenue from our digital media and entertainment business in fiscal year 2019 was RMB24,077 million, an increase of 23% compared to RMB19,564 million in fiscal year 2018. The increase was primarily due to an increase in revenue from mobile value-added services provided by UCWeb, such as mobile search and game publishing, and an increase in subscription revenue from Youku.

Innovation initiatives and others segment

Revenue from innovation initiatives and others in fiscal year 2019 was RMB4,665 million, an increase of 42% compared to RMB3,292 million in fiscal year 2018. The increase was mainly due to an increase in revenue from Tmall Genie and Amap.

Cost of Revenue

	Year ended March 31,		
	2018	2019	
	RMB	RMB	% Change
	(in millions, except percentages)		
Cost of revenue	107,044	206,929	93%
Percentage of revenue	43%	55%	
Share-based compensation expense included in cost of revenue	5,505	8,915	62%
Percentage of revenue	2%	2%	
Cost of revenue excluding share-based compensation expense	101,539	198,014	95%
Percentage of revenue	41%	53%	

Our cost of revenue increased by 93% from RMB107,044 million in fiscal year 2018 to RMB206,929 million in fiscal year 2019. The increase was primarily due to an increase of RMB34,347 million in logistic costs related to the on-demand delivery service provided by Ele.me and the fulfillment services provided by Cainiao Network, an increase of RMB24,411 million in cost of inventory in relation to our New Retail businesses and Lazada, an increase of RMB10,416 million in bandwidth and co-location fees and depreciation expenses as a result of our investments in our cloud computing and core commerce business and an increase of RMB8,534 million in content acquisition costs for online media properties. Without the effect of share-based compensation expense, cost of revenue as a percentage of revenue would have increased from 41% in fiscal year 2018 to 53% in fiscal year 2019. This increase was primarily due to our consolidation of newly acquired businesses, mainly Ele.me and Cainiao, as well as an increase of the cost of inventory and logistics from our New Retail and direct sales businesses.

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Product Development Expenses

	Year ended March 31,		
	2018	2019	
	RMB	RMB	% Change
	(in millions, except percentages)		
Product development expenses	22,754	37,435	65%
Percentage of revenue	9%	10%	
Share-based compensation expense included in product development expenses.....	7,374	15,378	109%
Percentage of revenue	3%	4%	
Product development expenses excluding share-based compensation expense	15,380	22,057	43%
Percentage of revenue	6%	6%	

Our product development expenses increased by 65% from RMB22,754 million in fiscal year 2018 to RMB37,435 million in fiscal year 2019. The increase was primarily due to an increase in payroll and benefits expenses, including share-based compensation expense. Without the effect of share-based compensation expense, product development expenses as a percentage of revenue would have remained stable at 6% in fiscal year 2019 and 2018.

Sales and Marketing Expenses

	Year ended March 31,		
	2018	2019	
	RMB	RMB	% Change
	(in millions, except percentages)		
Sales and marketing expenses	27,299	39,780	46%
Percentage of revenue	11%	11%	
Share-based compensation expense included in sales and marketing expenses	2,037	4,411	117%
Percentage of revenue	1%	2%	
Sales and marketing expenses excluding share-based compensation expense	25,262	35,369	40%
Percentage of revenue	10%	9%	

Our sales and marketing expenses increased by 46% from RMB27,299 million in fiscal year 2018 to RMB39,780 million in fiscal year 2019. The increase was primarily due to an increase in marketing and promotional spending for user acquisition that led to the significant increase in annual active consumers and MAUs in fiscal year 2019. Without the effect of share-based compensation expense, sales and marketing expenses as a percentage of revenue would have decreased from 10% in fiscal year 2018 to 9% in fiscal year 2019.

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General and Administrative Expenses

	Year ended March 31,		
	2018	2019	
	RMB	RMB	% Change
	(in millions, except percentages)		
General and administrative expenses	16,241	24,889	53%
Percentage of revenue	6%	6%	
Share-based compensation expense included in			
general and administrative expenses	5,159	8,787	70%
Percentage of revenue	2%	2%	
General and administrative excluding share-based			
compensation expense	11,082	16,102	45%
Percentage of revenue	4%	4%	

Our general and administrative expenses increased by 53% from RMB16,241 million in fiscal year 2018 to RMB24,889 million in fiscal year 2019. The increase was primarily due to an increase in payroll and benefits expenses, including share-based compensation, as well as settlement of a U.S. federal class action lawsuit of US\$250 million. Without the effect of share-based compensation expense, general and administrative expenses as a percentage of revenue would have remained stable at 4% in fiscal year 2019 and 2018.

Amortization of Intangible Assets

	Year ended March 31,		
	2018	2019	
	RMB	RMB	% Change
	(in millions, except percentages)		
Amortization of intangible assets	7,120	10,727	51%
Percentage of revenue	3%	3%	

Amortization of intangible assets increased by 51% from RMB7,120 million in fiscal year 2018 to RMB10,727 million in fiscal year 2019. This increase was due to an increase in amortization of intangible assets acquired from business combinations of Ele.me and Koubai.

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Income from Operations and Operating Margin

	Year ended March 31,		
	2018	2019	
	RMB	RMB	% Change
	(in millions, except percentages)		
Income from operations	69,314	57,084	(18)%
Percentage of revenue	28%	15%	
Share-based compensation expense included in income from operations	20,075	37,491	87%
Percentage of revenue	8%	10%	
Settlement of U.S. federal class action lawsuit ⁽¹⁾ . . .	—	1,679	N/A
Percentage of revenue	—	0%	
Income from operations excluding share-based compensation expense and settlement of U.S. federal class action lawsuit ⁽¹⁾	89,389	96,254	8%
Percentage of revenue	36%	25%	

(1) For a description of the relevant federal class action lawsuit and settlement, see “Our Business — Legal and Administrative Proceedings.”

Our income from operations decreased by 18% from RMB69,314 million, or 28% of revenue, in fiscal year 2018 to RMB57,084 million, or 15% of revenue, in fiscal year 2019. The decrease was primarily due to an increase in share-based compensation expense and settlement of a U.S. federal class action lawsuit of US\$250 million. Without the effect of share-based compensation expense and settlement of the U.S. federal class action lawsuit, our income from operations would have increased by 8% from RMB89,389 million in fiscal year 2018 to RMB96,254 million in fiscal year 2019.

Adjusted EBITA and adjusted EBITA margin

Adjusted EBITA and adjusted EBITA margin by segments are set forth in the table below. See the section entitled “— Segment Information” above for a reconciliation of income from operations to adjusted EBITA.

	Year ended March 31,			
	2018		2019	
	RMB	% of Segment Revenue	RMB	% of Segment Revenue
	(in millions, except percentages)			
Core commerce	114,100	53%	136,167	42%
Cloud computing	(799)	(6)%	(1,158)	(5)%
Digital media and entertainment	(8,305)	(42)%	(15,796)	(66)%
Innovation initiatives and others	(2,996)	(91)%	(5,971)	(128)%

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Core commerce segment

Adjusted EBITA increased by 19% to RMB136,167 million in fiscal year 2019, compared to RMB114,100 million in fiscal year 2018. Marketplace-based core commerce adjusted EBITA increased by 31% year-over-year to RMB161,589 million. Adjusted EBITA margin decreased to 42% in fiscal year 2019 from 53% in fiscal year 2018 due to strategic investments, primarily including aggressive investment in local consumer services and gradual revenue mix shift towards self-operated New Retail and direct sales businesses, where revenue is recorded on a gross basis including the cost of inventory.

Cloud computing segment

Adjusted EBITA in fiscal year 2019 was a loss of RMB1,158 million, compared to a loss of RMB799 million in fiscal year 2018. Adjusted EBITA margin improved to negative 5% in fiscal year 2019 from negative 6% in fiscal year 2018.

Digital media and entertainment segment

Adjusted EBITA in fiscal year 2019 was a loss of RMB15,796 million, compared to a loss of RMB8,305 million in fiscal year 2018. Adjusted EBITA margin decreased to negative 66% in fiscal year 2019 from negative 42% in fiscal year 2018, primarily due to our continued investments in licensing rights and the production of original content and an increase in impairment charges on licensed copyrights.

Innovation initiatives and others segment

Adjusted EBITA in fiscal year 2019 was a loss of RMB5,971 million, compared to a loss of RMB2,996 million in fiscal year 2018. Adjusted EBITA margin was negative 128% in fiscal year 2019, as compared to negative 91% in fiscal year 2018. The increase in adjusted EBITA loss was primarily due to investments in new business initiatives, including Tmall Genie and our investments in technological research and innovation.

Interest and Investment Income, Net

Our interest and investment income, net, increased from RMB30,495 million in fiscal year 2018 to RMB44,106 million in fiscal year 2019, which mainly included non-cash gains of RMB21,990 million and RMB5,825 million arising from the revaluation of our previously held equity interest in Koubei and Alibaba Pictures when we obtained control in December 2018 and March 2019, respectively, as well as net gains arising from change in fair value of certain equity investments. These gains were partly offset by impairment charges of RMB10,867 million on certain investments. The above-mentioned gains and impairment charges were excluded from our non-GAAP net income.

Interest Expense

Our interest expense increased by 46% from RMB3,566 million in fiscal year 2018 to RMB5,190 million in fiscal year 2019. The increase in interest expense was primarily due to an increase in average debt outstanding in fiscal year 2019 as compared to fiscal year 2018, reflecting primarily an additional US\$7.0 billion of unsecured senior notes issued in December 2017.

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Other Income, Net

Our other income, net decreased by 95% from RMB4,160 million in fiscal year 2018 to RMB221 million in fiscal year 2019. The decrease was primarily due to a decrease in income recognized in respect of royalty fees and software technology services fees from Ant Financial, which was RMB517 million in fiscal year 2019, compared to RMB3,444 million in fiscal year 2018 as Ant Financial continued its strategic investments to expand its user base significantly.

Income Tax Expenses

Our income tax expenses decreased by 9% from RMB18,199 million in fiscal year 2018 to RMB16,553 million in fiscal year 2019. Our effective tax rate decreased to 17% in fiscal year 2019 from 18% in fiscal year 2018. Excluding share-based compensation expense, investment gain/loss and impairment of investments, our effective tax rate would have remained at 17% in fiscal year 2019, as compared to 18% in fiscal year 2018.

Share of Results of Equity Investees

Share of results of equity investees in fiscal year 2019 was a profit of RMB566 million, compared to a loss of RMB20,792 million in fiscal year 2018. As previously disclosed, the loss in fiscal year 2018 was primarily due to an impairment loss of RMB18,116 million with respect to Alibaba Pictures. The increase in share of profit of other equity investees in fiscal year 2019, compared to fiscal year 2018, was primarily due to an increase in our share of profit in Suning. We record our share of results of equity investees one quarter in arrears.

Share of results of equity investees in fiscal years 2018 and 2019 consisted of the following:

	Year ended March 31,	
	2018	2019
	RMB	RMB
	(in millions)	
Share of (loss) profit of equity investees:		
Koubei ⁽¹⁾	(1,340)	–
Cainiao Network ⁽²⁾	(518)	–
Others	1,040	2,997
Impairment loss	(18,153)	(493)
Dilution loss	(128)	(185)
Others ⁽³⁾	(1,693)	(1,753)
	<u>(20,792)</u>	<u>566</u>

(1) We started to consolidate Koubei in December 2018 after obtaining control over Koubei.

(2) We started to consolidate Cainiao Network in mid-October 2017 after obtaining control over Cainiao Network.

(3) Others mainly include amortization of intangible assets of equity investees and share-based compensation expense.

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Net Income

As a result of the foregoing, our net income increased by 31% from RMB61,412 million in fiscal year 2018 to RMB80,234 million in fiscal year 2019.

Comparison of Fiscal Years 2017 and 2018

Revenue

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Core commerce:			
China commerce retail	114,109	176,559	55%
China commerce wholesale	5,679	7,164	26%
International commerce retail	7,336	14,216	94%
International commerce wholesale	6,001	6,625	10%
Cainiao logistics services	–	6,759	N/A
Others	755	2,697	257%
Total core commerce	133,880	214,020	60%
Cloud computing	6,663	13,390	101%
Digital media and entertainment	14,733	19,564	33%
Innovation initiatives and others	2,997	3,292	10%
Total revenue	158,273	250,266	58%

Total revenue increased by 58% from RMB158,273 million in fiscal year 2017 to RMB250,266 million in fiscal year 2018. The increase was mainly driven by the continued rapid growth of our China and international commerce retail businesses, Alibaba Cloud as well as the consolidation of newly acquired businesses, mainly Cainiao Network and Intime.

Core commerce segment

China commerce retail

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Revenue			
China commerce retail business			
Customer management	77,530	114,285	47%
Commission	34,066	46,525	37%
Others	2,513	15,749	527%
Total	114,109	176,559	55%

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Revenue from our China commerce retail business increased by 55% from RMB114,109 million in fiscal year 2017 to RMB176,559 million in fiscal year 2018. The robust revenue growth reflected the growth of our New Retail initiatives, including the Freshippo fresh food grocery business, the import business and Intime. In addition, revenue from our China retail marketplaces continued to see strong growth. The growth was primarily driven by the robust growth of customer management revenue, which increased by 47% from RMB77,530 million in fiscal year 2017 to RMB114,285 million in fiscal year 2018. The growth reflected our ability to deliver more relevant content to consumers through our improved data technology, which enabled merchants, brands and retailers to more effectively attract, engage, acquire and retain their customers. These value propositions resulted in higher spending on our customer management services by an increasing number of brands and merchants. Commission revenue increased by 37% from RMB34,066 million in fiscal year 2017 to RMB46,525 million in fiscal year 2018, primarily due to the strong growth in physical goods GMV on Tmall. Other revenue was RMB15,749 million in fiscal year 2018, a significant increase compared to RMB2,513 million in fiscal year 2017, primarily driven by our New Retail businesses, including the consolidation of Intime and contribution from Tmall Global and Freshippo.

China commerce wholesale

Revenue from our China commerce wholesale business increased by 26% from RMB5,679 million in fiscal year 2017 to RMB7,164 million in fiscal year 2018. The increase was due to an increase in average revenue from paying members on our 1688.com platform.

International commerce retail

Revenue from our international commerce retail business increased by 94% from RMB7,336 million in fiscal year 2017 to RMB14,216 million in fiscal year 2018. The increase was primarily due to an increase in revenue generated from Lazada and AliExpress, primarily driven by robust GMV growth on these two marketplaces.

International commerce wholesale

Revenue from our international commerce wholesale business increased by 10% from RMB6,001 million in fiscal year 2017 to RMB6,625 million in fiscal year 2018. The increase was due to an increase in customer management revenue and membership fees.

Cainiao logistics services

Revenue from Cainiao logistics services represents revenue from the domestic and international one-stop-shop logistics services and supply chain management solutions provided by Cainiao Network, after elimination of inter-company transactions. We started to consolidate Cainiao Network in mid-October 2017.

Cloud computing segment

Revenue from our cloud computing business in fiscal year 2018 was RMB13,390 million, an increase of 101% compared to RMB6,663 million in fiscal year 2017, primarily driven by an increase in the number of paying customers and also an increase in their usage of and spending on our cloud computing services, including more complex offerings, such as our network virtualization and database services.

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Digital media and entertainment segment

Revenue from our digital media and entertainment business in fiscal year 2018 was RMB19,564 million, an increase of 33% compared to RMB14,733 million in fiscal year 2017. The increase was primarily due to an increase in revenue from mobile value-added services provided by UCWeb, such as news feeds and mobile search, and an increase in subscription revenue from Youku.

Innovation initiatives and others segment

Revenue from innovation initiatives and others in fiscal year 2018 was RMB3,292 million, an increase of 10% compared to RMB2,997 million in fiscal year 2017. Starting from fiscal year 2018, we have reclassified Freshippo, previously reported under this segment, as revenue from China commerce retail because Freshippo has moved beyond the incubation stage.

Cost of Revenue

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Cost of revenue	59,483	107,044	80%
Percentage of revenue	38%	43%	
Share-based compensation expense included in cost of revenue	3,893	5,505	41%
Percentage of revenue	2%	2%	
Cost of revenue excluding share-based compensation expense	55,590	101,539	83%
Percentage of revenue	36%	41%	

Our cost of revenue increased by 80% from RMB59,483 million in fiscal year 2017 to RMB107,044 million in fiscal year 2018. The increase was primarily due to an increase of RMB13,439 million in cost of inventory in relation to our New Retail businesses and Lazada, an increase of RMB11,796 million in logistics costs relating to fulfillment services provided by Cainiao Network, an increase of RMB6,111 million in bandwidth and co-location fees and depreciation expenses as a result of investments in our cloud computing and core commerce businesses, an increase of RMB4,751 million in content acquisition costs for online media properties. Without the effect of share-based compensation expense, cost of revenue as a percentage of revenue would have increased from 36% in fiscal year 2017 to 41% in fiscal year 2018. This increase was primarily due to an increase in cost of inventory incurred by our New Retail businesses and Lazada, as well as investments in Cainiao Network and our spending in growing user base and improving user experience.

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Product Development Expenses

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Product development expenses	17,060	22,754	33%
Percentage of revenue	11%	9%	
Share-based compensation expense included in product development expenses	5,712	7,374	29%
Percentage of revenue	4%	3%	
Product development expenses excluding share-based compensation expense	11,348	15,380	36%
Percentage of revenue	7%	6%	

Our product development expenses increased by 33% from RMB17,060 million in fiscal year 2017 to RMB22,754 million in fiscal year 2018. The increase was largely due to an increase in payroll and benefits expenses, including share-based compensation expense. Without the effect of share-based compensation expense, product development expenses as a percentage of revenue would have decreased from 7% in fiscal year 2017 to 6% in fiscal year 2018, due to operating leverage.

Sales and Marketing Expenses

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Sales and marketing expenses	16,314	27,299	67%
Percentage of revenue	10%	11%	
Share-based compensation expense included in sales and marketing expenses	1,772	2,037	15%
Percentage of revenue	1%	1%	
Sales and marketing expenses excluding share-based compensation expense	14,542	25,262	74%
Percentage of revenue	9%	10%	

Our sales and marketing expenses increased by 67% from RMB16,314 million in fiscal year 2017 to RMB27,299 million in fiscal year 2018. The increase was due primarily to an increase in marketing and promotional spending for user acquisition that led to the significant increase in annual active consumers and MAUs in fiscal year 2018. Without the effect of share-based compensation expense, sales and marketing expenses as a percentage of revenue would have increased from 9% in fiscal year 2017 to 10% in fiscal year 2018.

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General and Administrative Expenses

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
General and administrative expenses	12,239	16,241	33%
Percentage of revenue	8%	6%	
Share-based compensation expense included in general and administrative expenses	4,618	5,159	12%
Percentage of revenue	3%	2%	
General and administrative excluding share-based compensation expense	7,621	11,082	45%
Percentage of revenue	5%	4%	

Our general and administrative expenses increased by 33% from RMB12,239 million in fiscal year 2017 to RMB16,241 million in fiscal year 2018. The increase was primarily due to an increase in payroll and benefits expenses, including share-based compensation, as well as an increase in other administrative expenses. Without the effect of share-based compensation expense, general and administrative expenses as a percentage of revenue would have decreased from 5% in fiscal year 2017 to 4% in fiscal year 2018.

Amortization of Intangible Assets

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Amortization of intangible assets	5,122	7,120	39%
Percentage of revenue	3%	3%	

Amortization of intangible assets increased by 39% from RMB5,122 million in fiscal year 2017 to RMB7,120 million in fiscal year 2018. This increase was due to an increase in intangible assets recognized relating to our strategic acquisitions and investments.

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Income from Operations and Operating Margin

	Year ended March 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except percentages)		
Income from operations	48,055	69,314	44%
Percentage of revenue	30%	28%	
Share-based compensation expense included in income from operations	15,995	20,075	26%
Percentage of revenue	10%	8%	
Income from operations excluding share-based compensation expense	64,050	89,389	40%
Percentage of revenue	40%	36%	

Our income from operations increased by 44% from RMB48,055 million, or 30% of revenue, in fiscal year 2017 to RMB69,314 million, or 28% of revenue, in fiscal year 2018. Without the effect of share-based compensation expense, our operating margin would have decreased from 40% in fiscal year 2017 to 36% in fiscal year 2018, primarily due to our investments in New Retail, the consolidation of Cainiao Network, investments in Lazada and spending in growing our user base and improving user experience.

Adjusted EBITA and adjusted EBITA margin

Adjusted EBITA and adjusted EBITA margin by segments are set forth in the table below. See the section entitled “— Segment Information” above for a reconciliation of income from operations to adjusted EBITA.

	Year ended March 31,			
	2017		2018	
	RMB	% of Segment Revenue	RMB	% of Segment Revenue
	(in millions, except percentages)			
Core commerce	82,432	62%	114,100	53%
Cloud computing	(476)	(7)%	(799)	(6)%
Digital media and entertainment	(6,542)	(44)%	(8,305)	(42)%
Innovation initiatives and others	(3,125)	(104)%	(2,996)	(91)%

Core commerce segment

Adjusted EBITA increased by 38% to RMB114,100 million in fiscal year 2018, compared to RMB82,432 million in fiscal year 2017. Adjusted EBITA margin decreased to 53% in fiscal year 2018 from 62% in fiscal year 2017. Core commerce adjusted EBITA margin was lower mainly due to our investments in New Retail, the consolidation of Cainiao Network, investments in Lazada and spending in growing our user base and improving user experience. Excluding New Retail, the consolidation of Cainiao Network and investments in Lazada, adjusted core commerce EBITA margin would have been 63% for fiscal year 2018. Our New Retail businesses primarily include Intime, Freshippo and Tmall Global.

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Cloud computing segment

Adjusted EBITA in fiscal year 2018 was a loss of RMB799 million, compared to a loss of RMB476 million in fiscal year 2017. Adjusted EBITA margin improved to negative 6% in fiscal year 2018 from negative 7% in fiscal year 2017.

Digital media and entertainment segment

Adjusted EBITA in fiscal year 2018 was a loss of RMB8,305 million, compared to a loss of RMB6,542 million in fiscal year 2017. Adjusted EBITA margin improved to negative 42% in fiscal year 2018 from negative 44% in fiscal year 2017, primarily due to improved results from UCWeb and other media and entertainment businesses, partially offset by an increase in content acquisition costs of Youku.

Innovation initiatives and others segment

Adjusted EBITA in fiscal year 2018 was a loss of RMB2,996 million, compared to a loss of RMB3,125 million in fiscal year 2017. Adjusted EBITA margin was negative 91% in fiscal year 2018, as compared to negative 104% in fiscal year 2017.

Interest and Investment Income, Net

Our net interest and investment income increased from RMB8,559 million in fiscal year 2017 to RMB30,495 million in fiscal year 2018. The increase was primarily due to a non-cash gain of RMB22,442 million arising from the revaluation of our previously held equity interest in Cainiao Network when we acquired control over Cainiao Network in mid-October 2017.

Interest Expense

Our interest expense increased by 34% from RMB2,671 million in fiscal year 2017 to RMB3,566 million in fiscal year 2018. The increase in interest expense was primarily due to an increase in average debt outstanding, including an additional US\$7.0 billion unsecured senior notes issued in December 2017.

Other Income, Net

Our other income, net decreased by 32% from RMB6,086 million in fiscal year 2017 to RMB4,160 million in fiscal year 2018. The decrease was primarily due to an increase in foreign exchange loss, partly offset by an increase in income recognized in respect of royalty fees and software technology services fees from Ant Financial, which increased from RMB2,086 million in fiscal year 2017 to RMB3,444 million in fiscal year 2018.

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Income Tax Expenses

Our income tax expenses increased by 32% from RMB13,776 million in fiscal year 2017 to RMB18,199 million in fiscal year 2018. Our effective tax rate decreased to 18% in fiscal year 2018 from 23% in fiscal year 2017. Income before income tax and share of results of equity investees in fiscal year 2018 included a gain of RMB22,442 million from revaluation of our previously held equity interest in Cainiao Network when we acquired control over Cainiao Network in mid-October 2017, which was non-taxable, leading to a lower effective tax rate in fiscal year 2018. Excluding share-based compensation expense, impairment of goodwill and investments, as well as other unrealized investment gain/loss, our effective tax rate would have remained stable at 18% in fiscal year 2018, compared to fiscal year 2017.

Share of Results of Equity Investees

Share of results of equity investees in fiscal years 2017 and 2018 consisted of the following:

	Year ended March 31,	
	2017	2018
	RMB	RMB
	(in millions)	
Share of (loss) profit of equity investees:		
Koubei	(990)	(1,340)
Cainiao Network ⁽¹⁾	(1,056)	(518)
Others	(838)	1,040
Impairment loss	(245)	(18,153)
Dilution loss	(336)	(128)
Others ⁽²⁾	(1,562)	(1,693)
	<u>(5,027)</u>	<u>(20,792)</u>

(1) We started to consolidate Cainiao Network in mid-October 2017 after obtaining control over Cainiao Network.

(2) Others mainly include amortization of intangible assets of equity investees and share-based compensation expense.

During fiscal year 2018, we took an impairment loss of RMB18,116 million with respect to Alibaba Pictures, our affiliated movie production business. The impairment represented the difference between the market value and our carrying value of this investment as of December 31, 2017. In June 2015, following a financing transaction that diluted our shareholding from a controlling position to minority investment, we were required to write up the carrying value to the substantially increased market value of Alibaba Pictures at the time. As a result, we booked a non-cash accounting gain of RMB24,734 million, which increased the carrying value of our investment in Alibaba Pictures from RMB4,818 million to RMB29,552 million. Since July 2015, the market value of Alibaba Pictures has declined and remained below our increased carrying value. The continued low market price combined with Alibaba Pictures' strategic decision made in early 2018 to increase investments and expenses for market share growth of its online movie ticketing business caused us to conclude that the decline in market value against our carrying value may be "other-than-temporary," which led us to take the impairment in fiscal year 2018.

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Net Income

As a result of the foregoing, our net income increased by 49% from RMB41,226 million in fiscal year 2017 to RMB61,412 million in fiscal year 2018.

Liquidity and Capital Resources

We fund our operations and strategic investments from cash generated from our operations and through debt and equity financing. We generated RMB82,854 million, RMB125,805 million and RMB150,975 million of cash from operating activities for fiscal years 2017, 2018 and 2019, respectively. In the three months ended June 30, 2019, net cash provided by operating activities was RMB34,612 million (US\$5,042 million). As of June 30, 2019, we had cash and cash equivalents and short-term investments of RMB210,539 million (US\$30,669 million) and RMB1,650 million (US\$240 million), respectively. Short-term investments consist primarily of investments in fixed deposits with maturities between three months and one year and investments in money market funds or other investments whereby we have the intention to redeem within one year.

In November 2014, we issued unsecured senior notes, including floating rate and fixed rate notes, with varying maturities for an aggregate principal amount of US\$8.0 billion. Interest on the unsecured senior notes is payable in arrears, quarterly for the floating rate notes and semiannually for the fixed-rate notes. We used the proceeds from the issuance of the unsecured senior notes to refinance our previous syndicated loan arrangements in the same amount. We are not subject to any financial covenant or other significant operating covenants under the unsecured senior notes. See note 21 to the Accountant's Report in Appendix IA to this prospectus for further information.

In March 2016, we signed a five-year US\$3.0 billion syndicated loan agreement with a group of eight lead arrangers, which we subsequently drew down in April 2016. The loan was upsized from US\$3.0 billion to US\$4.0 billion in May 2016 through a general syndication and the upsized portion was subsequently drawn down in August 2016. The loan had a five-year bullet maturity and was priced at 110 basis points over LIBOR. In May 2019, we amended the pricing of the loans to 85 basis points over LIBOR and extended the maturity to May 2024. The use of proceeds of the loan is for general corporate and working capital purposes (including funding our acquisitions).

In April 2017, we entered into a revolving credit facility agreement with certain financial institutions for an amount of US\$5.15 billion, which we have not yet drawn down. The interest rate for this credit facility is calculated based on LIBOR plus 95 basis points. This loan facility is reserved for future general corporate and working capital purposes (including funding our acquisitions).

In November 2017, we repaid US\$1.3 billion of our US\$8.0 billion unsecured senior notes that became due. In December 2017, we issued an additional aggregate of US\$7.0 billion unsecured senior notes.

As of June 30, 2019, we also had other bank borrowings of RMB18,469 million (US\$2,690 million), primarily used for the construction of corporate campuses and office facilities and other working capital purposes. See note 20 to the Accountant's Report in Appendix IA to this prospectus for further information.

We expect to repay US\$2.25 billion by November 28, 2019, upon maturity of a portion of the unsecured senior notes issued in 2014.

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We believe that our current levels of cash and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next twelve months. However, we may need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions, which may include investing in technology, infrastructure, including data management and analytics solutions, or related talent. If we determine that our cash requirements exceed our amounts of cash on hand or if we decide to further optimize our capital structure, we may seek to issue additional debt or equity securities or obtain credit facilities or other sources of funding.

The following table sets out a summary of our cash flows for the periods indicated:

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(unaudited)					
	(in millions)					
Net cash provided by operating activities ⁽¹⁾	82,854	125,805	150,975	36,117	34,612	5,042
Net cash used in investing activities ⁽¹⁾	(79,579)	(83,764)	(151,060)	(71,670)	(21,136)	(3,079)
Net cash provided by (used in) financing activities	32,914	20,359	(7,392)	4,281	4,493	654

- (1) We adopted ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” beginning in the first quarter of fiscal year 2019. As a result of adopting this new accounting update, we retrospectively adjusted the consolidated statements of cash flows to include restricted cash and escrow receivables in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The impact of our retrospective reclassification on cash flows from operating activities for the years ended March 31, 2017 and 2018 was an increase of RMB2,528 million and RMB634 million, respectively, and the impact of our retrospective reclassification on cash flows from investing activities for the years ended March 31, 2017 and 2018 was a decrease of RMB1,215 million and an increase of RMB126 million, respectively.

Cash Flows from Operating Activities

Cash provided by operating activities for the three months ended June 30, 2019 was RMB34,612 million (US\$5,042 million) and primarily consisted of net income of RMB19,122 million (US\$2,785 million), as adjusted for non-cash items and the effects of changes in working capital and other activities. Adjustments for non-cash items primarily included share-based compensation expense of RMB7,115 million (US\$1,036 million), amortization of intangible assets and licensed copyrights of RMB5,174 million (US\$754 million), depreciation and amortization of property and equipment, and operating lease cost relating to land use rights of RMB4,682 million (US\$682 million) and realized and unrealized loss of RMB1,966 million (US\$286 million) related to investment securities. Changes in working capital and other activities primarily consisted of an increase of RMB21,871 million (US\$3,185 million) in prepayments, receivables and other assets as a result of the growth of our business and a decrease of RMB1,382 million (US\$201 million) in escrow money payable, partially offset by an increase of RMB18,773 million (US\$2,735 million) in accrued expenses, accounts payable and other liabilities.

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Cash provided by operating activities for the three months ended June 30, 2018 was RMB36,117 million and primarily consisted of net income of RMB7,650 million, as adjusted for non-cash items and the effects of changes in working capital and other activities. Adjustments for non-cash items primarily included share-based compensation expense of RMB16,378 million, amortization of intangible assets and licensed copyrights of RMB4,770 million, realized and unrealized gain of RMB3,665 million related to investment securities, depreciation and amortization of property and equipment, and operating lease cost relating to land use rights of RMB2,857 million and revaluation gains on previously held equity interests of RMB1,834 million. Changes in working capital and other activities primarily consisted of an increase of RMB6,352 million in accrued expenses, accounts payable and other liabilities as a result of the growth of our business, an increase of RMB2,319 million in escrow money payable and an increase of RMB1,921 million in deferred revenue and customer advances, partially offset by an increase of RMB1,133 million in prepayments, receivables and other assets.

Cash provided by operating activities in fiscal year 2019 was RMB150,975 million and primarily consisted of net income of RMB80,234 million, as adjusted for non-cash items and the effects of changes in working capital and other activities. Adjustments for non-cash items primarily included share-based compensation expense of RMB37,491 million, revaluation gains on previously held equity interests of RMB30,187 million, amortization of intangible assets and licensed copyrights of RMB22,118 million, realized and unrealized gain of RMB16,082 million related to investment securities and depreciation and amortization of property and equipment, and operating lease cost relating to land use rights of RMB14,962 million. Changes in working capital and other activities primarily consisted of an increase of RMB24,355 million in accrued expenses, accounts payable and other liabilities as a result of the growth of our business and an increase of RMB8,639 million in deferred revenue and customer advances, partially offset by an increase of RMB10,185 million in prepayments, receivables and other assets.

Cash provided by operating activities in fiscal year 2018 was RMB125,805 million and primarily consisted of net income of RMB61,412 million, as adjusted for non-cash items and the effects of changes in working capital and other activities. Adjustments for non-cash items primarily included revaluation gains on previously held equity interests of RMB24,436 million, share of results of equity investees of RMB20,792 million, share-based compensation expense of RMB20,075 million, amortization of intangible assets and licensed copyrights of RMB13,231 million and depreciation and amortization of property and equipment, and operating lease cost relating to land use rights of RMB8,789 million. Changes in working capital and other activities primarily consisted of an increase of RMB23,158 million in accrued expenses, accounts payable and other liabilities as a result of the growth of our business, an increase of RMB6,610 million in income tax payable and an increase of RMB5,690 million in deferred revenue and customer advances, partially offset by an increase of RMB14,765 million in prepayments, receivables and other assets.

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Cash provided by operating activities in fiscal year 2017 was RMB82,854 million and primarily consisted of net income of RMB41,226 million, as adjusted for non-cash items and the effects of changes in working capital and other activities. Adjustments for non-cash items primarily included share-based compensation expense of RMB15,995 million, amortization of intangible assets and licensed copyrights of RMB9,008 million, realized and unrealized gain of RMB5,488 million related to investment securities, depreciation and amortization of property and equipment, and operating lease cost relating to land use rights of RMB5,284 million and share of results of equity investees of RMB5,027 million. Changes in working capital and other activities primarily consisted of an increase of RMB5,312 million in accrued expenses, accounts payable and other liabilities as a result of the growth of our business, an increase of RMB4,698 million in income tax payable and an increase of RMB4,611 million in deferred revenue and customer advances, partially offset by an increase of RMB8,237 million in prepayments, receivables and other assets.

Cash Flows from Investing Activities

Cash used in investing activities was RMB21,136 million (US\$3,079 million) in the three months ended June 30, 2019 and was primarily attributable to RMB18,146 million (US\$2,643 million) in acquisition of investment securities and equity investments mainly held for strategic purposes, including Red Star Macalline and China TransInfo, capital expenditures of RMB8,777 million (US\$1,279 million) primarily in connection with the purchase of computer equipment and licensed copyrights, as well as our investments in data centers and infrastructure for logistic and New Retail businesses, partially offset by proceeds from disposal of subsidiaries, equity investees and investment securities of RMB4,109 million (US\$598 million).

Cash used in investing activities was RMB71,670 million in the three months ended June 30, 2018 and was primarily attributable to RMB61,671 million in acquisition of investment securities and equity investments mainly held for strategic purposes, including cash paid for business combinations, net of cash acquired of Ele.me and investments in ZTO Express, capital expenditures of RMB11,205 million primarily in connection with the purchase of computer equipment and licensed copyrights.

Cash used in investing activities was RMB151,060 million in fiscal year 2019 and was primarily attributable to RMB119,766 million in acquisition of investment securities and equity investments mainly held for strategic purposes, including Focus Media and ZTO Express, and cash paid for business combinations, net of cash acquired, including Ele.me, capital expenditures of RMB49,643 million primarily in connection with the purchase of computer equipment and licensed copyrights, as well as our investments in data centers and infrastructure for logistic and New Retail businesses, partially offset by proceeds from disposal of subsidiaries, equity investees and investment securities of RMB10,329 million.

Cash used in investing activities was RMB83,764 million in fiscal year 2018 and was primarily attributable to RMB66,129 million in acquisition of investment securities and equity investments mainly held for strategic purposes, including Sun Art, Ele.me, Wanda Film, Easyhome and Tokopedia, and cash paid for business combinations, net of cash acquired, including Intime and Cainiao Network, capital expenditures of RMB29,836 million primarily in connection with the purchase of computer equipment and licensed copyrights, as well as the continued expansion of our corporate campuses, partially offset by proceeds from disposal of subsidiaries, equity investees and investment securities of RMB13,381 million.

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Cash used in investing activities was RMB79,579 million in fiscal year 2017 and was primarily attributable to RMB77,554 million in acquisition of investment securities and equity investments mainly held for strategic purposes, including Suning, Ele.me, Didi Chuxing, Paytm and Weibo, and cash paid for business combinations, net of cash acquired, including Youku and Lazada, capital expenditures of RMB17,546 million primarily in connection with the purchase of computer equipment and licensed copyrights, as well as the continued expansion of our corporate campuses, partially offset by proceeds from disposal of subsidiaries, equity investees and investment securities of RMB9,545 million and net decrease in short-term investments of RMB5,761 million.

Cash Flows from Financing Activities

Cash provided by financing activities was RMB4,493 million (US\$654 million) for the three months ended June 30, 2019, and was primarily attributable to net proceeds from borrowings of RMB2,435 million (US\$355 million) and cash injection from noncontrolling interests of RMB1,946 million (US\$283 million).

Cash provided by financing activities was RMB4,281 million for the three months ended June 30, 2018, and was primarily attributable to cash injection from noncontrolling interests of RMB2,513 million and net proceeds from borrowings of RMB1,714 million.

Cash used in financing activities was RMB7,392 million in fiscal year 2019, and was primarily attributable to cash used in share repurchase of RMB10,872 million and net repayment of borrowings of RMB4,231 million, partly offset by cash injection from noncontrolling interests of RMB8,706 million.

Cash provided by financing activities was RMB20,359 million in fiscal year 2018, and was primarily attributable to proceeds from issuance of senior notes of US\$7.0 billion, partly offset by net repayment of unsecured senior notes and bank borrowings of RMB12,192 million and cash used to acquire additional shares of non-wholly owned subsidiaries, primarily including Lazada and Intime, of RMB13,627 million.

Cash provided by financing activities was RMB32,914 million in fiscal year 2017, and was primarily attributable to net proceeds from borrowings of RMB29,333 million and proceeds from issuance of ordinary shares of RMB14,607 million, primarily representing shares issued to Suning, partially offset by cash used in share repurchase of RMB13,182 million.

Capital Expenditures

Our capital expenditures have been incurred primarily in relation to (1) the acquisition of computer equipment and construction of data centers relating to our cloud computing business and the operation of our mobile platforms and websites; (2) infrastructure for logistic and New Retail businesses and (3) the acquisition of land use rights and construction of corporate campuses and office facilities in Hangzhou, Beijing, Guangzhou and Shenzhen. In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2019, our capital expenditures totaled RMB11,006 million, RMB19,628 million, RMB35,482 million and RMB6,382 million (US\$930 million), respectively. In addition, our acquisitions of licensed copyrights and other intangible assets in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2019 were RMB6,540 million, RMB10,208 million, RMB14,161 million and RMB2,395 million (US\$349 million), respectively.

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Holding Company Structure

We are a holding company with no operation other than ownership of operating subsidiaries in Hong Kong, China and elsewhere that own and operate our marketplaces and other businesses as well as a portfolio of intellectual property rights. As a result, we rely on dividends and other distributions paid by our operating subsidiaries, including funds to pay dividends to our shareholders or to service our outstanding debts. If our operating subsidiaries incur additional debt on their own behalf in the future, the instruments governing the debt may restrict the ability of our operating subsidiaries to pay dividends or make other distributions to us. In addition, applicable PRC law permits payment of dividends to us by our operating subsidiaries in China only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Moreover, our operating subsidiaries in China are also required to set aside a portion of their net income, if any, each year to fund general reserves for appropriations until this reserve has reached 50% of the related subsidiary's registered capital. These reserves are not distributable as cash dividends. In addition, registered share capital and capital reserve accounts are also restricted from distribution. As of June 30, 2019, these restricted net assets totaled RMB114.2 billion (US\$16.6 billion). See note 23 to the Accountant's Report in Appendix IA to this prospectus.

Our holding company structure differs from some of our peers in that we hold our material assets and operations, except for ICP and other licenses for regulated activities as well as certain equity investments in restricted businesses, in our wholly-owned entities and most of our revenue is generated directly by our wholly-owned entities. As revenue is generated directly by our wholly-owned entities, our wholly-owned entities directly capture the profits and associated cash flow from operations, without having to rely on contractual arrangements to transfer cash flow from the variable interest entities to our wholly-owned entities. In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2019, the significant majority of our revenues were generated by our wholly-owned entities in China. See "Our History and Corporate Structure" for a description of these contractual arrangements and our structure.

Inflation

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the year-over-year increase in the consumer price index in calendar years 2016, 2017 and 2018 was 2.0%, 1.6% and 2.1%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher inflation rates in China.

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Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of June 30, 2019.

	Payment due by period				
	Total	Less than	1 – 3 Years	3 – 5 Years	More than
	RMB	1 Year	RMB	RMB	5 Years
		RMB			RMB
			(in millions)		
Contractual Obligations					
Short-term borrowings ⁽¹⁾	7,564	7,564	–	–	–
Long-term borrowings ⁽²⁾	10,905	–	1,843	1,493	7,569
US\$4.0 billion syndicated loan denominated in US\$ ⁽³⁾	27,496	–	–	27,496	–
Unsecured senior notes ⁽⁴⁾	94,170	15,466	10,310	4,812	63,582
Contractual Commitments					
Purchase of property and equipment	7,328	6,417	902	9	–
Construction of corporate campus	3,218	2,136	955	83	44
Licensed copyrights, co-location, bandwidth fees and marketing expenses	49,308	22,463	15,105	6,864	4,876
Investment commitments ⁽⁵⁾	23,245	23,245	–	–	–
Total	223,234	77,291	29,115	40,757	76,071

- (1) Excluding estimated interest payments of RMB145 million assuming the applicable interest rates in effect as of June 30, 2019. The majority of the borrowings are subject to floating interest rates.
- (2) Excluding estimated interest payments of RMB3,147 million in total (RMB490 million, RMB917 million, RMB771 million and RMB969 million over the periods of less than one year, one to three years, three to five years and more than five years from July 1, 2019, respectively), assuming the applicable interest rates in effect as of June 30, 2019. Substantially all of the borrowings are subject to floating interest rates.
- (3) Excluding estimated interest payments of RMB4,513 million in total (RMB919 million, RMB1,833 million and RMB1,761 million over the periods of less than one year, one to three years and three to five years from July 1, 2019, respectively), assuming the applicable interest rate in effect as of June 30, 2019. The syndicated loan is subject to a floating interest rate.
- (4) Excluding estimated interest payments of RMB43,880 million in total (RMB3,067 million, RMB5,622 million, RMB5,029 million and RMB30,162 million over the periods of less than one year, one to three years, three to five years and more than five years from July 1, 2019, respectively). The unsecured senior notes are subject to fixed interest rates.
- (5) Including the consideration for the investments related to STO Express, Focus Media and the remaining committed capital of certain investment funds.

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In addition, according to our partnership arrangement with the International Olympic Committee, we will provide at least US\$815 million worth of cash, cloud infrastructure services and cloud computing services, as well as marketing and media support through 2028, in connection with various Olympic initiatives, events and activities, including the Olympic Games and the Winter Olympic Games. As of June 30, 2019, the aggregate amount of cash to be paid and value of services to be provided in the future is approximately US\$731 million.

In May 2019, Hong Kong Cingleot Investment Management Limited, or Cingleot, a company that is partially owned by Cainiao Network, entered into a facility agreement for a term loan of HK\$7.7 billion (US\$1.0 billion) to fund a logistics center project at Hong Kong International Airport. Alibaba acts as a guarantor for the term loan. As of the Latest Practicable Date, Cingleot has drawn down HK\$163 million (US\$21 million) under the term loan.

As of September 30, 2019, we had outstanding principal amounts of short-term borrowings, long-term borrowings, syndicated loan denominated in U.S. dollars and unsecured senior notes of RMB8,136 million (US\$1,138 million), RMB12,235 million (US\$1,712 million), RMB28,486 million (US\$3,985 million) and RMB97,565 million (US\$13,650 million), respectively. In connection with the indebtedness information as of September 30, 2019 in this paragraph, translations of RMB into U.S. dollars were made at RMB7.1477 to US\$1.00, the exchange rate on September 30, 2019 as set forth in the H.10 statistical release of the Federal Reserve Board.

As of June 30, 2019, save as disclosed in the Accountant's Report in Appendix IA to this prospectus, we did not have significant contingent liabilities.

Save as disclosed above, since June 30, 2019 and up to the date of this prospectus, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

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Working Capital

We recorded net current assets of RMB88,300 million, RMB121,045 million, RMB62,604 million, RMB79,932 million (US\$11,643 million), respectively, as of March 31, 2017, 2018 and 2019 and June 30, 2019. As of September 30, 2019, we recorded net current assets of RMB91,738 million (US\$12,834 million), including cash and cash equivalents of RMB234,177 million (US\$32,763 million). In connection with the financial data as of September 30, 2019 in this paragraph, translations of RMB into U.S. dollars were made at RMB7.1477 to US\$1.00, the exchange rate on September 30, 2019 as set forth in the H.10 statistical release of the Federal Reserve Board. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of March 31,			As of June 30,	
	2017	2018	2019	2019	
	RMB	RMB	RMB	RMB	US\$
	(in millions)				
Current Assets:					
Cash and cash equivalents	143,736	199,309	189,976	210,539	30,669
Short-term investments	3,011	6,086	3,262	1,650	240
Restricted cash and escrow receivables ..	2,655	3,417	8,518	7,301	1,063
Investment securities	4,054	4,815	9,927	8,431	1,228
Prepayments, receivables and other assets	28,408	43,228	58,590	62,711	9,135
Total current assets	181,864	256,855	270,273	290,632	42,335
Current Liabilities:					
Current bank borrowings	5,948	6,028	7,356	7,564	1,102
Current unsecured senior notes	8,949	–	15,110	15,455	2,251
Income tax payable	6,125	13,689	17,685	17,764	2,588
Escrow money payable	2,322	3,053	8,250	6,868	1,000
Accrued expenses, accounts payable and other liabilities	46,979	81,165	117,711	119,965	17,475
Merchant deposits	8,189	9,578	10,762	11,167	1,627
Deferred revenue and customer advances	15,052	22,297	30,795	31,917	4,649
Total current liabilities	93,564	135,810	207,669	210,700	30,692
Net current assets	88,300	121,045	62,604	79,932	11,643

For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see “— Liquidity and Capital Resources.”

Taking into account cash and cash equivalents on hand, our operating cash flows, the available bank facilities and the estimated net proceeds available to us from the Global Offering, our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

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Off-balance Sheet Arrangements

We did not have any material off-balance sheet arrangements in fiscal years 2017, 2018 or 2019 or the three months ended June 30, 2019.

Quantitative and Qualitative Disclosures about Market Risk

Market Risks

Interest Rate Risk

Our main interest rate exposure relates to bank borrowings. We also have interest-bearing assets, including cash and cash equivalents, short-term investments and restricted cash. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rates. When considered appropriate, we use derivatives, such as interest rate swaps, to manage our interest rate exposure.

As of June 30, 2019, approximately 31% of our total debt (including bank borrowings and unsecured senior notes) carries floating interest rates and the remaining 69% carries fixed interest rates. We have entered into various agreements with various financial institutions as counterparties to swap a certain portion of our floating interest rate debt to effectively become fixed interest rate debt. After taking these interest rate swaps into consideration, approximately 21% of our total debt carries floating interest rates and the remaining 79% carries fixed interest rates as of June 30, 2019. All of the abovementioned interest rate derivatives are designated as cash flow hedges and we expect these hedges to be highly effective. Certain of our indebtedness carries floating interest rates based on a spread over LIBOR. As a result, the interest expenses associated with these indebtedness will be subject to the potential impact of any fluctuation in LIBOR. The continuation of LIBOR on the current basis is not guaranteed after 2021. See “Risk Factors — Risks Related to Our Business and Industry — We are subject to interest rate risk in connection with our indebtedness.”

As of March 31, 2017, 2018 and 2019 and June 30, 2019, if interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of interest-bearing assets and debts that bear floating interest were outstanding for the entire respective years, our profit attributable to equity owners would have been RMB1,302 million, RMB1,829 million, RMB1,760 million and RMB1,901 million (US\$277 million) higher/lower, respectively, mainly as a result of higher/lower interest income from our cash and cash equivalents and short-term investments. The analysis does not include floating interest rate debts whose interests are hedged by interest rate swaps.

Foreign Exchange Risk

Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although we operate businesses in different countries, most of our revenue-generating transactions, and a majority of our expense-related transactions, are denominated in Renminbi, which is the functional currency of our major operating subsidiaries and the reporting currency of our financial statements. When considered appropriate, we enter into hedging activities with regard to exchange rate risk.

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The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. For instance, in August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. In 2017, the value of the Renminbi appreciated by approximately 6.3% against the U.S. dollar; and in 2018, the Renminbi depreciated by approximately 5.7% against the U.S. dollar. From the end of 2018 through the end of September 2019, the value of the Renminbi depreciated by approximately 4.0% against the U.S. dollar. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuations of the Renminbi against the U.S. dollar.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debts, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

As of March 31, 2017, we had Renminbi-denominated cash and cash equivalents and short-term investments of RMB83,467 million and U.S. dollar-denominated cash and cash equivalents and short-term investments of US\$8,811 million. Assuming we had converted RMB83,467 million into U.S. dollars at the exchange rate of RMB6.8832 for US\$1.00 as of March 31, 2017, our total U.S. dollar cash balance would have been US\$20,937 million. If the Renminbi had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$19,835 million.

As of March 31, 2018, we had Renminbi-denominated cash and cash equivalents and short-term investments of RMB131,433 million and U.S. dollar-denominated cash and cash equivalents and short-term investments of US\$11,352 million. Assuming we had converted RMB131,433 million into U.S. dollars at the exchange rate of RMB6.2726 for US\$1.00 as of March 31, 2018, our total U.S. dollar cash balance would have been US\$32,305 million. If the Renminbi had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$30,400 million.

As of March 31, 2019, we had Renminbi-denominated cash and cash equivalents and short-term investments of RMB139,017 million and U.S. dollar-denominated cash and cash equivalents and short-term investments of US\$7,607 million. Assuming we had converted RMB139,017 million into U.S. dollars at the exchange rate of RMB6.7112 for US\$1.00 as of March 29, 2019, our total U.S. dollar cash balance would have been US\$28,321 million. If the Renminbi had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$26,438 million.

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As of June 30, 2019, we had Renminbi-denominated cash and cash equivalents and short-term investments of RMB151,222 million and U.S. dollar-denominated cash and cash equivalents and short-term investments of US\$8,453 million. Assuming we had converted RMB151,222 million into U.S. dollars at the exchange rate of RMB6.8650 for US\$1.00 as of June 28, 2019, our total U.S. dollar cash balance would have been US\$30,481 million. If the Renminbi had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$28,479 million.

Market Price Risk

We are exposed to market price risk primarily with respect to investment securities carried at fair value that are publicly traded. A substantial portion of our investments in equity investees are held for long-term appreciation or for strategic purposes, which are accounted for under equity method and are not subject to market price risk. We are not exposed to commodity price risk. The sensitivity analysis is determined based on the exposure of these investment securities at fair value to market price risks at the end of each reporting period.

In fiscal year 2017 and 2018, the securities we held were investment securities accounted for under the fair value option or available-for-sale securities. Their changes in fair values are recorded as income for investment securities accounted for under the fair value option or through equity for available-for-sale securities, respectively. If market prices of the respective instruments held by us had been 1% higher/lower as of March 31, 2017 and 2018, these investment securities would have been approximately RMB234 million and RMB305 million higher/lower, of which RMB2 million and RMB18 million relating to investment securities accounted for under the fair value option would be recognized as income or loss during the respective period.

In fiscal year 2019 and the three months ended June 30, 2019, after our adoption of ASU 2016-01, changes in fair values of these securities are recorded as income or loss. If the market price of the respective instruments held by us had been 1% higher/lower as of March 31, 2019 and June 30, 2019, these investment securities would have been approximately RMB665 million and RMB724 million (US\$105 million) higher/lower, respectively, all of which would be recognized as income or loss during the respective period.

Critical Accounting Policies and Estimates

Our significant accounting policies are set forth in note 2 to the Accountant's Report in Appendix IA to this prospectus. The preparation of our consolidated financial statements requires our management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Our management periodically re-evaluates these estimates and assumptions based on historical experience and other factors, including expectations of future events that they believe to be reasonable under the circumstances. Actual results may differ significantly from those estimates and assumptions. We have identified the following accounting policies as the most critical to an understanding of our financial position and results of operations, because the application of these policies requires significant and complex management estimates, assumptions and judgment, and the reporting of materially different amounts could result if different estimates or assumptions were used or different judgments were made.

Principles of Consolidation

A subsidiary is an entity in which (i) we directly or indirectly control more than 50% of the voting power; or (ii) we have the power to appoint or remove the majority of the members of the board of directors or to cast a majority of votes at the meetings of the board of directors or to govern the financial and operating policies of the investee pursuant

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to a statute or under an agreement among the shareholders or equity holders. However, there are situations in which consolidation is required even though these usual conditions of consolidation do not apply. Generally, this occurs when an entity holds an interest in another business enterprise that was achieved through arrangements that do not involve voting interests, which results in a disproportionate relationship between the entity's voting interests in, and its exposure to the economic risks and potential rewards of, the other business enterprise. This disproportionate relationship results in what is known as a variable interest, and the entity in which we have the variable interest is referred to as a variable interest entity. We consolidate a variable interest entity if we are determined to be the primary beneficiary of the variable interest entity. The primary beneficiary has both (i) the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses or the right to receive benefits from the variable interest entity that could potentially be significant to the variable interest entity.

For the entities that we invested in or are associated with but in which the usual conditions of consolidation mentioned above do not apply, we continuously reassess whether these entities possess any of the characteristics of a variable interest entity and whether we are the primary beneficiary.

We consolidate our subsidiaries and the variable interest entities of which we are the primary beneficiary. On a periodic basis, we reconsider the initial determination of whether a legal entity is a consolidated entity upon the occurrence of certain events provided in Accounting Standards Codification, or ASC, 810. We also continuously reconsider whether we are the primary beneficiary of our affiliated entities as facts and circumstances change.

Recognition of Revenue

Revenue is principally comprised of customer management revenue, commissions on transactions, membership fees, logistics services revenue, cloud computing services revenue, sales of goods and other revenue. Revenue represents the amount of consideration we are entitled to upon the transfer of promised goods or services in the ordinary course of our activities and is recorded net of VAT. Consistent with the criteria of ASC 606 "Revenue from Contracts with Customers," we recognize revenue when performance obligations are satisfied by transferring control of a promised good or service to a customer. For performance obligations that are satisfied at a point in time, we also consider the following indicators to assess whether control of a promised good or service is transferred to the customer: (i) right to payment, (ii) legal title, (iii) physical possession, (iv) significant risks and rewards of ownership and (v) acceptance of the good or service. For performance obligations satisfied over time, we recognize revenue over time by measuring the progress toward complete satisfaction of a performance obligation.

The application of various accounting principles related to the measurement and recognition of revenue requires us to make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require relevant contract interpretation to determine the appropriate accounting treatment, including whether the promised goods and services specified in a multiple element arrangement should be treated as separate performance obligations. Other significant judgments include determining whether we are acting as the principal or the agent from an accounting perspective in a transaction.

For multiple element arrangements with customers, which primarily relate to the sale of membership packages and customer management services on our wholesale marketplace and Youku's platforms, significant judgment is required to determine whether each good and service element is a distinct performance obligation and is separately accounted for. To determine whether a performance obligation is distinct, we consider its level of integration,

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customization, interdependence and interrelation with other elements within the arrangement. If an arrangement involves multiple distinct performance obligations, each distinct performance obligation is separately accounted for and the total consideration is allocated to each performance obligation based on the relative standalone selling prices at contract inception. If directly observable standalone selling prices are not available, we need to apply significant judgment and perform assessments on market conditions and entity-specific factors to estimate the standalone selling prices for each element. Changes in the estimated standalone selling price may cause the amount of revenue to be recognized for each performance obligation to differ, but the total amount of revenue to be recognized within a contract should not be affected. We periodically re-assess the standalone selling price of the elements as a result of changes in market conditions. Revenue recognition for P4P marketing service and display marketing on our China retail marketplaces does not require us to exercise significant judgment or estimate.

For certain arrangements, we apply significant judgment in determining whether we are acting as the principal or agent in a transaction. We are acting as the principal if we obtain control over the goods and services before they are transferred to customers. Generally, when we are primarily obligated in a transaction and are subject to inventory risk or have latitude in establishing prices, or have several but not all of these indicators, we act as the principal and record revenue on a gross basis. We act as the agent and record the net amount as revenue earned if we do not obtain control over the goods and services before they are transferred to the customers. We record P4P marketing services revenue and display marketing revenue generated through third-party marketing affiliate programs on a gross basis; and revenue relating to the Taobao program generated through third-party marketing affiliate partners' websites where we do not take inventory risks on a net basis. In addition, revenue generated from certain platforms in which we operate as a principal is reported on a gross basis while this revenue was insignificant for each of the periods presented.

Share-based Compensation Expense and Valuation of the Underlying Awards

Granting of share-based awards relating to our ordinary shares

We account for various types of share-based awards granted to the employees, consultants and directors of our Company, our affiliates and/or certain other companies, such as Ant Financial, in accordance with the authoritative guidance on share-based compensation expense. Under the fair value recognition provision of this guidance and prior to April 1, 2019, the effective date of ASU 2018-07, compensation for share-based awards granted, including RSUs, share options and restricted shares, was measured at the grant date, or at the future vesting dates in the case of consultants or non-employee grantees, based on the fair value of the awards and was recognized as expense over the requisite service period, which is generally the vesting period of the respective award, on an accelerated attribution method. In the case of share-based awards granted to consultant or non-employees, the fair value of the unvested portion was re-measured each period, with the resulting difference, if any, recognized as an expense during the period when the related services are rendered. Upon the adoption of ASU 2018-07 beginning on April 1, 2019, the equity-classified share-based awards granted to consultants or non-employees are no longer remeasured at each reporting date through the vesting date and the accounting for these share-based awards to consultants or non-employees and employees will be substantially aligned. Under the accelerated attribution method, each vesting installment of a graded vesting award is treated as a separate share-based award, and accordingly each vesting installment is separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

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Share-based compensation expense is recorded net of estimated forfeitures in our consolidated income statements and accordingly is recorded only for those share-based awards that are expected to vest. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes when necessary. We revise our estimated forfeiture rate if actual forfeitures significantly differ from the initial estimates.

Determining the fair value of share-based awards requires significant judgment. The fair values of RSUs and restricted shares are determined based on the fair value of our ordinary shares. The market price of our publicly traded ADSs is used as an indicator of fair value for our ordinary shares.

We estimate the fair value of share options using the Black-Scholes valuation model, which requires inputs such as the fair value of our ordinary shares, risk-free interest rate, expected dividend yield, expected life and expected volatility.

If the fair value of the underlying equity and any of the assumptions used in the Black-Scholes model changes significantly, share-based compensation expense for future awards may differ materially compared with the awards granted previously.

Subscription for rights to acquire our restricted shares

Beginning in 2013, we offered selected members of the Alibaba Partnership rights to acquire our restricted shares. The fair value of the rights is determined using the Black-Scholes valuation model. For the rights offered before 2016, a discount for post-vesting sales restriction was applied to arrive at the estimated value of the restricted shares. We record share-based compensation expense equivalent to the entire fair value of these rights less the initial subscription price in the period of subscription. For the rights offered since 2016, we recognize share-based compensation expense equivalent to the entire fair value of these rights over the requisite service period.

Share-based awards relating to Ant Financial

Since March 2014, Junhan has granted certain share-based awards similar to share appreciation awards linked to the valuation of Ant Financial to certain of our employees, and Ant Financial, through its subsidiary, has granted certain RSUs to certain of our employees since April 2018. The awards granted by Junhan will be settled in cash by Junhan upon disposal of these awards by the holders. The awards granted by the Ant Financial subsidiary may be settled in cash or equity by the Ant Financial subsidiary upon the vesting of these awards. Junhan and the Ant Financial subsidiary have the right to repurchase the vested awards (or any underlying equity for the settlement of the vested awards) granted by them, as applicable, from the holders upon an initial public offering of Ant Financial or the termination of the holders' employment with us at a price to be determined based on the then fair market value of Ant Financial. We have no obligation to reimburse Junhan, Ant Financial or its subsidiaries for the cost associated with these awards.

These awards meet the definition of a financial derivative. The cost relating to these awards is recognized by us and the related expense is recognized over the requisite service period in the consolidated income statements with a corresponding credit to additional paid-in capital. Subsequent changes in the fair value of these awards are recorded in the consolidated income statements. The expenses relating to the awards granted by Junhan are re-measured at the fair value on each reporting date until their settlement dates. The

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expenses relating to the RSUs granted by the Ant Financial subsidiary are re-measured at the fair value on each reporting date until their vesting dates. See note 9(d) to the Accountant's Report in Appendix IA to this prospectus. The fair values of the underlying equity are primarily determined with reference to the business enterprise value, or BEV, of Ant Financial which is based on the contemporaneous valuation reports or recent financing transactions. Given that the determination of the BEV of Ant Financial requires judgments and is beyond our control, the magnitude of the related accounting impact is unpredictable and may affect our consolidated income statements significantly.

As of June 30, 2019, total unamortized share-based compensation expense related to our ordinary shares that we expect to recognize was RMB36,887 million (US\$5,373 million) with a weighted-average remaining requisite service period of 2.0 years. To the extent the actual forfeiture rate is different from what we have anticipated, share-based compensation expense related to these awards will be different. Furthermore, share-based compensation expense was affected by changes in the fair value of our shares, as certain share-based awards were granted to non-employees for which the unvested portions of the awards were re-measured at each reporting date through the vesting dates before the adoption of ASU 2018-07 beginning on April 1, 2019. As of June 30, 2019, 1,479,688 outstanding RSUs and 78,900 outstanding share options were held by non-employees, who consist primarily of employees of Ant Financial. In addition, share-based compensation expense will also be affected by changes in the fair value of awards granted to our employees by Junhan and Ant Financial through its subsidiary. Ant Financial has informed us that they expect its subsidiary and Junhan will issue additional share-based awards to our employees from time to time in the future.

See "Related Party Transactions — Agreements and Transactions Related to Ant Financial and Its Subsidiaries — Equity-based Award Arrangements." The expenses associated with these awards will be recognized across the functions in which the award recipients are employed and may continue to be significant in future periods.

Recognition of Income Taxes and Deferred Tax Assets/Liabilities

We are mainly subject to income tax in China, but are also subject to taxation on profit arising in or derived from the tax jurisdiction where our subsidiaries are domiciled and operate outside China. Income taxes are assessed and determined on an entity basis. 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, we recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes could be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which the 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 provided in full, using the liability method. The deferred tax assets recognized are mainly related to the temporary differences arising from amortization of licensed copyrights and accrued expenses which are not deductible until paid under the applicable PRC tax laws. We have also recognized deferred tax liabilities on the undistributed earnings generated by our subsidiaries in China, which are subject to withholding taxes when they resolve to distribute dividends to us. As of June 30, 2019, we have accrued the withholding tax on substantially all of the distributable earnings of the PRC subsidiaries except for those undistributed earnings that we intend to invest indefinitely in the PRC. If our intent

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changes or if these funds are in fact distributed outside of China, we would be required to accrue or pay the withholding tax on some or all of these undistributed earnings and our effective tax rate would be adversely affected.

Fair Value Determination Related to the Accounting for Business Combinations

A component of our growth strategy has been to acquire and integrate complementary businesses into our digital economy. We complete business combinations from time to time that require us to perform purchase price allocations. In order to recognize the fair value of assets acquired and liabilities assumed, mainly consisting of intangible assets and goodwill, as well as the fair value of any contingent consideration to be recognized, we use valuation techniques such as discounted cash flow analysis and ratio analysis in comparison to comparable companies in similar industries under the income approach, market approach and cost approach. Major factors considered include historical financial results and assumptions including future growth rates, an estimate of weighted average cost of capital and the effect of expected changes in regulation. Most of the valuations of our acquired businesses have been performed by independent valuation specialists under our management's supervision. We believe that the estimated fair value assigned to the assets acquired and liabilities assumed are based on reasonable assumptions and estimates that market participants would use. However, these assumptions are inherently uncertain and actual results could differ from those estimates.

Fair Value Determination Related to Financial Instruments Accounted for at Fair Value

We have a significant amount of financial instruments that are categorized within Level 2 and Level 3 according to ASC 820 "Fair Value Measurement." The valuations for financial instruments categorized within Level 2 relating to interest rate swap contracts are performed based on inputs derived from or corroborated by observable market data. Convertible and exchangeable bonds that do not have a quoted price are categorized within Level 3, of which the valuations are performed using valuation models such as the binomial model with unobservable inputs including risk-free interest rate and expected volatility. The valuation of contingent consideration categorized within Level 3 is performed using an expected cash flow method with unobservable inputs including the probability to achieve the contingencies in connection with the contingent consideration arrangements. Significant judgment is required to determine the appropriateness of those unobservable inputs.

Investments in privately held companies for which the company elected to record using the measurement alternative are recorded at cost, less impairment, with subsequent adjustments for observable price changes resulting from orderly transactions for identical or similar investments of the same issuer that were completed on or after April 1, 2018, the date on which we have begun to apply the guidance under Accounting Standards Update, or ASU, 2016-01. The valuations of these investments are categorized within Level 3, and are estimated based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs including volatility, as well as rights and obligations of the securities that we hold. The determination of whether an observed transaction is orderly and similar to our investment, and the amount of adjustment considering the rights and obligations of the investment, requires significant judgment.

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Impairment Assessment on Goodwill and Intangible Assets

We test annually, or whenever events or circumstances indicate that the carrying value of assets exceeds the recoverable amounts, whether goodwill and intangible assets have suffered any impairment in accordance with the accounting policy stated in note 2 to the Accountant's Report in Appendix IA to this prospectus. For the impairment assessment on goodwill, we have elected to perform a qualitative assessment to determine whether the two-step impairment testing of goodwill is necessary. In this assessment, we identify the reporting units, consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of a reporting unit is less than the carrying amount, the quantitative impairment test is performed.

For the quantitative assessment of goodwill impairment, we compare the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill.

For intangible assets other than licensed copyrights, we perform an impairment assessment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. These assessments primarily use cash flow projections based on financial forecasts prepared by management and an estimated terminal value. The expected growth in revenues and operating margin, timing of future capital expenditures, an estimate of weighted average cost of capital and terminal growth rate are based on actual and prior year performance and market development expectations. The periods of the financial forecasts generally range from three to five years or a longer period if necessary. 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 the results of the impairment tests.

Impairment Assessment on Licensed Copyrights

We evaluate the program usefulness of licensed copyrights pursuant to the guidance in ASC 920 "Entertainment — Broadcasters," which provides that the rights be reported at the lower of unamortized cost or estimated net realizable value. When there is a change in the expected usage of licensed copyrights, we estimate net realizable value of licensed copyrights to determine if any impairment exists. The net realizable value of licensed copyrights is determined by estimating the expected cash flows from advertising and membership fees, less any direct costs, over the remaining useful lives of the licensed copyrights. We monetize our licensed copyrights with branding customers based on the different content channels available on our entertainment distribution platforms. Therefore, we estimate these cash flows for each category of content separately, such as movies, television series, variety shows, animations and other video content. Estimates that impact these cash flows include anticipated levels of demand for our advertising services and the expected selling prices of advertisements. Judgment is required to determine the key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and the results of the impairment tests.

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Impairment Assessment on Investments in Equity Investees

We continually review our investments in equity investees to determine whether a decline in fair value below the carrying value is “other-than-temporary.” The primary factors that we consider include:

- the severity and length of time that the fair value of the investment is below its carrying value;
- the stage of development, the business plan, the financial condition, the sufficiency of funding and the operating performance of the investee companies; strategic collaboration with and the prospects of the investee companies;
- the geographic region, market and industry in which the investee companies operate; and
- other entity specific information such as recent financing rounds completed by the investee companies and post balance sheet date fair value of the investment.

Fair value of the listed securities is subject to volatility and may be materially affected by market fluctuations. Judgment is required to determine the weighting and impact of the abovementioned factors and changes to this determination can significantly affect the results of the impairment tests.

Impairment Assessment on Equity Securities

Equity securities without readily determinable fair values that are accounted for using the measurement alternative are subject to periodic impairment reviews. Our impairment analysis considers both qualitative and quantitative factors that may have a significant effect on the fair value of these equity securities. Qualitative factors considered may include market environment and conditions, financial performance, business prospects, and other relevant events and factors. When indicators of impairment exist, we perform quantitative assessments of the fair value, which may include the use of market and income valuation approaches and the use of estimates, which may include discount rates, investees’ liquidity and financial performance, and market data of comparable companies in similar industries. Judgment is required to determine the appropriateness of the valuation approaches and the weighting and impact of the abovementioned factors. Changes to this determination can significantly affect the results of the quantitative assessments.

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. We periodically review 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.

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Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement on Credit Losses on Financial Instruments,” and issued subsequent amendments to the initial guidance and transitional guidance between November 2018 and May 2019 within ASU 2018-19, ASU 2019-04 and ASU 2019-05. ASU 2016-13 introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. Further, the new guidance indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The new guidance is effective for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. We are evaluating the effects, if any, of the adoption of this guidance on our financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-04, “Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies how an entity is required to test goodwill for impairment by eliminating step two from the goodwill impairment test. Step two of the goodwill impairment test measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with its carrying amount. The new guidance is effective prospectively for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the effects, if any, of the adoption of this guidance on our financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement,” which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB’s disclosure framework project. The new guidance is effective for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted for the adoption of either the entire ASU or only the provisions that eliminate or modify the requirements. We are evaluating the effects, if any, of the adoption of this guidance on the fair value disclosure in the consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, “Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities,” which provides guidance that indirect interests held through related parties under common control will be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. These indirect interests were previously treated the same as direct interests. The consideration of indirect interests on a proportional basis is consistent with how indirect interests held through related parties under common control are treated when determining if a reporting entity within a related party group is the primary beneficiary of a variable interest entity. The new guidance is effective retrospectively for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021 with a cumulative-effect adjustment to retained

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earnings at the beginning of the earliest period presented. Early adoption is permitted. We are evaluating the effects, if any, of the adoption of this guidance on our financial position, results of operations and cash flows.

In November 2018, the FASB issued ASU 2018-18, “Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606.” ASU 2018-18 clarifies that elements of collaborative arrangements could qualify as transactions with customers in the scope of ASC 606. The amendments require the application of existing guidance to determine the units of account in collaborative arrangement for purposes of identifying transactions with customers. For transactions outside the scope of ASC 606, companies can apply elements of ASC 606 or other relevant guidance by analogy, or apply a reasonable accounting policy if there is no appropriate analogy. ASU 2018-18 is effective retrospectively for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. We are evaluating the effects, if any, of the adoption of this guidance on our financial position, results of operations and cash flows.

In March 2019, the FASB issued ASU 2019-02, “Entertainment — Films — Other Assets — Film Costs (Subtopic 926-20) and Entertainment — Broadcasters — Intangibles — Goodwill and Other (Subtopic 920-350).” This guidance aligns the accounting guidance for production costs for (1) films and (2) episodic content produced for television series and streaming services. This new guidance also clarifies when a company should test films and license agreements for program material for impairment at the film-group level, amends the presentation and disclosure requirements for produced or licensed content and addresses statement of cash flows classification for license arrangements. The new guidance is effective prospectively for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. We are evaluating the effects, if any, of the adoption of this guidance on our financial position, results of operations and cash flows.

In April 2019, the FASB issued ASU 2019-04 “Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.” Apart from the amendments to ASU 2016-13 mentioned above, the ASU also included subsequent amendments to ASU 2016-01, which we adopted in April 2018. The guidance in relation to the amendments to ASU 2016-01 is effective for us for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. We are evaluating the effects, if any, of the adoption of these guidance on our financial position, results of operations and cash flows.

Dividend Policy

Since our inception, we have not declared or paid any dividends on our Shares. We have no present plan to pay any dividends on our Shares in the foreseeable future. We intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

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Any future determination to pay dividends will be made at the discretion of our board of directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, the depositary will pay our ADS holders to the same extent as holders of our Shares, subject to the terms of the Deposit Agreement, including the fees and expenses payable thereunder. Cash dividends on our Shares, if any, will be paid in U.S. dollars.

We are a holding company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we rely on dividends, loans, and other distributions on equity paid by our operating subsidiaries in China and on remittances, including loans, from our variable interest entities in China. Dividend distributions from our PRC subsidiaries to us are subject to PRC taxes, such as withholding tax. As of June 30, 2019, we did not have any reserves at the Alibaba Group Holding Limited level available for distributions to shareholders. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. See “Risk Factors — Risks Related to Doing Business in the People’s Republic of China — We rely to a significant extent on dividends, loans and other distributions on equity paid by our principal operating subsidiaries in China.”

No Material Adverse Change

After due and careful consideration, our directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2019, and there is no event since June 30, 2019 which would materially affect the information shown in the Accountant’s Report in Appendix IA to this prospectus.

Listing Expenses

We expect to incur listing expenses of approximately RMB410 million after June 30, 2019 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$188.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect to recognize RMB70 million as general and administrative expenses in the fiscal year ending March 31, 2020 and RMB340 million as a deduction in equity directly.

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to our ordinary shareholders as of June 30, 2019 as if the Global Offering had taken place on that date.

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The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Global Offering been completed as of June 30, 2019 or at any future dates. It is prepared based on our consolidated net tangible assets attributable to ordinary shareholder as of June 30, 2019 as derived from the Accountant's Report, the text of which is set out in Appendix IA to this prospectus, and adjusted as described below.

Audited consolidated net tangible assets attributable to ordinary shareholders of our Company as of June 30, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of our Company as of June 30, 2019	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS	
(in millions of RMB) (Note 1)	(in millions of RMB) (Note 2)	(in millions of RMB)	RMB (Note 3)	RMB (Note 4)	HK\$ (Note 5)	HK\$ (Note 5)	
Based on the indicative offer price of HK\$188.00 per Offer Share	284,393	83,618	368,011	17.25	137.98	19.30	154.36

Notes:

- (1) The audited consolidated net tangible assets attributable to ordinary shareholders of our Company as of June 30, 2019 is derived from the Accountant's Report set out in Appendix IA to this prospectus, which is based on the audited consolidated net assets attributable to ordinary shareholders of our Company as of June 30, 2019 of RMB521,033 million with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of our Company of RMB188,688 million and RMB47,952 million, respectively.
- (2) The estimated net proceeds from the Global Offering are based on the indicative offer price of HK\$188.00 per Offer Share for both Hong Kong Public Offering and International Offering after deduction of the estimated underwriting fees and other related expenses payable by our Company subsequent to June 30, 2019 and without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 21,336,609,360 Shares were in issue assuming that the Global Offering have been completed on June 30, 2019 and after having accounted for the Share Split, but without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares that we may make.
- (4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents eight Shares.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.000 to HK\$1.1187. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transactions our Company entered into subsequent to June 30, 2019.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

General

The following table sets out certain information in respect of our directors and senior management:

Name	Age	Position(s)/roles and responsibilities	Date of appointment	Year of joining Alibaba Group
Directors				
Daniel Yong ZHANG (張勇)	47	Chairman and Chief Executive Officer	Director in September 2014, Chief Executive Officer in May 2015 and Chairman in September 2019	2007
Jack Yun MA (馬雲)	55	Founder and Director	September 2019 (previously Executive Chairman) ⁽¹⁾	1999
Joseph C. TSAI (蔡崇信)	55	Executive Vice Chairman	May 2013 ⁽¹⁾	1999
J. Michael EVANS	62	Director and President	Director and President in August 2015 (previously independent director from September 2014)	2015
Eric Xiandong JING (井賢棟)	46	Director	September 2016	N/A
Masayoshi SON	62	Director	October 2005	N/A
Chee Hwa TUNG (董建華)	82	Independent Director	September 2014	N/A
Walter Teh Ming KWAUK (郭德明)	66	Independent Director	September 2014	N/A
Jerry YANG (楊致遠)	51	Independent Director	September 2014	N/A
E. Börje EKHOLM	56	Independent Director	June 2015	N/A
Wan Ling MARTELLO	61	Independent Director	September 2015	N/A

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position(s)/roles and responsibilities	Date of appointment	Year of joining Alibaba Group
Senior Management				
Maggie Wei WU (武衛)	51	Chief Financial Officer	May 2013	2007
Judy Wenhong TONG (童文紅)	49	Chief People Officer	January 2017	2000
Jeff Jianfeng ZHANG (張建鋒)	46	Chief Technology Officer and President, Alibaba Cloud Intelligence	Chief Technology Officer in April 2016 and President, Alibaba Cloud Intelligence in November 2018	2004
Sophie Minzhi WU (吳敏芝)	44	Chief Customer Officer	January 2017	2000
Timothy A. STEINERT	59	General Counsel and Secretary	July 2007	2007
Jessie Junfang ZHENG (鄭俊芳)	46	Chief Risk Officer and Chief Platform Governance Officer	Chief Platform Governance Officer since December 2015, Chief Risk Officer since December 2017	2010
Chris Pen-hung TUNG (董本洪)	50	Chief Marketing Officer	January 2016	2016
Trudy Shan DAI (戴珊)	43	President, Wholesale Marketplaces	January 2017	1999
Fan JIANG (蔣凡)	34	President, Taobao and Tmall	President of Taobao since December 2017, President of Tmall since March 2019	2013
Yvonne Yifen CHANG (張憶芬)	54	President, Alimama	November 2018	2018
Luyuan FAN (樊路遠)	46	President, Alibaba Digital Media and Entertainment	November 2018	2007

(1) Jack and Joe have served as our directors since 1999.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

The board currently consists of 11 directors, including five independent directors. See “— Board Practices” for the functions and duties of the Board. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws and regulations, including the Hong Kong Listing Rules.

Daniel Yong ZHANG (張勇) has served as our chairman since September 2019, has been our chief executive officer since May 2015 and our director since September 2014. Mr. Zhang is also currently a member of Ant Financial’s investment committee. Prior to his current role, he served as our chief operating officer from September 2013 to May 2015. He joined our company in August 2007 as chief financial officer of Taobao Marketplace and served in this position until June 2011. He took on the additional role of general manager for Tmall.com in August 2008, which he performed concurrently until his appointment as president of Tmall.com in June 2011 when Tmall.com became an independent platform. Prior to joining Alibaba, Mr. Zhang served as chief financial officer of Shanda Interactive Entertainment Limited, an online game developer and operator then listed on Nasdaq, from September 2005 to August 2007. From 2002 to 2005, he was a senior manager of PricewaterhouseCoopers’ Audit and Business Advisory Division in Shanghai. Mr. Zhang is the chairman of Sun Art, a company listed on the Main Board of the Hong Kong Stock Exchange. He also serves on the board of Weibo, a company listed on the Nasdaq. Mr. Zhang received a bachelor’s degree in finance from Shanghai University of Finance and Economics.

Jack Yun MA (馬雲) founded Alibaba Group in 1999 and served as our executive chairman from 1999 to September 2019, and currently serves as our director. He served as our chief executive officer from 1999 to May 2013. Jack currently serves as a member of the Board of Trustees of the World Economic Forum, president of the General Association of Zhejiang Entrepreneurs and chairman of the China Entrepreneur Club. He has been appointed by the United Nations Secretary General António Guterres as co-chair of the UN High-Level Panel on Digital Cooperation since 2018. Jack graduated from Hangzhou Normal University with a Bachelor of Arts degree in English education.

Joseph C. TSAI (蔡崇信) joined our company in 1999 as a member of the Alibaba founding team and has served on our board of directors since our inception. He was chief financial officer until 2013 and is currently our executive vice chairman. He serves on our investment committee and Ant Financial’s investment committee, and is a founding member of Alibaba Partnership. From 1995 to 1999, he was a private equity investor based in Hong Kong with Investor AB, the main investment vehicle of Sweden’s Wallenberg family. Prior to that, he was general counsel of Rosecliff, Inc., a management buyout firm based in New York. From 1990 to 1993, Joe was an associate attorney in the tax group of Sullivan & Cromwell LLP, a New York-based international law firm. Joe is qualified to practice law in the State of New York. He received his bachelor’s degree in Economics and East Asian Studies from Yale College and a juris doctor degree from Yale Law School.

J. Michael EVANS has been our president since August 2015 and our director since September 2014. Mr. Evans served as Vice Chairman of The Goldman Sachs Group, Inc. from February 2008 until his retirement in December 2013. Mr. Evans served as chairman of Asia operations at Goldman Sachs from 2004 to 2013 and was the global head of Growth Markets at Goldman Sachs from January 2011 to December 2013. He also co-chaired the Business Standards Committee of Goldman Sachs from 2010 to 2013. Mr. Evans joined Goldman Sachs in 1993, became a partner of the firm in 1994 and held

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various leadership positions within the firm's securities business while based in New York and London, including global head of equity capital markets and global co-head of the equities division, and global co-head of the securities business. Mr. Evans is a board member of City Harvest. He is also a trustee of the Asia Society and a member of the Advisory Council for the Bendheim Center for Finance at Princeton University. In August 2014, Mr. Evans joined the board of Barrick Gold Corporation. Mr. Evans received his bachelor's degree in politics from Princeton University in 1981.

Eric Xiandong JING (井賢棟) has been our director since September 2016. He is currently the chief executive officer of Ant Financial, and has also served as chairman of Ant Financial starting in April 2018. Prior to his current position, Mr. Jing served as president of Ant Financial from June 2015 to October 2016, and chief operating officer of Ant Financial from October 2014 to June 2015. Prior to that, he served as Alipay's chief financial officer. Before joining Alipay in September 2009, he was senior corporate finance director and corporate finance vice president of Alibaba.com from 2007 to 2009. Previously, Mr. Jing was the chief financial officer of Guangzhou Pepsi Cola Beverage Co. from 2004 to 2006. He also held management positions in several Coca-Cola bottling companies across China. Currently, Mr. Jing also serves as a director of Hundsun Technologies, a company listed on the Shanghai Stock Exchange. Mr. Jing received an MBA degree from the Carlson School of Management at the University of Minnesota and a bachelor's degree in economics from Shanghai Jiao Tong University.

Masayoshi SON has been our director since 2005. Mr. Son is the founder, Chairman and CEO of SoftBank Group Corp. (SBG), a global technology company that aspires to drive the Information Revolution. Founded in 1981, SBG and its portfolio companies cover a range of technologies, including advanced telecommunications, Internet services, AI, smart robotics, IoT and clean energy. Mr. Son is also the chairman of SoftBank Corp., the domestic telecommunications subsidiary of SBG, director of Yahoo Japan Corporation and Director of Sprint Corporation. He also serves as Chairman and Director of Arm Limited. Mr. Son received a bachelor's degree in Economics from the University of California, Berkeley.

Chee Hwa TUNG (董建華) has been our director since September 2014 and is the Vice Chairman of the Thirteenth National Committee of the Chinese People's Political Consultative Conference of the PRC, which is an important institution of multiparty cooperation and political consultation in the PRC. Mr. Tung is the Founding Chairman of the China-United States Exchange Foundation, which is a non-profit organization registered in Hong Kong to promote understanding and strengthening relationships between China and the United States. Mr. Tung is also the chairman of Our Hong Kong Foundation Limited, a non-government, non-profit organization dedicated to promoting the long-term and overall interests of Hong Kong. Mr. Tung also serves in various public sector and advisory positions, including as a member of the J.P. Morgan International Council, the China Development Bank International Advisory Committee and the Advisory Board of the Schwarzman Scholars Program at Tsinghua University. Prior to these appointments, Mr. Tung served as the First Chief Executive of the Hong Kong Special Administrative Region from July 1997 to March 2005. Mr. Tung had a successful and distinguished career in business, including serving as the Chairman and Chief Executive Officer of Orient Overseas (International) Limited, a company listed on the Hong Kong Stock Exchange with its principal business activities in container transport and logistics services on a global scale. Mr. Tung received a bachelor's degree in science from the University of Liverpool.

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Walter Teh Ming KWAIK (郭德明) has been our director since September 2014. He previously served as an independent non-executive director and chairman of the audit committee of Alibaba.com Limited, one of our subsidiaries, which was listed on the Hong Kong Stock Exchange, from October 2007 to July 2012. Mr. Kwauk is currently a senior adviser of Motorola Solutions (China) Co., Ltd. and serves as an independent non-executive director and chairman of the audit committee of each of Sinosoft Technology Group Limited, a company listed on the Hong Kong Stock Exchange, and WuXi Biologics (Cayman) Inc., a company listed on the Hong Kong Stock Exchange and Hua Medicine, a company listed on the Hong Kong Stock Exchange, and as a director of several private companies. Mr. Kwauk was a vice president of Motorola Solutions, Inc. and its director of corporate strategic finance and tax, Asia Pacific from 2003 to 2012. Mr. Kwauk served with KPMG from 1977 to 2002 and held a number of senior positions, including the general manager of KPMG's joint venture accounting firm in Beijing, the managing partner in KPMG's Shanghai office and a partner in KPMG's Hong Kong Office. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwauk received a bachelor's degree in science and a licentiate's degree in accounting from the University of British Columbia.

Jerry YANG (楊致遠) has been our director since September 2014. Mr. Yang previously served as our director from October 2005 to January 2012. Since March 2012, Mr. Yang has served as the founding partner of AME Cloud Ventures, a venture capital firm. Mr. Yang is a co-founder of Yahoo! Inc., and served as Chief Yahoo! and as a member of its board of directors from March 1995 to January 2012. In addition, he served as Yahoo!'s Chief Executive Officer from June 2007 to January 2009. From January 1996 to January 2012, Mr. Yang served as a director of Yahoo! Japan. Mr. Yang also served as an independent director of Cisco Systems, Inc. from July 2000 to November 2012. He is currently an independent director of Workday Inc., a company listed on the NYSE, and Lenovo Group Ltd., a company listed on the SEHK. He also serves as a director of various private companies and foundations. Mr. Yang received a bachelor's degree and a master's degree in electrical engineering from Stanford University, where he is serving on the University's Board of Trustees beginning in October 2017. He was previously on Stanford's Board of Trustees from 2005 to 2015, including being a vice chair.

E. Börje EKHOLM has been our director since June 2015. Mr. Ekholm is since January 2017 the president and Chief Executive Officer of Ericsson. Prior to his current position, Mr. Ekholm was head of Patricia Industries, a newly created division of Investor AB, a Swedish investment company, where he has held a variety of management positions since joining the firm in 1992. Mr. Ekholm served as president and Chief Executive Officer and a member of the board of directors of Investor AB from September 2005 to May 2015. Prior to becoming president and Chief Executive Officer, Mr. Ekholm was a member of the management group of Investor AB. Previously, Mr. Ekholm worked at McKinsey & Co. Inc. Mr. Ekholm currently serves as a member of the board of Ericsson, as a member of the board of the Swedish American Chamber of Commerce in New York and as a member of the board of trustees of the independent school Choate Rosemary Hall. Mr. Ekholm received a master's degree in electrical engineering from KTH Royal Institute of Technology and a master's degree in business administration from INSEAD.

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Wan Ling MARTELLO has been our director since September 2015. She served as the executive vice president and chief executive officer of the Asia, Oceania, and Sub-Saharan Africa region for Nestlé SA from May 2015 to December 2018. She was Nestlé's global chief financial officer from April 2012 to May 2015, and executive vice president from November 2011 to March 2012. Prior to Nestlé, Ms. Martello was a senior executive at Walmart Stores Inc. from 2005 to 2011. Her roles included executive vice president and chief operating officer for Global eCommerce, and senior vice president, chief financial officer and strategy for Walmart International. Before Walmart, she was president, U.S.A. at NCH Marketing Services Inc. She was with the firm from 1998 to 2005. She also worked at Borden Foods Corporation and Kraft Inc. where she held various senior management positions. She is currently a director of Uber Technologies, Inc., a company listed on the NYSE. Ms. Martello received a master's degree in business administration (management information systems) from the University of Minnesota and a bachelor's degree in business administration and accountancy from the University of the Philippines.

Save as disclosed above, none of our directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. See the section headed "Statutory and General Information" in Appendix IV to this prospectus for further information about the directors, including the particulars of their service contracts and remuneration, and the section headed "Major Shareholders" for disclosure of interests of the directors and executive officers. Save as disclosed herein, there are no other matters in respect of each of our directors that is required to be disclosed pursuant to Rule 13.51(1)(a) to (v) of the Hong Kong Listing Rules and there is no other material matter relating to our directors that needs to be brought to the attention of our shareholders.

Senior Management

Maggie Wei WU (武衛) has been our chief financial officer since May 2013 and head of strategic investments since June 2019. Maggie joined our company in July 2007 as chief financial officer of Alibaba.com. She was voted best CFO in FinanceAsia's annual poll for Asia's Best Managed Companies in 2010. In 2018, she was named one of the world's 100 most powerful women by Forbes. Before joining Alibaba, Maggie was an audit partner at KPMG in Beijing. Maggie is a member of the Association of Chartered Certified Accountants (ACCA). She received a bachelor's degree in accounting from Capital University of Economics and Business.

Judy Wenhong TONG (童文紅) has been our chief people officer since January 2017. Since joining our company in 2000, she has served as director and senior director in various departments in our company, including administration, customer service and human resources. Between 2007 and 2013, she served as vice president and senior vice president in various departments, including construction, real estate and procurement. Starting in 2013, Ms. Tong led the formation of Cainiao Network and served at various times as chief operating officer, president, chief executive officer and non-executive chairwoman, overseeing the operations of the company. Ms. Tong is a graduate of Zhejiang University.

Jeff Jianfeng ZHANG (張建鋒) has served as our chief technology officer since April 2016 and president of Alibaba Cloud Intelligence since November 2018. Previously, Mr. Zhang was president of China retail marketplaces from May 2015 to April 2016, and president of Taobao Marketplace and the wireless business division prior to that. He joined our company in July 2004 and has held various management positions, at different times leading Taobao Marketplace's technology teams, the B2C development team, Alibaba.com's China operations, local services, 1688.com, and Tmall.com. Mr. Zhang studied computer science at Zhejiang University.

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Sophie Minzhi WU (吳敏芝) has been our chief customer officer since January 2017. Prior to her current position, Ms. Wu served as president of Alibaba.com and 1688.com, our international and China wholesale marketplaces. From October 2014 to February 2015, she also led the Rural Taobao team. Before October 2014, she was vice president of Alibaba.com's supplier service division, responsible for leading her team to optimize service to China Gold Supplier members and enhancing supplier quality. In July 2012, she was appointed to the head of Alibaba.com's international operations and later to head of 1688.com. Ms. Wu joined our company in November 2000 and has taken on several sales management roles, including general manager of regional sales, director and vice president of China Gold Supplier sales, and vice president of China TrustPass sales. Before joining Alibaba Group, Ms. Wu was sales and customer manager at a technology development company wholly owned by Zhejiang University. She holds a bachelor's degree in international trade from Zhejiang University and an EMBA degree from China Europe International Business School.

Timothy A. STEINERT has been our general counsel since July 2007 and also serves as our secretary. Mr. Steinert represents Alibaba on the NYSE Listed Company Advisory Board. From 1999 until he joined our company, Mr. Steinert was a partner in the Hong Kong office of Freshfields Bruckhaus Deringer. From 1994 to 1999, he was an associate attorney at Davis Polk & Wardwell in Hong Kong and New York, and from 1989 to 1994, he was an associate attorney at Coudert Brothers in Beijing and New York. Mr. Steinert is qualified to practice law in the State of New York and in Hong Kong. He received a bachelor's degree in history from Yale College and a juris doctor degree from Columbia University School of Law.

Jessie Junfang ZHENG (鄭俊芳) has been our chief risk officer since December 2017, responsible for data and information security across our platforms, and our chief platform governance officer since December 2015, responsible for the governance of our retail and wholesale marketplaces. Prior to her current position, she served as our deputy chief financial officer from November 2013 to June 2016, and financial vice president of Alibaba.com from December 2010 to October 2013. Before joining our company, Ms. Zheng was an audit partner at KPMG. Jessie received a bachelor's degree in accounting from Northeastern University in China.

Chris Pen-hung TUNG (董本洪) joined our company as chief marketing officer in January 2016. He was also president of Alimama from November 2017 to November 2018. Prior to his current position, he was the chief executive officer of VML China, a marketing agency, from October 2010 to January 2016. Prior to joining VML, he was at PepsiCo China from October 2004 to October 2010 where he served as vice president of marketing. Prior to that, Mr. Tung worked at Proctor & Gamble from 1995 to 1998, Gigamedia from 1998 to 2001 and L'Oréal from 2001 to 2003 in various senior management positions. He is currently a director of Ruhnn Holding Limited, a company listed on Nasdaq. He received a bachelor's degree in electrical engineering from Taiwan University and a master's degree in industrial engineering from University of Michigan, Ann Arbor.

Trudy Shan DAI (戴珊) joined our company in 1999 as a founder. Since January 2017, she has served as president of Alibaba's B2B business, which includes Alibaba.com and 1688.com, our international and China wholesale marketplaces, AliExpress, our international retail marketplace, as well as Rural Taobao and Alibaba's LST system. Prior to her current position, Ms. Dai was our chief customer officer from June 2014 to January 2017 and served as senior vice president of human resources and administration of Taobao and Alibaba.com as well as our deputy chief people officer and chief people officer from 2009 to 2014. She was general manager of Alibaba.com from 2007 to 2008. Prior to that, she was vice president of human resources of Yahoo China and the first general manager of

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Alibaba.com's Guangzhou branch, in charge of field and telephone sales, marketing and human resources in Guangdong Province. From 2002 to 2005, Ms. Dai served as senior sales director of TrustPass. She received a bachelor's degree in engineering from Hangzhou Institute of Electrical Engineering.

Fan JIANG (蔣凡) has served as president of Taobao since December 2017 and president of Tmall since March 2019. Prior to his current position, he had been responsible for the Taobao app since joining our company in August 2013. Previously, he founded and served as the chief executive officer of Umeng, a provider of mobile app analytics solutions for developers which we acquired. Before founding Umeng in 2010, he worked in product development at Google China. Mr. Jiang received a bachelor's degree in computer science from Fudan University.

Yvonne Yifen CHANG (張憶芬) rejoined our company as president of Alimama in November 2018. From May 2007 to April 2009, she was our vice president of pay-for-performance, search engine and monetization. From August 2016 to November 2018, Ms. Chang was the executive vice president, Asia Pacific, of global advertising technology firm Criteo, where she oversaw operations in Australia, China, India, Japan, Singapore and South Korea. Prior to that, from December 2014 to May 2016, Ms. Chang was president of Eastern Broadcasting, one of Taiwan's largest media companies, after working at Yahoo! from 2009 to 2014, where she was vice president of advertising solutions for Asia Pacific and managing director for India and Southeast Asia. She brings more than 15 years of experience in leadership roles within the advertising technology industry. Ms. Chang received a bachelor's degree in journalism from Taiwan National Chengchi University and a master's degree in business administration from the University of Texas at Austin.

Luyuan FAN (樊路遠) has served as president of our Digital Media & Entertainment Group since November 2018. He has been an executive director of Alibaba Pictures since January 2016, and currently serves as the chief executive officer and chairman of Alibaba Pictures. He joined Alipay in 2007, where he served in a number of senior management positions, including the president of Alipay and the president of Ant Financial's wealth management business. Mr. Fan holds an executive master's degree in business administration from Cheung Kong Graduate School of Business.

Legal Proceedings Involving One of Our Directors

On August 9, 2019, J. Michael Evans, our president and director, was charged by the Attorney General of Malaysia with two offences under section 370(c) of the Capital Markets and Services Act 2007, or the CMSA, by virtue of section 367(1) of the CMSA, or the Charges. Goldman Sachs International, or GSI, was the bookrunner and arranger for the sale of (i) US\$1,750,000,000 5.99% Guaranteed Notes due 2022 issued by 1MDB Energy Limited; and the arranger for the sale of (ii) US\$1,750,000,000 5.75% Guaranteed Notes due 2022 issued by 1MDB Energy (Langat) Limited ((i) and (ii) are collectively referred to as the Notes). GSI was charged with the principal offences under section 179(c) of the CMSA concerning alleged omission of material facts in the offering circular or private placement memorandum (as the case may be) of the Notes. In connection therewith, Goldman Sachs (Asia) LLC, or GSA, was charged with abetting GSI with the principal offences under section 370(c) of the CMSA. Mr. Evans, who at the relevant time was a director of GSA, would be deemed to have committed the same offences as GSA if GSA was convicted, unless he could prove that the offence was committed without his consent or connivance and that he exercised all such diligence to prevent the commission of the offence as he ought to have exercised, having regard to his capacity in the body corporate.

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According to the charge sheet released by the Attorney General's Chambers of Malaysia on August 9, 2019, the maximum penalty upon conviction of an offence under section 370(c) of the CMSA is imprisonment for a term not exceeding 10 years and a fine of not less than one million Malaysian Ringgit (approximately US\$238,800).

Based on the information available and reasonable due diligence conducted by the Company and the Joint Sponsors up to the Latest Practicable Date, including inquiries with Mr. Evans and advice from the Company's legal counsel, the Directors and the Joint Sponsors are of the view that the Charges do not impact the suitability of Mr. Evans as a Director of the Company under Rule 3.08 and 3.09 of the Hong Kong Listing Rules. The Company will closely monitor the developments of the Charges, and will review the above view should the facts change, new information become available or the case proceed further.

As at the Latest Practicable Date, to our knowledge, Mr. Evans has not been served or arraigned.

Compensation

Compensation of Directors and Executive Officers

For fiscal years 2017, 2018 and 2019, we paid and accrued aggregate fees, salaries and benefits (excluding equity-based grants) of up to approximately RMB548 million, RMB587 million and RMB503 million, respectively, to our directors and executive officers as a group and granted rights to purchase an aggregate of 8,000,000 ordinary shares, after having accounted for the Share Split, and 644,000 RSUs, 427,000 RSUs and 344,500 RSUs, respectively, for fiscal years 2017, 2018 and 2019 to our directors and executive officers. Following our Share Split, which became effective on July 30, 2019, eight Shares are issuable upon vesting of one outstanding RSU.

The board, acting on the recommendation of our compensation committee, may determine the remuneration to be paid to non-employee directors. We do not provide employee directors with any additional remuneration for serving as directors other than their remuneration as our employees. Pursuant to our service agreements with our directors, neither we nor our subsidiaries provide benefits to directors upon termination of employment. We do not separately set aside any amounts for pensions, retirement or other benefits for our executive officers, other than pursuant to relevant statutory requirements. Management members who are partners of the Alibaba Partnership may receive retirement payments from the deferred portion of the annual cash bonus pool available to the Alibaba Partnership.

Mr. Chee Hwa Tung has indicated to us his intention to donate all cash compensation and equity-based awards he receives from us as an independent director to one or more non-profit or charitable organizations to be designated by him.

For information regarding equity-based grants to directors and executive officers, see "— Equity Incentive Plans."

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate their employment at any time, with cause, and we are not required to provide any prior notice of the termination. We may also terminate their employment in circumstances prescribed under and in accordance with the requirements of applicable labor law, including

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notice and payment in lieu. Executive officers may terminate their employment with us at any time upon written notice. Although our employment agreements with our executive officers do not provide for severance pay, where severance pay is mandated by law, our executive officers will be entitled to severance pay in the amount mandated by law when his or her employment is terminated. We have been advised by our PRC counsel, Fangda Partners, that we may be required to make severance payments upon termination without cause to comply with the PRC Labor Law, the PRC Labor Contract Law and other relevant PRC regulations, which entitle employees to severance payments in case of early termination of “de facto employment relationships” by PRC entities without statutory cause regardless of whether there exists a written employment agreement with these entities.

Our grant letter agreements under our equity incentive plans also contain, among other rights, restrictive covenants that enable us to terminate grants and repurchase shares at par or the exercise price paid for the shares in the event of a grantee’s termination for cause for breaching these covenants. See “— Equity Incentive Plans” below.

Equity Incentive Plans

We have adopted a number of equity incentive plans since our inception. The following equity incentive plans are those currently in effect:

- 2011 Equity Incentive Plan, or the 2011 Plan; and
- 2014 Post-IPO Equity Incentive Plan, or the 2014 Plan.

Currently, awards are only available for issuance under our 2014 Plan. If an award under the 2011 Plan terminates, expires or lapses, or is canceled for any reason, Shares subject to the award become available for the grant of a new award under the 2014 Plan. After having accounted for the Share Split, as of September 30, 2019, there were:

- 527,943,920 Shares issuable upon vesting of outstanding RSUs;
- 50,311,824 Shares issuable upon exercise of outstanding options; and
- 313,757,016 Shares authorized for issuance under the 2014 Plan.

Following our Share Split, which became effective on July 30, 2019, eight Shares are issuable upon the vesting of one outstanding RSU or the exercise of one outstanding share option. In addition, starting from April 1, 2015 and on each anniversary thereof, an additional amount equal to the lesser of 200,000,000 Shares, after having accounted for the Share Split, and such lesser number of Shares as is determined by our board of directors will be included in the shares available for issuance of awards under our 2014 Plan.

Our Equity Incentive Plans provide for the granting of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, share appreciation rights and share payments to any directors, employees, and consultants of ours, our affiliates and/or certain other companies, such as Ant Financial. RSUs and share options granted are generally subject to a four-year vesting schedule as determined by the administrator of the respective plans. Depending on the nature and the purpose of the grant, RSUs and share options in general vest 25% upon the first anniversary of the vesting commencement date for annual incentive awards or 50% upon the second anniversary of the vesting commencement date for on-hire awards, and 25% every year thereafter. Certain RSUs and options granted to our

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senior management members are subject to a six-year vesting schedule. We believe equity-based awards are vital to attract, motivate and retain our directors, employees and consultants, and those of certain of our affiliates and other companies, such as Ant Financial, and are the appropriate tool to align their interests with our shareholders. Accordingly, we will continue to grant equity-based awards to the employees, consultants and directors of our Company, our affiliates and/or certain other companies as an important part of their compensation packages.

In addition, our equity incentive award agreements generally provide that, in the event of a grantee's termination for cause or violation of a non-competition undertaking, we will have the right to repurchase the shares acquired by the grantee, generally at par or the exercise price paid for the shares.

The following paragraphs summarize other key terms of our Equity Incentive Plans.

Plan Administration

Subject to certain limitations, our Equity Incentive Plans are generally administered by the compensation committee of the board (or a subcommittee thereof), or another committee of the board to which the board has delegated power to act; provided, that in the absence of any committee, our Equity Incentive Plans will be administered by the board. Grants to any executive directors of the board must be approved by the disinterested directors of our board.

Types of Awards

The Equity Incentive Plans provide for the granting of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, share appreciation rights, share payments and other rights.

Award Agreements

Generally, awards granted under the Equity Incentive Plans are evidenced by an award agreement providing for the number of Shares subject to the award, and the terms and conditions of the award, which must be consistent with the relevant plan.

Eligibility

Any employee, consultant or director of our Company, our affiliates or certain other companies, such as Ant Financial, is eligible to receive grants under the Equity Incentive Plans, but only employees of our Company, our affiliates and/or certain other companies, such as Ant Financial, are eligible to receive incentive stock options.

Term of Awards

The term of awards granted under our Equity Incentive Plans are generally not to exceed ten years from the date of grant.

Acceleration, Waiver and Restrictions

The administrator of our Equity Incentive Plans has sole discretion in determining the terms and conditions of any award, any vesting acceleration or waiver of forfeiture restrictions, and any restrictions regarding any award or the Shares relating thereto.

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Change in Control

If a change in control of our Company occurs, the plan administrator may, in its sole discretion:

- accelerate the vesting, in whole or in part, of any award;
- purchase any award for an amount of cash or Shares of our Company equal to the value that could have been attained upon the exercise of the award or the realization of the plan participant's rights had the award been currently exercisable or payable or fully vested; or
- provide for the assumption, conversion or replacement of any award by the successor corporation, or a parent or subsidiary of the successor corporation, with other rights or property selected by the plan administrator in its sole discretion, or the assumption or substitution of the award by the successor or surviving corporation, or a parent or subsidiary of the surviving or successor corporation, with appropriate adjustments as to the number and kind of shares and prices as the plan administrator deems, in its sole discretion, reasonable, equitable and appropriate.

Amendment and Termination

Unless earlier terminated, our Equity Incentive Plans continue in effect for a term of ten years. The board may at any time terminate or amend a plan in any respect, including amendment of any form of any award agreement or instrument to be executed, provided, however, that to the extent necessary and desirable to comply with applicable laws or stock exchange rules, shareholder approval of any amendment to a plan shall be obtained in the manner and to the degree required.

Senior Management Equity Incentive Plan

We adopted the Senior Management Equity Incentive Plan in 2010, pursuant to which selected management of our Company subscribed for preferred shares in a special purpose vehicle, Alternate Solutions Management Limited, which holds our Shares. These preferred shares, subject to a non-compete provision, are redeemable by the holders thereof for our Shares upon the earlier to occur of an initial public offering of our shares (subject to statutory and contractual lock-up periods), and five years from the respective dates of issuance of the preferred shares to the participants. The maximum number of our Shares redeemable upon the redemption of the preferred shares issued under this plan by the participants is 120,000,000, after having accounted for the Share Split. The underlying Shares have already been issued to the special purpose vehicle and are included in our total outstanding share number. The preferred shares are subject to forfeiture if a holder engages in certain activities that compete with us.

Partner Capital Investment Plan

We adopted the Partner Capital Investment Plan in 2013 to provide partners of the Alibaba Partnership an opportunity to invest in interests in our Shares in order to align further their interests with the interests of our shareholders. Pursuant to the Partner Capital Investment Plan, eligible partners subscribed for rights, issued by two special purpose vehicles, to acquire our Shares. These rights are subject to non-compete provisions, transfer restrictions, exercise restrictions and/or vesting schedules, which are longer than the vesting schedules

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under our Equity Incentive Plans. The maximum number of our Shares underlying these rights is 144,000,000, after having accounted for the Share Split. The underlying Shares have already been issued by us to the special purpose vehicles and are included in our total outstanding share number. The Partner Capital Investment Plan permits the issuance of additional shares to the partners as the board may approve from time to time.

Share-based Awards Held by Our Directors and Officers

The following table summarizes, the outstanding RSUs, options and other rights held as of September 30, 2019 by our directors and executive officers, as well as by their affiliates, under our Equity Incentive Plans, as well as equity held through their investments in our Senior Management Equity Incentive Plan and Partner Capital Investment Plan.

Name	Number of outstanding RSUs/options/ other rights granted or subscribed	Exercise price (US\$ per RSU/ option/other right granted or subscribed)	Shares underlying outstanding RSUs/options/ other rights granted or subscribed	Date of grant ⁽⁵⁾	Date of expiration
Daniel Yong ZHANG	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽⁴⁾	56.00	* ⁽⁴⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽⁴⁾	87.06	* ⁽⁴⁾	May 10, 2015	May 10, 2023
	* ⁽²⁾	–	* ⁽²⁾	May 10, 2015	May 10, 2023
	* ⁽²⁾	–	* ⁽²⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	March 17, 2016	March 17, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Jack Yun MA	25,000 ⁽²⁾	–	200,000 ⁽²⁾	January 27, 2016	January 27, 2024
	50,000 ⁽²⁾	–	400,000 ⁽²⁾	August 10, 2016	August 10, 2024
	50,000 ⁽²⁾	–	400,000 ⁽²⁾	May 17, 2017	May 17, 2025
	50,000 ⁽²⁾	–	400,000 ⁽²⁾	July 24, 2018	July 24, 2026
	40,000 ⁽²⁾	–	320,000 ⁽²⁾	August 16, 2019	August 16, 2027
Joseph C. TSAI	15,000 ⁽²⁾	–	120,000 ⁽²⁾	January 27, 2016	January 27, 2024
	17,500 ⁽²⁾	–	140,000 ⁽²⁾	August 10, 2016	August 10, 2024
	13,334 ⁽²⁾	–	106,672 ⁽²⁾	May 17, 2017	May 17, 2025
	10,000 ⁽²⁾	–	80,000 ⁽²⁾	July 24, 2018	July 24, 2026
	8,000 ⁽²⁾	–	64,000 ⁽²⁾	August 16, 2019	August 16, 2027
J. Michael EVANS	* ⁽⁴⁾	79.96	* ⁽⁴⁾	July 31, 2015	July 31, 2023
	* ⁽²⁾	–	* ⁽²⁾	July 31, 2015	July 31, 2023
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2022
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2023
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2025

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Number of outstanding RSUs/options/ other rights granted or subscribed	Exercise price (US\$ per RSU/ option/other right granted or subscribed)	Shares underlying outstanding RSUs/options/ other rights granted or subscribed	Date of grant ⁽⁵⁾	Date of expiration
Eric Xiandong JING	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
Masayoshi SON	–	–	–	–	–
Chee Hwa TUNG	* ⁽²⁾	–	* ⁽²⁾	November 4, 2018	November 4, 2024
Walter Teh Ming KWAUK	* ⁽²⁾	–	* ⁽²⁾	November 4, 2018	November 4, 2024
Jerry YANG	* ⁽²⁾	–	* ⁽²⁾	November 4, 2018	November 4, 2024
E. Börje EKHOLM	* ⁽²⁾	–	* ⁽²⁾	November 4, 2018	November 4, 2024
Wan Ling MARTELLO	* ⁽²⁾	–	* ⁽²⁾	November 4, 2018	November 4, 2024
Maggie Wei WU	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Judy Wenhong TONG	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Jeff Jianfeng ZHANG	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽⁴⁾	69.54	* ⁽⁴⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Sophie Minzhi WU	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Number of outstanding RSUs/options/ other rights granted or subscribed	Exercise price (US\$ per RSU/ option/other right granted or subscribed)	Shares underlying outstanding RSUs/options/ other rights granted or subscribed	Date of grant ⁽⁵⁾	Date of expiration
Timothy A. STEINERT . . .	* ⁽¹⁾	5.00	* ⁽¹⁾	November 12, 2010	–
	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Jessie Junfang ZHENG . . .	* ⁽³⁾	23.00	* ⁽³⁾	May 23, 2016	May 23, 2027
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Chris Pen-hung TUNG . . .	* ⁽⁴⁾	67.28	* ⁽⁴⁾	February 21, 2016	February 21, 2022
	* ⁽²⁾	–	* ⁽²⁾	February 21, 2016	February 21, 2022
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2023
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2025
Trudy Shan DAI	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	January 27, 2016	January 27, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 10, 2016	August 10, 2024
	* ⁽²⁾	–	* ⁽²⁾	May 17, 2017	May 17, 2025
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Fan JIANG	* ⁽²⁾	–	* ⁽²⁾	May 16, 2016	May 16, 2022
	* ⁽²⁾	–	* ⁽²⁾	May 22, 2017	May 22, 2023
	* ⁽²⁾	–	* ⁽²⁾	October 1, 2017	October 1, 2023
	* ⁽²⁾	–	* ⁽²⁾	July 24, 2018	July 24, 2024
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Luyuan FAN	* ⁽³⁾	14.50	* ⁽³⁾	July 26, 2013	–
	* ⁽²⁾	–	* ⁽²⁾	July 2, 2014	July 2, 2022
	* ⁽²⁾	–	* ⁽²⁾	July 30, 2018	July 30, 2026
	* ⁽²⁾	–	* ⁽²⁾	August 16, 2019	August 16, 2027
Yvonne Yifen CHANG . . .	* ⁽²⁾	–	* ⁽²⁾	December 8, 2018	December 8, 2024

* The RSUs, options and other rights to acquire Shares in aggregate held by each of these directors and executive officers and their affiliates represent less than 1% of our total outstanding shares. The options held by these directors and executive officers and their affiliates represent less than 0.15% of our total outstanding shares.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (1) Represents rights under the Senior Management Equity Incentive Plan subscribed for at a subscription price of US\$0.50 per preference share in 2010.
- (2) Represents RSUs.
- (3) Represents rights under the Partner Capital Investment Plan. See note 9(c) to the Accountant's Report included in Appendix IA to this prospectus for further information.
- (4) Represents options.
- (5) Date of grant represents the original grant date of the RSUs, options and other rights held by the respective director or executive officer. RSUs and options granted prior to the adoption of our 2014 Plan that are not held by a U.S. resident were canceled and replaced with a new grant under the terms of the 2014 Plan (as described herein) with terms and conditions that are substantially similar to those that applied to the canceled awards.

Board Practices

Nomination and Terms of Directors

Pursuant to our Articles of Association, our board of directors is classified into three classes of directors designated as Group I, Group II and Group III, each generally serving a three-year term unless earlier removed. The Group I directors currently consist of Joe Tsai, Michael Evans, Eric Jing and E. Börje Ekholm; the Group II directors currently consist of Daniel Zhang, Chee Hwa Tung, Jerry Yang and Wan Ling Martello; and the Group III directors currently consist of Jack Ma, Masayoshi Son and Walter Kwauk. The terms of office of the current Group I, Group II and Group III directors will expire, respectively, at our 2021 annual general meeting, 2022 annual general meeting and 2020 annual general meeting. Unless otherwise determined by the shareholders in a general meeting, our board will consist of not less than nine directors for so long as SoftBank has a director nomination right. The Alibaba Partnership has the exclusive right to nominate up to a simple majority of our board of directors, and SoftBank has the right to nominate one director for so long as SoftBank owns at least 15% of our outstanding shares. If at any time our board of directors consists of less than a simple majority of directors nominated or appointed by the Alibaba Partnership for any reason, including because a director previously nominated by the Alibaba Partnership ceases to be a member of our board of directors or because the Alibaba Partnership had previously not exercised its right to nominate or appoint a simple majority of our board of directors, the Alibaba Partnership shall be entitled (in its sole discretion) to appoint such number of additional directors to the board as necessary to ensure that the directors nominated or appointed by the Alibaba Partnership comprise a simple majority of our board of directors. The remaining members of the board of directors will be nominated by the nominating and corporate governance committee of the board. Director nominees will be elected by the simple majority vote of shareholders at our annual general meeting.

If a director nominee is not elected by our shareholders or departs our board of directors for any reason, the party or group entitled to nominate that director has the right to appoint a different person to serve as an interim director of the class in which the vacancy exists until our next scheduled annual general meeting of shareholders. At the next scheduled annual general meeting of shareholders, the appointed interim director or a replacement director nominee (who, in the case of Alibaba Partnership nominees, cannot be the original nominee) will stand for election for the remainder of the term of the class of directors to which the original nominee would have belonged.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

For additional information, see “Alibaba Partnership” and “Related Party Transactions — Transactions and Agreements with SoftBank and Altaba — Voting Agreement.”

Code of Ethics and Corporate Governance Guidelines

We have adopted a code of ethics, which is applicable to all of our directors, executive officers and employees. Our code of ethics is publicly available on our website.

In addition, our board of directors has adopted a set of corporate governance guidelines covering a variety of matters, including approval of related party transactions. Our corporate governance guidelines also provide that any adoption of a new equity incentive plan and any material amendments to those plans will be subject to the approval of our non-executive directors and also provide that the director nominated by SoftBank is entitled to notices and materials for all meetings of committees of our board of directors and, by giving prior notice, may attend, observe and participate in any discussions at any committee meetings. The guidelines reflect certain guiding principles with respect to our board’s structure, procedures and committees. The guidelines are not intended to change or interpret any applicable law, rule or regulation or our Articles of Association.

Duties of Directors

Under Cayman Islands law, all of our directors owe us fiduciary duties, including a duty of loyalty, a duty to act honestly and a duty to act in good faith and in a manner they believe to be in our best interests. Our directors also have a duty to exercise the skill they actually possess and the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our Articles of Association, as amended and restated from time to time. We have the right to seek damages if a duty owed by any of our directors is breached.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Our corporate governance guidelines provide that a majority of the members of our compensation committee and nominating and corporate governance committee will be independent directors within the meaning of Section 303A of the NYSE Listed Company Manual. All members of our audit committee are independent within the meaning of Section 303A of the NYSE Listed Company Manual and meet the criteria for independence set forth in Rule 10A-3 of the U.S. Exchange Act.

Audit Committee

Our audit committee currently consists of Walter Kwauk, E. Börje Ekholm and Wan Ling Martello. Mr. Kwauk is the chairman of our audit committee. Mr. Kwauk satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Mr. Kwauk, Mr. Ekholm and Ms. Martello satisfy the requirements for an “independent director” within the meaning of Section 303A of the NYSE Listed Company Manual and meet the criteria for independence set forth in Rule 10A-3 of the U.S. Exchange Act.

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The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is responsible for, among other things:

- selecting, and evaluating the qualifications, performance and independence of, the independent auditor;
- pre-approving or, as permitted, approving auditing and non-auditing services permitted to be performed by the independent auditor;
- considering the adequacy of our internal accounting controls and audit procedures;
- reviewing with the independent auditor any audit problems or difficulties and management's response;
- reviewing and approving related party transactions between us and our directors, senior management and other persons specified in Form 20-F as required by the U.S. Exchange Act;
- reviewing and discussing the quarterly financial statements and annual audited financial statements with management and the independent auditor;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee currently consists of Jerry Yang, Walter Kwauk and Joe Tsai. Mr. Yang is the chairman of our compensation committee. Mr. Yang and Mr. Kwauk satisfy the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual.

Our compensation committee is responsible for, among other things:

- determining the amount of the annual cash bonus pool to be allocated to each executive officer and determining the total proportions of the annual cash bonus pool to be allocated in aggregate to the non-partner members of our management and in aggregate to the partners we employ;
- reviewing, evaluating and, if necessary, revising our overall compensation policies;
- reviewing and evaluating the performance of our directors and executive officers and determining the compensation of our directors and executive officers;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- reviewing and approving our executive officers' employment agreements with us;
- determining performance targets for our executive officers with respect to our incentive compensation plan and equity-based compensation plans;
- administering our equity-based compensation plans in accordance with the terms thereof; and
- carrying out other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee currently consists of Jack Ma, Chee Hwa Tung and Jerry Yang. Jack is the chairman of our nominating and corporate governance committee. Mr. Tung and Mr. Yang satisfy the "independence" requirements of Section 303A of the NYSE Listed Company Manual.

Our nominating and corporate governance committee is responsible for, among other things:

- selecting the board nominees (other than the director nominees to be nominated by the Alibaba Partnership and SoftBank) for election by the shareholders or appointment by the board;
- periodically reviewing with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in corporate governance law and practices as well as our compliance with applicable laws and regulations, and making recommendations to the board on corporate governance matters.

Committee Observer

In accordance with our articles and the voting agreement entered into among us, Jack Ma, Joe Tsai, SoftBank and Altaba, we have agreed that the director nominated by SoftBank is entitled to receive notices and materials for all meetings of our committees and to join as an observer in meetings of the audit committee, the compensation committee, the nominating and corporate governance committee and/or our other board committees we may establish upon notice to the relevant committee.

ALIBABA PARTNERSHIP

Overview

Since our founders first gathered in Jack Ma's apartment in 1999, they and our management have acted in the spirit of partnership. We view our culture as fundamental to our success and our ability to serve our customers, develop our employees and deliver long-term value to our shareholders. In July 2010, in order to preserve this spirit of partnership and to ensure the sustainability of our mission, vision and values, we decided to formalize our partnership as Lakeside Partners, named after the Lakeside Gardens residential community where Jack and our other founders started our company. We refer to the partnership as the Alibaba Partnership.

We believe that our partnership approach has helped us to better manage our business, with the peer nature of the partnership enabling senior managers to collaborate and override bureaucracy and hierarchy. The Alibaba Partnership currently has 38 members. The number of partners in the Alibaba Partnership is not fixed and may change from time to time due to the election of new partners, the retirement of partners and the departure of partners for other reasons.

Our partnership is a dynamic body that rejuvenates itself through admission of new partners each year, which we believe enhances our excellence, innovation and sustainability. Unlike dual-class ownership structures that employ a high-vote class of shares to concentrate control in a few founders, our approach is designed to embody the vision of a large group of management partners. This structure is our solution for preserving the culture shaped by our founders while at the same time accounting for the fact that founders will inevitably retire from the company.

Consistent with our partnership approach, all partnership votes are made on a one-partner-one-vote basis.

The partnership is governed by a partnership agreement and operates under principles, policies and procedures that have evolved with our business and are further described below.

Nomination and Election of Partners

The Alibaba Partnership elects new partners annually after a nomination process whereby existing partners propose candidates to the partnership committee, or the partnership committee, as described below. The partnership committee reviews the nominations and determines whether the nomination of a candidate will be proposed to the entire partnership for election. Election of new partners requires the approval of at least 75% of all of the partners.

To be eligible for election, a partner candidate must have demonstrated the following attributes:

- a high standard of personal character and integrity;
- continued service with Alibaba Group, our affiliates and/or certain companies with which we have a significant relationship, such as Ant Financial, for not less than five years;
- a track record of contribution to the business of Alibaba Group; and

ALIBABA PARTNERSHIP

- being a “culture carrier” who shows a consistent commitment to, and traits and actions consonant with, our mission, vision and values.

We believe the criteria and process of the Alibaba Partnership applicable to the election of new partners, as described above, promote accountability among the partners as well as to our customers, employees and shareholders. In order to align the interests of partners with the interests of our shareholders, we require that each partner maintain a meaningful level of equity interests in our Company during his or her tenure as a partner. Since a partner nominee must have been our employee or an employee of one of our related companies or affiliates for at least five years, as of the time he or she becomes a partner, he or she will typically already own or have been awarded a personally meaningful level of equity interest in our Company through our equity incentive and share purchase plans.

Duties of Partners

The main duty of partners in their capacity as partners is to embody and promote our mission, vision and values. We expect partners to be evangelists for our mission, vision and values, both within our organization and externally to customers, business partners and other participants in our digital economy.

Partnership Committee

The partnership committee must consist of at least five partners, including partnership committee continuity members, and is currently comprised of Jack Ma, Joe Tsai, Daniel Zhang, Lucy Peng, Eric Jing and Jian Wang. The partnership committee is responsible for administering partner elections and allocating the relevant portion of the annual cash bonus pool for all partner members of management, with any amounts payable to partners who are our executive officers or directors or members of the partnership committee subject to approval of the compensation committee of our board of directors. Either one or two partners may be designated as partnership committee continuity partners, and Jack Ma and Joe Tsai are the initial partnership committee continuity members. Other than partnership committee continuity members, the partnership committee members serve for a term of three years and may serve multiple terms. Elections of partnership committee members are held once every three years. Partnership committee continuity members are not subject to election, and may serve until they cease to be partners, retire from the partnership committee or are unable to discharge duties as partnership committee members as a result of illness or permanent incapacity. A replacement partnership committee continuity partner is either designated by a retiring or, as the case may be, the remaining, partnership committee continuity member. Prior to each election, the partnership committee will nominate a number of partners equal to the number of partnership committee members that will serve in the next partnership committee term plus three additional nominees less the number of the serving partnership committee continuity members. Each partner votes for a number of nominees equal to the number of partnership committee members that will serve in the next partnership committee term less the number of the serving partnership committee continuity members, and all except the three nominees who receive the least votes from the partners are elected to the partnership committee.

Director Nomination and Appointment Rights

Pursuant to our Articles of Association, the Alibaba Partnership has the exclusive right to nominate or, in limited situations, appoint up to a simple majority of the members of our board of directors.

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The election of each director nominee of the Alibaba Partnership will be subject to the director nominee receiving a majority vote from our shareholders voting at an annual general meeting of shareholders. If an Alibaba Partnership director nominee is not elected by our shareholders or after election departs our board of directors for any reason, the Alibaba Partnership has the right to appoint a different person to serve as an interim director of the class in which the vacancy exists until our next scheduled annual general meeting of shareholders. At the next scheduled annual general meeting of shareholders, the appointed interim director or a replacement Alibaba Partnership director nominee (other than the original nominee) will stand for election for the remainder of the term of the class of directors to which the original nominee would have belonged.

If at any time our board of directors consists of less than a simple majority of directors nominated or appointed by the Alibaba Partnership for any reason, including because a director previously nominated by the Alibaba Partnership ceases to be a member of our board of directors or because the Alibaba Partnership had previously not exercised its right to nominate or appoint a simple majority of our board of directors, the Alibaba Partnership will be entitled (in its sole discretion and without the need for any additional shareholder action) to appoint such number of additional directors to the board as necessary to ensure that the directors nominated or appointed by the Alibaba Partnership comprise a simple majority of our board of directors.

In determining the Alibaba Partnership director nominees who will stand for election to our board, the partnership committee will propose director nominees who will be voted on by all of the partners, and those nominees who receive a simple majority of the votes of the partners will be selected for these purposes. The director nominees of the Alibaba Partnership may be partners of the Alibaba Partnership or other qualified individuals who are not affiliated with the Alibaba Partnership.

The Alibaba Partnership's right to nominate or appoint up to a simple majority of our directors is conditioned on the Alibaba Partnership being governed by the partnership agreement in effect as of the completion of our initial public offering in September 2014, or as may be amended in accordance with its terms from time to time. Any amendment to the provisions of the partnership agreement relating to the purpose of the partnership, or to the manner in which the Alibaba Partnership exercises its right to nominate a simple majority of our directors, will be subject to the approval of the majority of our directors who are not nominees or appointees of the Alibaba Partnership and are "independent directors" within the meaning of Section 303A of the NYSE Listed Company Manual. The provisions relating to nomination rights and procedures described above are incorporated in our Articles of Association. Pursuant to our Articles of Association, the Alibaba Partnership's nomination rights and related provisions of our Articles of Association may only be changed upon the vote of shareholders representing 95% of the votes present in person or by proxy at a general meeting of shareholders.

Our board of directors currently consists of eleven members, and five of these directors are Alibaba Partnership nominees. Pursuant to its right to nominate or appoint directors as discussed above, the Alibaba Partnership is entitled to nominate or appoint two additional directors to our board, which would increase the total number of directors to thirteen. We have entered into a voting agreement pursuant to which both SoftBank and Alibaba have agreed to vote their shares in favor of the Alibaba Partnership director nominees at each annual general shareholders meeting so long as SoftBank owns at least 15% of our outstanding Shares. See "Related Party Transactions — Transactions and Agreements with SoftBank and Alibaba — Voting Agreement."

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Current Partners

The following table sets forth the names, in alphabetical order by surname, and other information regarding the current partners of the Alibaba Partnership as of the Latest Practicable Date.

Name	Age	Gender	Year Joined Alibaba Group	Current position with Alibaba Group or related/affiliated companies
Jingxian CAI (蔡景現)	42	M	2000	Senior Researcher
Li CHENG (程立)	44	M	2005	Chief Technology Officer, Ant Financial
Trudy Shan DAI (戴珊)	43	F	1999	President, Wholesale Marketplaces
Luyuan FAN (樊路遠)	46	M	2007	President, Alibaba Digital Media and Entertainment
Yongxin FANG (方永新)	45	M	2000	Senior Director, DingTalk
Felix Xi HU (胡喜)	38	M	2007	Deputy Chief Technology Officer, Ant Financial
Simon Xiaoming HU (胡曉明)	49	M	2005	President, Ant Financial
Fan JIANG (蔣凡)	34	M	2013	President, Taobao and Tmall
Jane Fang JIANG (蔣芳)	45	F	1999	Deputy Chief People Officer
Jiangwei JIANG (蔣江偉)	38	M	2008	Researcher
Eric Xiandong JING (井賢棟) [†]	46	M	2007	Chairman and Chief Executive Officer, Ant Financial
Zhenfei LIU (劉振飛)	47	M	2006	President, Amap
Jack Yun MA (馬雲) [†]	55	M	1999	Director
Xingjun NI (倪行軍)	42	M	2003	President, Alipay, Ant Financial
Lucy Lei PENG (彭蕾) [†]	46	F	1999	Director, Ant Financial; Chairwoman and President, Alipay China; Chairwoman, Lazada
Sabrina Yijie PENG (彭翼捷)	41	F	2000	Chief Marketing Officer, Ant Financial
Xiaofeng SHAO (邵曉鋒)	53	M	2005	Secretary-General
Jie SONG (宋潔)	41	F	2000	Vice President
Timothy A. STEINERT	59	M	2007	General Counsel and Secretary
Lijun SUN (孫利軍)	42	M	2002	General Manager of Social Responsibility
Judy Wenhong TONG (童文紅)	49	F	2000	Chief People Officer
Joseph C. TSAI (蔡崇信) [†]	55	M	1999	Executive Vice Chairman
Jian WANG (王堅) [†]	57	M	2008	Chairman, Technology Steering Committee
Lei WANG (王磊)	39	M	2003	President, Local Services
Shuai WANG (王帥)	45	M	2003	Chairman, Marketing and Public Relations Committee
Winnie Jia WEN (聞佳)	43	F	2007	Vice President, Office of the Chairman
Sophie Minzhi WU (吳敏芝)	44	F	2000	Chief Customer Officer

ALIBABA PARTNERSHIP

Name	Age	Gender	Year Joined Alibaba Group	Current position with Alibaba Group or related/affiliated companies
Maggie Wei WU (武衛)	51	F	2007	Chief Financial Officer
Eddie Yongming WU (吳泳銘)	44	M	1999	Chairman, Alibaba Health
Zeming WU (吳澤明)	39	M	2004	President, New Retail Technology
Sara Siying YU (俞思瑛)	45	F	2005	Deputy General Counsel
Yongfu YU (俞永福)	43	M	2014	Head of eWTP Investment Working Group
Sam Songbai ZENG (曾松柏)	53	M	2012	Senior Vice President, Human Resources, Ant Financial; Deputy Chief People Officer
Jeff Jianfeng ZHANG (張建鋒)	46	M	2004	Chief Technology Officer and President, Alibaba Cloud Intelligence
Daniel Yong ZHANG (張勇) [†]	47	M	2007	Chairman and Chief Executive Officer
Yu ZHANG (張宇)	49	F	2004	Vice President
Angel Ying ZHAO (趙穎)	45	F	2005	Head of Alibaba Globalization Leadership Group
Jessie Junfang ZHENG (鄭俊芳)	46	F	2010	Chief Risk Officer and Chief Platform Governance Officer

[†] Member of the partnership committee.

Bonus Pool

Our board of directors, acting on the recommendation of our compensation committee, approves an annual cash bonus pool for our management (which in fiscal year 2019 comprised over 360 individuals) equal to a percentage of our adjusted pre-tax operating profits. Once the annual cash bonus pool is calculated, our compensation committee will then first determine the proportion to be allocated to the non-partner members of our management. Any remaining portion will then be available for the partner members of our management. The partnership committee will determine the allocation of the relevant portion of the annual cash bonus pool for all partner members of management, with any amounts payable to partners who are our executive officers or directors or members of the partnership committee subject to approval of the compensation committee of our board of directors. We understand that a partner's level of contribution to our business and to the promoting of our mission, vision and values will be a key factor in determining his or her allocation from the bonus pool. A portion of the annual cash bonus pool that is available to the partner members of management may, upon the recommendation of the partnership committee and approval of our compensation committee, be deferred, with the allocations of deferred payment determined by the partnership committee with any amounts payable to our executive officers or directors who are partners or members of the partnership committee subject to approval of the compensation committee of our board of directors. We understand that participation in deferred distributions, other than post-retirement payments funded out of the deferred pool, is conditioned on a partner's continued employment with us, our affiliates and/or certain companies with which we have a significant relationship, such as Ant Financial.

ALIBABA PARTNERSHIP

Retirement and Removal

Partners may elect to retire from the partnership at any time. All partners except continuity partners are required to retire upon reaching the age of sixty or upon termination of their qualifying employment. Jack Ma and Joe Tsai are designated as continuity partners, who may remain partners until they reach the age of seventy (and this age limit may be extended by a majority votes of all partners), elect to retire from the partnership, die or are incapacitated or are removed as partners. Any partner, including continuity partners, may be removed upon the vote of a simple majority of all partners present at a duly-called meeting of partners for violations of certain standards set forth in the partnership agreement, including failure to actively promote our mission, vision and values, fraud, gross misconduct or gross negligence. As with other partners, continuity partners must maintain the shareholding levels required by us of all partners as described below. Partners who retire from the partnership upon meeting certain age and service requirements may be designated as honorably retired partners by the partnership committee. Honorably retired partners may not act as partners, but may be entitled to allocations from the deferred portion of the annual cash bonus pool described below as post-retirement payments. Continuity partners will not be eligible to receive allocations from the annual cash bonus pool if they cease to be our employees even if they remain partners, but may be entitled to receive allocations from the deferred bonus pool if they are honorably retired partners.

Restrictive Provisions

Under our Articles of Association, in connection with any change of control, merger or sale of our Company, the partners and other holders of our Shares shall receive the same consideration with respect to their Shares in connection with any of these types of transactions. In addition, our Articles of Association provide that the Alibaba Partnership may not transfer or otherwise delegate or give a proxy to any third-party with respect to its right to nominate directors, although it may elect not to exercise its rights in full. In addition, as noted above, our Articles of Association also provide that the amendment of certain provisions of the Alibaba Partnership agreement relating to the purpose of the partnership or the manner in which the partnership exercises its rights to nominate or appoint a majority of our board of directors will require the approval of a majority of directors who are not appointees of the Alibaba Partnership and are “independent directors” within the meaning of Section 303A of the NYSE Listed Company Manual.

Amendment of Alibaba Partnership Agreement

Pursuant to the partnership agreement, amendment of the partnership agreement requires the approval of 75% of the partners in attendance at a meeting of the partners at which not less than 75% of all the partners are in attendance, except that the general partner may effect certain administrative amendments. In addition, certain amendments relating to the purposes of the Alibaba Partnership or the manner in which it exercises its nomination rights with respect to our directors require the approval of a majority of our independent directors not nominated or appointed by the Alibaba Partnership.

Alibaba Group Equity Interest Holding Requirements for Partners

Each of the partners holds his or her equity interests in our Company directly as an individual or through his or her affiliates. We have entered into share retention agreements with each partner. These agreements provide that a period of three years from the date on which a person becomes a partner, which ranges from January 2014 to January 2019 for our existing partners, we require that each partner retain at least 60% of the equity interests (including shares underlying vested and unvested awards) that he or she held on the starting date of the three-year period. Following the initial three-year holding period and for so long as he or she remains a partner, we require that the partner retain at least 40% of the equity interests (including shares underlying vested and unvested awards) that he or she held on the starting date of the initial three-year holding period. Exceptions to the holding period rules described in the share retention agreements must be approved by a majority of the independent directors.

Independence from Our “Controlling Shareholder”

We do not have any shareholder or group of shareholders who are together entitled to exercise or control the exercise of 30% or more of the voting power of our Shares in issue. However, as a result of its exclusive right to nominate or, in limited situations, appoint up to a simple majority of the members of our board of directors, the Alibaba Partnership is considered as our controlling shareholder for the purposes of the Hong Kong Listing Rules.

The Alibaba Partnership is not engaged in business operations and does not provide any financial support to us. Apart from its director nomination and appointment rights, the Alibaba Partnership is not involved in the management of our business. On this basis, our directors are satisfied that we are capable of carrying out our business independently from the Alibaba Partnership.

MAJOR SHAREHOLDERS

The following table sets forth information with respect to beneficial ownership of our Shares as of the Latest Practicable Date, except otherwise noted, by:

- each of our directors and executive officers;
- our directors and executive officers as a group; and
- each person known to us to beneficially own 5% or more of our Shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes the power to direct the voting or the disposition of the securities or to receive the economic benefit of the ownership of the securities. In computing the number of Shares beneficially owned by a person and the percentage ownership of that person, we have included Shares underlying the ADSs held by the person, as well as Shares that the person has the right to acquire within 60 days of this prospectus, including through the vesting of RSUs and the exercise of any option or other right. These Shares, however, are not included in the computation of the percentage ownership of any other person. We have one class of Shares, and each holder of our Shares is entitled to one vote per Share.

Name	Shares beneficially owned	Percent	
	As of the Latest Practicable Date	As of the Latest Practicable Date ⁽⁴⁾	Upon Completion of the Global Offering ⁽⁵⁾
Directors and Executive Officers:			
Daniel Yong ZHANG	*	*	*
Jack Yun MA ⁽¹⁾	1,277,691,248	6.1%	6.0%
Joseph C. TSAI ⁽²⁾	411,222,480	2.0%	1.9%
J. Michael EVANS	*	*	*
Eric Xiandong JING	*	*	*
Masayoshi SON	—	—	—
Chee Hwa TUNG	*	*	*
Walter Teh Ming KWAUK	*	*	*
Jerry YANG	*	*	*
E. Börje EKHOLM	*	*	*
Wan Ling MARTELLO	*	*	*
Maggie Wei WU	*	*	*
Judy Wenhong TONG	*	*	*
Jeff Jianfeng ZHANG	*	*	*
Sophie Minzhi WU	*	*	*
Timothy A. STEINERT	*	*	*
Jessie Junfang ZHENG	*	*	*
Chris Pen-hung TUNG	*	*	*
Trudy Shan DAI	*	*	*
Fan JIANG	*	*	*
Yvonne Yifen CHANG	*	*	*
Luyuan FAN	*	*	*
All directors and executive officers as a group	1,874,844,656	9.0%	8.8%
Greater than 5% Beneficial Owner:			
SoftBank ⁽³⁾	5,390,066,968	25.8%	25.2%

MAJOR SHAREHOLDERS

Notes:

- * This person beneficially owns less than 1% of our outstanding Shares.
- (1) Represents (i) 3,160,000 Shares held directly by Jack Ma, (ii) 280,000,000 Shares held by APN Ltd., a Cayman Islands company, in which Jack holds a 70% equity interest, which Shares, together with Jack's equity interest in APN Ltd., have been pledged to us to support certain obligations under the SAPA, (iii) 88,591,368 Shares held by Yun Capital Limited, a British Virgin Islands company, which has granted Jack a revocable proxy over these shares and which is wholly-owned by The Jack Ma Philanthropic Foundation, (iv) 88,591,368 Shares held by Ying Capital Limited, a British Virgin Islands company, which has granted Jack a revocable proxy over these shares and which is wholly owned by The Jack Ma Philanthropic Foundation, (v) 418,943,904 Shares held by JC Properties Limited, a British Virgin Islands company, which is wholly-owned by a trust, the beneficiaries of which are Jack and his family and (vi) 398,404,608 Shares held by JSP Investment Limited, a British Virgin Islands company, which is wholly-owned by a trust, the beneficiaries of which are Jack's family. Excludes shares held by SoftBank representing SoftBank's share ownership in excess of 30% of our outstanding Shares as of the most recent record date with respect to any shareholders action and up to 972,000,000 Shares held by Altaba, over which Jack and Joe will share voting power pursuant to the voting agreement that we, Jack, Joe, SoftBank and Altaba entered into as described in "Related Party Transactions — Transactions and Agreements with Altaba and SoftBank — Voting Agreement." Jack has historically voted the Shares held by the family trusts and he is deemed a beneficial owner of the Shares held by the family trusts. Jack does not have any pecuniary interests in the 177,182,736 Shares held by Yun Capital Limited and Ying Capital Limited.
- (2) Represents (i) 12,993,040 Shares held directly by Joe Tsai, (ii) 120,000,000 Shares held by APN Ltd., in which Joe holds a 30% equity interest and serves as a director, which Shares, together with Joe's equity interest in APN Ltd., have been pledged to us to support certain obligations under the SAPA, (iii) 43,058,344 Shares held by Joe and Clara Tsai Foundation Limited, a company incorporated under the law of the Island of Guernsey that has granted Joe a revocable proxy over these shares and which is wholly-owned by Joe and Clara Tsai Foundation, (iv) 154,185,672 Shares held by Parufam Limited, a Bahamas corporation, and over which, Joe, as a director of Parufam Limited, has been delegated sole voting and disposition power and (v) 80,985,424 Shares held by PMH Holding Limited, a British Virgin Islands corporation, and over which, Joe, as sole director of PMH Holding Limited, has voting and dispositive power. Excludes shares held by SoftBank representing SoftBank's share ownership in excess of 30% of our outstanding Shares as of the most recent record date with respect to any shareholders action and up to 972,000,000 Shares held by Altaba, over which Joe and Jack will share voting power pursuant to the voting agreement that we, Jack, Joe, SoftBank and Altaba have entered into as described in "Related Party Transactions — Transactions and Agreements with Altaba and SoftBank — Voting Agreement." Joe does not have any pecuniary interests in the 43,058,344 Shares held by Joe and Clara Tsai Foundation Limited.
- (3) Represents (i) 3,927,476,568 Shares owned by SoftBank Group Corp., (ii) 102,590,400 Shares owned by West Raptor Holdings, LLC, and (iii) 1,360,000,000 Shares owned by Skywalk Finance GK.
- (4) Based on 20,886,784,264 Shares as of the Latest Practicable Date.
- (5) Assuming that the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares that we may make.

Based on information publicly disclosed by Altaba as of September 30, 2019, Altaba held ADSs representing 40 million, or less than 0.2%, of our Shares outstanding as of Latest Practicable Date, after having accounted for the Share Split, and is no longer our major shareholder.

RELATED PARTY TRANSACTIONS

We are seeking a listing on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules governing connected transactions does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this prospectus for disclosure purposes only.

Our Related Party Transaction Policy

In order to prevent risks of conflicts of interest or the appearance of conflicts of interest, all of our directors and employees are subject to our code of business conduct and other policies which require, among other things, that any potential transaction between us and an employee or director, their relatives and closely connected persons and certain entities in which they, their relatives or closely connected persons have an interest be approved in writing by an appropriate supervisor or compliance officer.

We have also adopted a related party transaction policy to which all of our directors, senior management and other key management personnel, all close family members (as defined in the policy) of the foregoing individuals, Ant Financial and its subsidiaries as well as the Alibaba Partnership and certain other related entities are subject. Related party transactions defined under this policy, as required by Form 20-F of the SEC, include transactions with our directors, senior management and major shareholders and their affiliates, as well as transactions with parties that do not pose risks of conflicts of interest, such as transactions with our investee companies that are not otherwise affiliated with any of the foregoing individuals. This policy is intended to supplement the procedures set forth in our code of business conduct and our other corporate governance policies and does not exempt any person from more restrictive provisions that may exist in our existing procedures and policies.

This related party transaction policy provides, among other things, that, unless otherwise pre-approved by our board of directors:

- each related party transaction, and any material amendment or modification to a related party transaction, shall be adequately disclosed to, and reviewed and approved or ratified by, our audit committee or any committee composed solely of disinterested independent directors or by the disinterested members of such committee; and
- any employment relationship or similar transaction involving our directors or senior management and any related compensation shall be approved by the disinterested members of our compensation committee or recommended by the disinterested members of the compensation committee to our board for its approval.

Our related party transaction policy, code of business conduct and our other corporate governance policies are subject to periodic review and revision by our board.

RELATED PARTY TRANSACTIONS

Summary of Major Related Party Transactions

As disclosed in greater detail in the following paragraphs, the table below summarizes the major related party transactions in fiscal years 2017, 2018, 2019 and the three months ended June 30, 2019.

Related Party	Transaction Description
SoftBank	<ul style="list-style-type: none"> Voting agreement among us, Jack Ma, Joe Tsai, SoftBank and Altaba which, among others, provides that SoftBank, Altaba, Jack Ma and Joe Tsai will vote their shares in favor of the Alibaba Partnership director nominees, and provides SoftBank with the right to nominate a director Various investments involving SoftBank
Altaba	<ul style="list-style-type: none"> Voting agreement among us, Jack Ma, Joe Tsai, SoftBank and Altaba which, among others, provides that SoftBank, Altaba, Jack Ma and Joe Tsai will vote their shares in favor of the Alibaba Partnership director nominees, and provides SoftBank with the right to nominate a director
Ant Financial and its affiliates	<ul style="list-style-type: none"> Alipay provides payment and escrow services to us the SAPA, which was amended in 2018 and 2019, and provides a series of transactions, including our acquisition of the 33% equity interest in Ant Financial 2014 IPLA, a proposed amendment to which was subsequently entered into in 2019 upon our receipt of the 33% equity interest in Ant Financial, or the Amended IPLA, and provides that we and our subsidiaries license to Ant Financial and/or its subsidiaries certain intellectual property rights and provide various software technology services, and, prior to our receipt of the 33% equity interest in Ant Financial, Ant Financial paid us profit share payments; pursuant to the SAPA, a cross-license agreement was entered into in September 2019 upon our receipt of the 33% equity interest in Ant Financial We, Ant Financial, our controlled affiliates and certain other affiliates, contribute all data collected or generated (subject to applicable law, industry rules and contractual requirements) to a data platform that we operate and maintain, and to which all of the full data sharing participants will have access

RELATED PARTY TRANSACTIONS

Related Party	Transaction Description
	<ul style="list-style-type: none"> • We and Ant Financial cooperate with each other with respect to the enforcement of each other's rights and the provision of certain financial services to our customers and merchants in connection with the SME loan business • We granted Ant Financial a license for it to continue to use certain trademarks and domain names • We and Ant Financial provide certain administrative and support services to each other and our respective affiliates • We and Ant Financial provide various other services to each other • Various investments involving Ant Financial • We have awarded RSUs and granted options to acquire our Shares to employees of Ant Financial and its subsidiaries; Junhan, a major equity holder of Ant Financial, has granted certain share-based awards similar to share appreciation awards linked to the valuation of Ant Financial to certain of our employees; Ant Financial, through its subsidiary, has granted certain RSUs to certain of our employees
Alibaba Pictures	<ul style="list-style-type: none"> • We subscribed for newly issued ordinary shares of Alibaba Pictures and it became our consolidated subsidiary
Jack Ma, Joe Tsai, and J. Michael Evans	<ul style="list-style-type: none"> • We agreed to assume the cost of maintenance, crew and operation of the personal aircrafts of these directors and officers where the cost is allocated for business purposes
Investment funds affiliated with Jack Ma	<ul style="list-style-type: none"> • Various investments involving the Yunfeng Funds, investment funds affiliated with Jack Ma

RELATED PARTY TRANSACTIONS

Related Party	Transaction Description
Jack Ma	<ul style="list-style-type: none"> • Made certain commitments to us relating to his interest in Ant Financial, the Yunfeng Funds and other entities • In connection with strengthening our strategic cooperation with Wasu, we entered into financing arrangements with a limited partner of a PRC limited partnership that invested in Wasu. A company controlled by Jack Ma serves as one of the general partners of the PRC limited partnership
Cainiao Network	<p>Before Cainiao Network became our consolidated subsidiary in October 2017,</p> <ul style="list-style-type: none"> • Cainiao Network provided logistics services to us • We provided Cainiao Network with various administrative and support services
Weibo	<ul style="list-style-type: none"> • Weibo provides us with certain marketing services • We provide Weibo with certain cloud computing services
Investees	<ul style="list-style-type: none"> • We have commercial arrangements with certain of our investees and other related parties to provide and receive certain marketing, logistics, traffic acquisition, cloud computing and other services • We extended loans to certain of our investees • We have made co-investments with certain of our investees
Variable interest entities and variable interest entity equity holders	<ul style="list-style-type: none"> • We operate certain of our businesses in China through contractual arrangements between our wholly owned entities, our variable interest entities and variable interest entity equity holders
Directors and executive officers	<ul style="list-style-type: none"> • We entered into indemnification agreements with our directors and executive officers • We entered into employment agreements with our directors and executive officers • We grant equity incentive awards to our directors and executive officers

RELATED PARTY TRANSACTIONS

The following table summarizes the services fees paid to certain related parties in the periods indicated.

Related Party	Transaction	Year Ended March 31,			Three months ended June 30,		
		2017	2018	2019	2018	2019	
		RMB	RMB	RMB	RMB	RMB	US\$
				(unaudited)			(in millions)
Ant Financial and its affiliates	Payment processing and escrow services fee	5,487	6,295	8,252	1,739	2,281	332
	Administrative and support services	15	84	80	14	22	3
	Marketing support services in connection with membership management and other services	937	1,810	1,248	550	681	99
Cainiao Network	Logistics service fee	4,444	3,437	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Weibo	Marketing service fee	340	615	624	206	156	23

Note:

- (1) In October 2017, our equity interest in Cainiao Network increased to approximately 51% and it became one of our consolidated subsidiaries.

Certain of our investees have entered into commercial arrangements with us in connection with certain logistics services they provide to Cainiao Network and our other businesses. In fiscal years 2018 (after the consolidation of Cainiao Network in October 2017) and 2019 and the three months ended June 30, 2018 and 2019, we incurred costs and expenses of RMB5,608 million, RMB12,933 million, RMB3,709 million and RMB2,226 million (US\$324 million), respectively, for these logistics services, accounting for 3.2%, 4.2%, 5.2% and 2.5% of our costs and expenses in the relevant periods.

Other than the foregoing, the aggregate service fees we paid to other related parties accounted for less than 1% of total cost and expenses in each of fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

RELATED PARTY TRANSACTIONS

The following table summarizes the services fees received from related parties in the periods indicated.

Related Party	Transaction	Year ended March 31,			Three months ended June 30,		
		2017	2018	2019	2018	2019	
		RMB	RMB	RMB	RMB	RMB	US\$
		(unaudited) (in millions)					
Ant Financial	Software technology services fee and license fee	2,086	3,444	517	910	1,627	237
	Reimbursement payment for software technology services fee	245	37	106	–	–	–
Ant Financial and its affiliates	Annual fee for SME loan business	847	956	954	239	239	35
	Administrative and support services	531	676	1,017	186	295	43
	Cloud computing services fee	264	482	761	145	240	35
	Marketplace software technology services fee	409	497	591	122	251	37
	Others	90	524	898	145	392	57
	Reimbursement payment for RSUs and options ⁽¹⁾	54	5	–	–	–	–
Cainiao Network ⁽²⁾	Administrative and support service fee	152	123	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Weibo	Cloud computing service fee	105	223	304	68	71	10

Notes:

- (1) We entered into agreements with Ant Financial under which we received reimbursements for RSUs and options relating to our Shares granted to the employees of Ant Financial and its subsidiaries during the period from December 14, 2011 to March 31, 2014. Grants of RSUs and options made subsequent to March 31, 2014 are not subject to these reimbursement arrangements. See “— Agreements and Transactions Related to Ant Financial and Its Subsidiaries — Equity-based Award Arrangements.”
- (2) In October 2017, our equity interest in Cainiao Network increased to approximately 51% and it became one of our consolidated subsidiaries.

Cainiao Network has entered into commercial arrangements with certain of our investees related to logistics services. In fiscal years 2018 (after our consolidation of Cainiao Network in October 2017) and 2019 and the three months ended June 30, 2018 and 2019, we recognized revenue of RMB72 million, RMB261 million, RMB24 million and RMB264 million (US\$38 million), respectively, in connection with these services. This revenue accounted for 0.1% and 0.2% of our revenue in fiscal year 2019 and the three months ended June 30, 2019, respectively, and a negligible percentage of our revenue in fiscal year 2018 and the three months ended June 30, 2018.

Other than the related party transactions summarized above, the aggregate payments we received from other related parties accounted for less than 1% of total revenue in each of the fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

RELATED PARTY TRANSACTIONS

Transactions and Agreements with SoftBank and Altaba

Voting Agreement

We have entered into a voting agreement with Jack Ma, Joe Tsai, SoftBank and Altaba, which provides SoftBank with the right to nominate one director to our board of directors who will, subject to certain conditions, have the right to receive notices and materials for all meetings of our committees and to join these meetings as an observer, which rights are also reflected in our Memorandum and Articles of Association. These nomination rights will terminate when SoftBank's shareholding declines below 15% of our outstanding shares. The voting agreement also contains provisions to the effect that:

- SoftBank agrees to:
 - vote its shares in favor of the election of the Alibaba Partnership's director nominees at each annual general shareholders meeting until SoftBank's shareholding declines below 15% of our outstanding shares, and
 - grant the voting power of any portion of its shareholdings exceeding 30% of our outstanding Shares to Jack and Joe by proxy;
- Jack and Joe will vote their shares and any other shares over which they hold voting rights in favor of the election of the SoftBank director nominee at each annual general shareholders meeting in which the SoftBank nominee stands for election until SoftBank's shareholding declines below 15% of our outstanding Shares;
- Altaba agrees to:
 - vote its shares in favor of the election of all of the Alibaba Partnership's director nominees and the SoftBank director nominee, if so standing for election, at each annual general shareholders meeting until SoftBank's shareholding declines below 15% of our outstanding Shares, and
 - grant the voting power over any shares it owns, up to 972 million of our Shares, after having accounted for the Share Split, to Jack and Joe by proxy;
- each party to the voting agreement will use its commercially reasonable efforts to cause any other person with whom it jointly files a statement (or an amendment to a statement) on Schedule 13D or Schedule 13G pursuant to the U.S. Exchange Act to become a party to the voting agreement and vote its shares in favor of SoftBank's and the Alibaba Partnership's director nominees pursuant to the foregoing; and
- SoftBank and Altaba will receive certain information rights in connection with the preparation of their financial statements.

SoftBank's and Altaba's proxy obligations described in the second sub-bullet under each of the first and third bullets above, respectively, shall (a) not apply in respect of any proposal submitted to our shareholders that may result in an issuance of shares or other equity interests of us, including securities exchangeable or convertible into shares, that would increase the amount of our then-outstanding shares by 3% or more and (b) terminate when

RELATED PARTY TRANSACTIONS

Jack owns less than 1% of our outstanding shares on a fully diluted basis or if we materially breach the voting agreement. Based on publicly disclosed information, Altaba held ADSs representing 40 million of our Shares, after having accounted for the Share Split, as of September 30, 2019.

Investments Involving SoftBank

We have invested in businesses in which SoftBank or one or more of its affiliates is a shareholder or co-invested with SoftBank or one or more of its affiliates in other businesses. SoftBank has also invested in businesses in which we or our controlled entities are shareholders. For instance, in April 2017, SoftBank participated in a new round of equity financing completed by Didi Chuxing, in which we hold an equity interest. In September 2017, we sold a portion of our investment in Didi Chuxing to SoftBank for cash consideration of US\$639 million. In December 2018, an investment fund affiliated with SoftBank agreed to acquire a minority equity interest in our local services holding company. We may continue to co-invest with SoftBank, invest in businesses in which SoftBank is already an existing investor, and may also bring SoftBank as an investor into our new businesses or businesses in which we are an existing investor.

Agreements and Transactions Related to Ant Financial and Its Subsidiaries

Ownership of Ant Financial and Alipay

We originally established Alipay in December 2004 to operate our payment services business. In June 2010, the PBOC issued new regulations that required non-bank payment companies to obtain a license in order to operate in China. These regulations provided specific guidelines for license applications only for domestic PRC-owned entities. These regulations stipulated that, in order for any foreign-invested payment company to obtain a license, the scope of business, the qualifications of any foreign investor and any level of foreign ownership would be subject to future regulations to be issued, which in addition would require approval by the PRC State Council. Furthermore, the regulations required that any payment company that failed to obtain a license must cease operations by September 1, 2011. Although Alipay was prepared to submit its license application in early 2011, at that time the PBOC had not issued any guidelines applicable to license applications for foreign-invested payment companies. In light of the uncertainties relating to the license qualification and application process for a foreign-invested payment company, our management determined that it was necessary to restructure Alipay as a company wholly-owned by PRC citizens in order to avail Alipay of the specific licensing guidelines applicable only to domestic PRC-owned entities. Accordingly, we divested all of our interest in and control over Alipay in 2011, which resulted in deconsolidation of Alipay from our financial statements. This action enabled Alipay to obtain a payment business license in May 2011 without delay and without any detrimental impact to our China retail marketplaces or to Alipay.

Following the divestment of our interest in and control over Alipay, effective in the first calendar quarter of 2011, the ownership structure of Alipay's parent entity, Ant Financial, was changed so that Jack Ma held a substantial majority of the equity ownership interest in Ant Financial. The ownership structure of Ant Financial has subsequently been further restructured. Ant Financial has also completed several rounds of equity financing. Pursuant to the SAPA entered into in August 2014 and amended in February 2018, we agreed to acquire a 33% equity interest in Ant Financial and terminate the profit share payments that we were receiving from Ant Financial at the time, subject to the satisfaction of closing conditions set forth in the SAPA. In September 2019, we received a newly-issued 33%

RELATED PARTY TRANSACTIONS

equity interest in Ant Financial following the satisfaction of the closing conditions set forth in the SAPA. As of the Latest Practicable Date, Junhan and Junao held approximately 50% of Ant Financial's equity interest, we held 33% and other shareholders held the remaining equity interest.

Economic interests of Ant Financial through Junhan are owned by Jack Ma, Simon Xie and other employees of us and Ant Financial and its affiliates and investee companies. These economic interests are in the form of limited partnership interests and interests similar to share appreciation rights tied to potential appreciation in the value of Ant Financial. The economic interests in Junao are held in the form of limited partnership interests by certain members of the Alibaba Partnership.

We understand that it is the intention of the shareholders of Ant Financial that:

- Jack Ma's direct and indirect economic interest in Ant Financial (for the avoidance of doubt, other than the equity stake in Ant Financial held by our Company) will be reduced over time to a percentage that does not exceed his and his affiliates' interest in our Company as of the time immediately prior to the completion of our initial public offering (the percentage of our Shares Jack and his affiliates beneficially owned immediately prior to the completion of our initial public offering was 8.8%) and that this reduction will be caused in a manner by which neither Jack nor any of his affiliates would receive any economic benefit. See "— Commitments of Jack Ma to Alibaba Group." We have been informed by Ant Financial that the proposed reduction of Jack's economic interest is expected to be accomplished through a combination of future equity-based incentive awards to employees and dilutive issuances of equity in Ant Financial, among others;
- from time to time, additional economic interests in Ant Financial in the form of interests similar to share appreciation rights issued by Junhan will be transferred to employees of Ant Financial and our employees; and
- Ant Financial may raise equity capital from investors in the future in order to finance its business expansion, with the effect that the shareholding of Junao and Junhan in Ant Financial will be reduced through dilution (the amount of dilution would depend on future valuations and the amount of equity capital to be raised).

Jack Ma is able to exercise the voting power of Junao and Junhan, two of the major shareholders of Ant Financial, because he owns 100% of the general partner of both Junao and Junhan.

Our Commercial Arrangements with Ant Financial and Alipay

After the divestment of our interest in and control over Alipay, we entered into a framework agreement in July 2011, or the 2011 framework agreement, with SoftBank, Alibaba, Alipay, Ant Financial, Jack Ma and Joe Tsai and certain of their affiliates. At the same time, we also entered into various implementation agreements that included a commercial agreement, or the Alipay commercial agreement, an intellectual property license and software technology service agreement, or the 2011 IPLA, and a shared services agreement, which together governed our financial and commercial relationships with Ant Financial and Alipay.

RELATED PARTY TRANSACTIONS

Alipay Commercial Agreement

Under the Alipay commercial agreement among us, Alipay and Ant Financial, which agreement still remains in place following the 2014 restructuring and the 2018 and 2019 amendments to our agreements with Ant Financial, each as described below, Alipay provides payment processing and escrow services to us. These services enable settlement of transactions on our marketplaces through a secure payment platform and escrow process. We pay Alipay a fee for these services on terms that are preferential to us. These preferential terms enable us, with certain exceptions, to make available basic payment processing and escrow services to consumers and merchants on our marketplaces free of charge. We believe that these services provide us with a competitive advantage that otherwise would be diminished without the preferential terms of the Alipay commercial agreement.

The fees that we pay Alipay are based on fee rates and actual payment volumes processed on our marketplaces. The fee rates reflect, among other things, Alipay's bank-processing costs and operating costs allocable to the services provided to us, and accordingly are subject to adjustment on an annual basis to the extent these costs increase or decline. In connection with the 2014 restructuring, the Alipay commercial agreement was amended to provide that a special independent committee formed by our independent directors and the director designated by SoftBank, or the Independent Committee, must approve the fee rates in advance on an annual basis. The fee rates for the immediately preceding year remain in effect until such time as the annual approval by the Independent Committee has been obtained. In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, service fees in connection with the payment services provided by Alipay amounted to RMB5,487 million, RMB6,295 million, RMB8,252 million, RMB1,739 million and RMB2,281 million (US\$332 million), respectively, under this agreement. The Alipay commercial agreement has an initial term of 50 years, and is automatically renewable for further periods of 50 years, subject to our right to terminate at any time upon one year's prior written notice. If the Alipay commercial agreement is required by applicable regulatory authorities, including under stock exchange listing rules, to be modified in certain circumstances, a one-time payment may be payable to us by Ant Financial to compensate us for the impact of the adjustment. Certain conforming amendments were made to the Alipay commercial agreement as part of the relevant amendments to our agreements with Ant Financial and Alipay described below.

2014 Restructuring of Our Relationship with Ant Financial and Alipay, Subsequent Amendments and 2019 Equity Issuance

On August 12, 2014, we entered into a share and asset purchase agreement, which together with all subsequent amendments, we refer to as the SAPA, and entered into or amended certain ancillary agreements including an amendment and restatement of the 2011 IPLA, or the 2014 IPLA. Pursuant to these agreements, we restructured our relationships with Ant Financial and Alipay and terminated the 2011 framework agreement. On February 1, 2018, we amended both the SAPA and the Alipay commercial agreement, and agreed with Ant Financial and certain other parties on forms of certain ancillary agreements. The relevant amendments were entered into or agreed to facilitate our acquisition of a 33% equity interest in Ant Financial.

Apart from the amended provisions described below, the key terms of our agreements with Ant Financial and Alipay from the 2014 Restructuring remain substantially unchanged.

RELATED PARTY TRANSACTIONS

Sale of SME Loan Business and Certain Other Assets

Pursuant to the SAPA, we sold certain securities and assets primarily relating to our SME loan business and other related services to Ant Financial in February 2015. In addition, pursuant to software system use and service agreements relating to the know-how and related intellectual property that we agreed to sell together with the SME loan business and related services, we will receive annual fees for a term of seven years commencing in 2015. These fees, which are recognized as other revenue, are determined as follows: for calendar years 2015 to 2017, the entities operating the SME loan business paid an annual fee equal to 2.5% of the average daily balance of the SME loans provided by these entities, and in calendar years 2018 to 2021, these entities will pay an annual fee equal to the amount of the fees paid in calendar year 2017. In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the annual fees we received from Ant Financial and its affiliates in connection with the SME loan business amounted to RMB847 million, RMB956 million, RMB954 million, RMB239 million and RMB239 million (US\$35 million), respectively.

For regulatory reasons, we retained approximately RMB1,225 million of the existing SME loan portfolio upon the completion of the transfer of the SME loan business. These loans have been repaid. We will not conduct any new SME loan business going forward.

Issuance of Equity Interest

In September 2019, following the satisfaction of the closing conditions, we received through an onshore PRC subsidiary the issuance of a 33% equity interest in Ant Financial pursuant to the SAPA, or the Issuance. We believe that the acquisition of the 33% equity interest in Ant Financial will strengthen our strategic relationship pursuant to the series of agreements initially reached with Ant Financial in 2014.

Pursuant to the SAPA, the consideration we paid to receive the newly-issued 33% equity interest in Ant Financial was fully funded by payments from Ant Financial and its subsidiaries to us in consideration for certain intellectual property and assets that we transferred under the SAPA.

In connection with the receipt of the Issuance, we entered into a cross license agreement with Ant Financial providing for a license by each of Ant Financial and us to each other of certain patents, trademarks, software and other technology (including but not limited to patents and software transferred at the Issuance closing). The cross license agreement also contains provisions relating to cooperation and coordination between Ant Financial and us on various intellectual property matters, including prosecution, enforcement, acquisition, and joint defense arrangements, among other matters.

Upon closing of the Issuance, we entered into the previously agreed form of amendment and restatement of the 2014 IPLA, or the Amended IPLA, and the profit share payment arrangement under the 2014 IPLA automatically terminated. For more information, see “—Alipay Intellectual Property License and Software Technology Services Agreement” below.

RELATED PARTY TRANSACTIONS

Financial and Accounting Treatment Upon Issuance of Equity Interest in Ant Financial

There is no material operational and economic impact on us as a result of our receipt of the 33% equity interest in Ant Financial, but we have changed our accounting for our relationship with Ant Financial. The primary accounting impact and changes in accounting treatment resulting from the completion of the Issuance consist of the following:

Termination of profit share and cash flow impact

Upon the Issuance, and our transfer of certain intellectual property to Ant Financial and its subsidiaries, the profit share arrangement under the 2014 IPLA was terminated. For the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the profit share payments recorded in “Other income, net” in our consolidated income statements amounted to RMB2,086 million, RMB3,444 million, RMB517 million, RMB910 million and RMB1,627 million (US\$237 million), respectively. Following our receipt of the Issuance, we will no longer receive these cash inflows from Ant Financial.

Equity method accounting

Upon the Issuance, we account for our equity interest in Ant Financial under the equity method and record it in “Investment in equity investees” on our consolidated balance sheet with a one-time gain of RMB69.2 billion recorded in “Interest and investment income, net” on our consolidated income statement in the period ended September 30, 2019. Subsequent to the Issuance, we will record our proportionate share of results of Ant Financial in “Share of results of equity investees” in our consolidated income statements on a one quarter in-arrears basis.

Regulatory Unwind

The SAPA provides that, if a relevant governmental authority prohibits us from owning all or a portion of our equity interest in Ant Financial after the equity issuance has occurred through enactment of a law, rule or regulation, or explicitly requires Ant Financial to redeem this equity interest, and the prohibition or request is not subject to appeal and cannot otherwise be resolved, then to the extent necessary, Ant Financial will redeem the equity interest; the related intellectual property and asset transfers, and ancillary transactions under the SAPA will be unwound; and the terms of the SAPA, the 2014 IPLA, and other related agreements will be restored, including the prior profit share payments and liquidity event payment (which would be payable to us in the event of a qualified IPO of Ant Financial or Alipay, in an amount equal to 37.5% of the equity value of Ant Financial as a whole, immediately prior to the qualified IPO). If there is a partial unwind where we retain a portion of our equity interest in Ant Financial, but less than the full 33%, then pursuant to the terms of the SAPA and the 2014 IPLA, the prior profit share payment arrangement and liquidity event payment amount will be proportionately reduced based on the amount of equity interest retained by us.

Jack Ma and Joe Tsai contributed 280,000,000 and 120,000,000 of our Shares, after having accounted for the Share Split, held by them to APN Ltd., a vehicle they established to hold these shares. The shares of APN Ltd., as well as the 400,000,000 Shares, after having accounted for the Share Split, held by APN Ltd., were pledged to us to secure the liquidity event payment and certain other obligations of Ant Financial under the SAPA and the Alipay commercial agreement, as well as the direct liability of APN Ltd. for up to US\$500 million of the liquidity event payment if any liquidity event payment becomes due. These Shares remain pledged to us to secure certain obligations of Ant Financial under the SAPA and the Alipay commercial agreement.

RELATED PARTY TRANSACTIONS

Pre-emptive Rights

Following our receipt of equity interest in Ant Financial, we have pre-emptive rights to participate in other issuances of equity securities by Ant Financial and certain of its affiliates prior to the time of a qualified IPO of Ant Financial. These pre-emptive rights entitle us to maintain the equity ownership percentage we hold in Ant Financial immediately prior to any such issuances. In connection with our exercise of our pre-emptive rights we are also entitled to receive certain payments from Ant Financial, effectively funding our subscription for these additional equity interests, up to a value of US\$1.5 billion, subject to certain adjustments, or the pre-emptive rights funded payments. In addition to these pre-emptive rights and the pre-emptive rights funded payments, under the SAPA, in certain circumstances we are permitted to exercise pre-emptive rights through an alternative arrangement that will further protect us from dilution.

Certain Restrictions on the Transfer of Ant Financial Equity Interests

Under the SAPA and the Amended IPLA, certain parties thereto, including us in some cases, are subject to restrictions on the transfer of equity interests in Ant Financial, including:

- following our receipt of the Issuance and until the earlier of a qualified IPO of Ant Financial or the termination of the independent director rights provided in the SAPA, none of Jack Ma, Joe Tsai (if he holds any equity interest at that time), Junao, Junhan or Ant Financial may knowingly transfer any equity in Ant Financial to a third-party who would thereby acquire more than 50% of the voting or economic rights in, or assets of, Ant Financial; and
- any transfer of equity interests in Ant Financial by Junao or Junhan, on the one hand, or our Company, on the other hand, will be subject to a right of first refusal by the other party.

Non-competition Undertakings

Under the SAPA, subject to certain limitations and unless both parties agree, Ant Financial may not engage in any business conducted by us from time to time or logical extensions thereof, and we are restricted from engaging in specified business activities within the scope of business of Ant Financial, including the provision and distribution of credit facilities and insurance, the provision of investment management and banking services, payment transaction processing and payment clearing services, leasing, lease financing and related services, trading, dealing and brokerage with respect to foreign exchange and financial instruments, distribution of securities, commodities, funds, derivatives and other financial products and the provision of credit ratings, credit profiles and credit reports. Each party may, however, make passive investments in competing businesses below specified thresholds, in some cases after offering the investment opportunity to the other party.

Corporate Governance Provisions

The SAPA provides that we and Ant Financial will recommend one independent nominee who Ant Financial will nominate as a member of its board, and Jack Ma, Joe Tsai (as long as he holds any equity interest in Ant Financial), Junhan and Junao will agree to vote the equity interests in Ant Financial controlled by them in favor of the nomination. If this independent director resigns or the director's seat otherwise becomes vacant, so long as SoftBank owns at least 20% of our outstanding Shares, and certain other conditions are satisfied, SoftBank and Jack, acting jointly, will select on our behalf the individual to be

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designated as a replacement director, subject to the approval of the Independent Committee. This Independent Committee, which was formed pursuant to the SAPA, is required to approve certain actions that we may take in connection with the SAPA and related agreements.

Upon the Issuance in September 2019, we nominated two of our officers who have been elected to the board of Ant Financial pursuant to our rights under the SAPA.

In each case, these director nomination rights will continue unless required to be terminated by applicable laws and regulations or listing rules in connection with an Ant Financial qualified IPO process or we cease to own a certain amount of our post-issuance equity interests in Ant Financial.

Additional Alibaba Rights

In addition to the rights discussed above, the SAPA provided us with certain other rights with respect to Ant Financial. These included, among others:

- customary information rights;
- approval rights over certain Ant Financial or Alipay actions; and
- rights to ensure our ability to participate in any qualified IPO of Ant Financial.

Except as otherwise discussed “— Termination of Alibaba Rights” below, these rights have been substantially retained in the SAPA. Following the Issuance in September 2019, the SAPA also provides the Independent Committee with approval rights over:

- increases to the size of the Ant Financial board resulting in the number of board seats exceeding a certain specific number; and
- any Alipay IPO or equity issuance (other than in the context of an IPO).

Termination of Alibaba Rights

Under the SAPA certain of our rights with respect to Ant Financial terminated upon our receipt of the Issuance.

In addition, the SAPA provides that, in connection with Ant Financial or Alipay commencing an IPO process, we and Ant Financial will discuss in good faith the amendment or termination of our rights to the extent necessary or advisable to achieve an efficient and successful IPO. Certain of our rights that would be incremental to the rights of other shareholders of Ant Financial as of the consummation of the IPO (excluding, among other things, our information rights) will terminate if required by a relevant stock exchange or governmental authority, or if necessary to obtain a legal opinion in connection with the IPO application. If the IPO application is withdrawn or rejected by the relevant authorities, or if the IPO is not consummated within a certain period of time, then any of our rights that were terminated or amended in anticipation of the IPO will be restored.

Ancillary Agreements

In connection with our entry into the original SAPA in 2014, we also entered into the 2014 IPLA, a data sharing agreement, an amended and restated shared services agreement, a SME loan cooperation framework agreement and a trademark agreement, each of which is described below.

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Pursuant to the SAPA, upon the Issuance we also entered into the Amended IPLA, a cross license agreement and various intellectual property transfer agreements in connection with, and to implement, the contemplated intellectual property and asset transfers described in “— Issuance of Equity Interest” above.

Alipay Intellectual Property License and Software Technology Services Agreement

2014 IPLA

Pursuant to the original 2011 framework agreement, we entered into the 2011 IPLA, pursuant to which we and our subsidiaries licensed to Alipay certain intellectual property rights and provided various software technology services to Alipay and its subsidiaries. In August 2014, we entered into the 2014 IPLA.

Under the 2011 IPLA, Alipay paid us a royalty and software technology services fee equal to the sum of an expense reimbursement plus 49.9% of the consolidated pre-tax income of Alipay and its subsidiaries until a liquidity event of Alipay or Ant Financial. The calculation of the profit share percentage was subject to downward adjustments upon certain dilutive equity issuances by Alipay or Ant Financial. Under the 2014 IPLA, we received, in addition to a software technology service fee, royalty streams related to Alipay and other current and future businesses of Ant Financial, which we refer to collectively as the profit share payments. The profit share payments were paid at least annually and equal the sum of an expense reimbursement plus 37.5% of the consolidated pre-tax income of Ant Financial (subject to certain adjustments), including not only Alipay but all of Ant Financial’s subsidiaries.

In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, under the 2014 IPLA, we recognized royalty and software technology services fees, net of costs incurred by us, amounting to RMB2,086 million, RMB3,444 million, RMB517 million, RMB910 million and RMB1,627 million (US\$237 million), respectively, as other income, and the relevant expense reimbursement amounted to RMB245 million, RMB37 million, RMB106 million, nil and nil, respectively, over the same periods.

Upon our receipt of the Issuance in September 2019, we entered into the Amended IPLA and terminated the 2014 IPLA.

Amended IPLA

Pursuant to the SAPA, we, Ant Financial and Alipay entered into the Amended IPLA upon our receipt of the Issuance, at which time we also transferred certain intellectual property and assets to Ant Financial and its subsidiaries and the profit share payment arrangement was terminated, as described in “— Issuance of Equity Interest” above.

While the profit share payments have terminated under the Amended IPLA, Ant Financial may in certain circumstances continue to make certain royalty payments to us (as agreed to by Ant Financial and the Independent Committee), which may be used as pre-emptive rights funded payments under the SAPA, as described in “— Pre-emptive Rights” above.

Additionally, pursuant to the Amended IPLA, Ant Financial and its subsidiaries will receive expanded rights to apply for, register and manage certain intellectual property related to their businesses, subject to certain continuing restrictions and our rights, and we will cease to provide certain software technology services to Ant Financial and its subsidiaries.

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The Amended IPLA will terminate upon the earliest of:

- the full payment of all pre-emptive rights funded payments under the SAPA;
- the closing of a qualified IPO of Ant Financial or Alipay; and
- our transfer to Ant Financial of any remaining intellectual property we own that is exclusively related to the business of Ant Financial.

Data Sharing Agreement

We and Ant Financial entered into a data sharing agreement in August 2014.

Pursuant to the data sharing agreement, we, our controlled affiliates and certain other affiliates, such as Ant Financial, which we refer to hereinafter as full data sharing participants, will contribute all data collected or generated as a result of the use by users of our or their respective products or services (subject to applicable law, industry rules and contractual requirements) to a data platform that we operate and maintain, and to which all of the full data sharing participants will have access. A data platform management committee established by us and Ant Financial may also approve noncontrolled affiliates of us and Ant Financial and unaffiliated third parties to have certain access to and contribute data to the platform, subject to execution of a data platform participation agreement containing the terms and restrictions on access to and use of the data sharing platform and shared data as the data management committee shall determine. No fees or other compensation are required to be paid by any of the full data sharing participants for access to the data platform, other than the obligation for participants to share in the costs of the operation of the data platform on a fair and reasonable basis. The data sharing agreement provides that none of the participants may reproduce any of the data on the data platform for transfer to their own servers, except that a participant may retain its own data that it has contributed to the data platform.

The data sharing agreement initially had a minimum term of ten years. In May 2015, our board approved the extension of the term of the agreement to a total of 50 years.

SME Loan Cooperation Framework Agreement

We and Ant Financial entered into a SME loan cooperation framework agreement in August 2014, pursuant to which each party agreed to cooperate with, and provide certain services with respect to, the other party's enforcement of certain rights of the other party against users of its platforms and services and with respect to the provision of certain financial services to our customers and merchants. In particular, we agreed, upon Ant Financial's request, to close down or suspend online storefronts and restrict marketing activities on our platforms of persons defaulting on loans made by Ant Financial and persons in violation of Alipay rules and regulations, and to publish notices on our platforms and provide information regarding these persons, in each case in a manner to be further agreed upon from time to time. Ant Financial agreed, upon our request, to make loans and/or extensions of credit and related financial services available to our users, freeze and pay over to us funds in accounts of users violating our rules and regulations or agreements with us, accelerate loans and terminate credit facilities of these users, restrict marketing activities on its platforms by these users, and provide information regarding these users, in each case in a manner to be further agreed upon from time to time. Neither party is required to pay any fees in consideration for the services provided by the other party, and apart from the provision of these services, there will be no other exchange of value in connection with this agreement. The cooperation agreement has an initial term of five years, with automatic renewals upon expiry for additional five-year periods.

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From time to time, we expect to enter into similar commercial arrangements with respect to cooperation matters and the provision of services between us and Ant Financial and to our respective customers.

Trademark Agreement

We and Ant Financial entered into a trademark agreement in August 2014, pursuant to which we granted Ant Financial a non-transferable, non-assignable and non-sublicensable (except to its subsidiaries) license for it and its sublicensed subsidiaries to continue to use certain trademarks and domain names based on trademarks owned by us, in connection with their payment services business and the SME loan business transferred by us to them, and in the same manner of use as in August 2014, and a non-transferable, non-assignable and non-sublicensable (except to its subsidiaries) license to use other trademarks and domain names based on trademarks owned by us, and in that manner, as we may agree to allow in the future. Pursuant to the trademark agreement, each of the parties further agreed to the rights and limitations that each would have to use the “Ali” name or prefix and the “e-commerce” (and its Chinese equivalent) name, prefix or logo as part of a trademark or domain name in each party’s and its subsidiaries’ respective businesses. Neither party is required to pay any fees under this agreement, and, apart from the licenses and rights set forth in the agreement, there will be no other exchange of value in connection with this agreement. Pursuant to the SAPA, following our receipt of the Issuance, we transferred to Ant Financial ownership of several of the trademarks and domain names licensed by us to Ant Financial. However, the trademark agreement will remain in effect in accordance with its terms following the transaction to provide for a continued license of other trademarks that we will continue to own.

Shared Services Agreement with Ant Financial

We and Ant Financial entered into a shared services agreement, which was amended and restated in August 2014 in connection with the SAPA. Pursuant to the shared services agreements, we and Ant Financial provide certain administrative and support services to each other and our respective affiliates.

Service fees in connection with the administrative and support services provided by us to Ant Financial and its affiliates under the agreement amounted to RMB531 million, RMB676 million, RMB1,017 million, RMB186 million and RMB295 million (US\$43 million) in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively. Service fees in connection with the administrative and support services provided by Ant Financial and its affiliates to us amounted to RMB15 million, RMB84 million, RMB80 million, RMB14 million and RMB22 million (US\$3 million) in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

Other Commercial Arrangements with Ant Financial

We also provide Ant Financial, its subsidiaries and affiliates with cloud computing services, marketplace software technology services and other services. Meanwhile, Ant Financial and its affiliates provide us with marketing support services in connection with membership management and other services. In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, under these arrangements, service fees in connection with various services provided by us to Ant Financial and its affiliates amounted to RMB763 million, RMB1,503 million, RMB2,250 million, RMB412 million and RMB883 million (US\$129 million), respectively. During the same periods, service fees in connection with

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the marketing support services and other services provided by Ant Financial amounted to RMB937 million, RMB1,810 million, RMB1,248 million, RMB550 million and RMB681 million (US\$99 million), respectively.

Investments Involving Ant Financial

We have invested in businesses in which Ant Financial is a shareholder or co-invested with Ant Financial in other businesses. For instance, in September 2015, we established a joint venture under the brand name Koubei with Ant Financial. We and Ant Financial injected certain related businesses into Koubei and each invested RMB3.0 billion in this joint venture. In April and August 2017, we and Ant Financial invested in the preferred shares of Ele.me, with our investment totaling US\$864 million. In December 2018, Ant Financial participated in the integration of Ele.me and Koubei, and became a minority shareholder of our local consumer services holding company. In addition, in May 2019, Ant Financial agreed to invest HK\$454 million (US\$58 million) for a 0.5% equity interest in Alibaba Health, our subsidiary listed on the Hong Kong Stock Exchange. Ant Financial is also a shareholder of both Paytm, a mobile payment platform in India, and Paytm Mall, an e-commerce platform in India, both of which are our minority investees.

Equity-based Award Arrangements

In order to encourage mutually beneficial cooperation, we have awarded RSUs and granted options to acquire our Shares to employees of Ant Financial and its subsidiaries. As of March 31, 2017, 2018 and 2019 and June 30, 2019, there were 23,743,856, 13,026,472, 15,051,768 and 12,011,080 of our Shares, after having accounted for the Share Split, respectively, underlying unvested RSUs and outstanding options held by employees of Ant Financial.

We entered into agreements with Ant Financial in calendar years 2012 and 2013 under which we will receive reimbursements for RSUs and options relating to our Shares granted to the employees of Ant Financial and its subsidiaries during the period from December 14, 2011 to March 31, 2014. Grants of RSUs and options made subsequent to March 31, 2014 are not subject to these reimbursement arrangements. Pursuant to these agreements, we will, upon vesting of these RSUs and options, receive a cash reimbursement equal to their respective grant date fair value. The amounts of these reimbursements in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019 were RMB30 million, RMB5 million, nil, nil and nil, respectively.

We understand that Jack Ma, who effectively controls approximately 50% of the voting interest in Ant Financial, believes that providing equity-related awards to our employees tied to the success of Ant Financial will enhance the value of our business because of the strategic importance of Alipay to our marketplaces and because, through our strategic and financial relationship with Ant Financial, we have a significant participation in the profits and value accretion of Ant Financial.

Since March 2014, Junhan, the general partner of which is an entity controlled by Jack Ma, has granted certain share-based awards similar to share appreciation awards linked to the valuation of Ant Financial to certain of our employees. In addition, Ant Financial, through its subsidiary, has granted certain RSUs to certain of our employees since April 2018. The awards granted by Junhan will be settled in cash by Junhan upon disposal of these awards by the holders. The awards granted by the Ant Financial subsidiary may be settled in cash or equity by the Ant Financial subsidiary upon vesting of these awards. Junhan and the Ant Financial subsidiary have the right to repurchase the vested awards (or any underlying

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equity for the settlement of the vested awards) granted by them, as applicable, from the holders upon an initial public offering of Ant Financial or the termination of the holders' employment with us at a price to be determined based on the then fair market value of Ant Financial.

Subsequent to our initial public offering, based on the arrangements agreed to in the SAPA, we, Junhan and Ant Financial entered into an agreement, under which we agreed to continue granting our share-based awards to employees of Ant Financial, and Junhan and Ant Financial agreed that Junhan and/or Ant Financial through one of its subsidiaries will continue granting equity-based performance awards to our employees on an annual basis. Due to the mutually beneficial nature of this arrangement, the parties agreed that none of them has any obligation to reimburse any other party any expenses relating to the equity-based awards. This agreement has a term of three years and will be automatically renewed for another three years, unless otherwise terminated by written agreement among the parties or unilaterally by Ant Financial if it is required under applicable laws (including any regulatory requirements applicable to a public offer of Ant Financial's shares) to terminate the agreement.

Transactions with Alibaba Pictures

In March 2019, we subscribed for newly issued ordinary shares of Alibaba Pictures for a cash consideration of HK\$1,250 million. Upon the completion of the transaction, our equity interest in Alibaba Pictures increased from approximately 49% to approximately 51%, and Alibaba Pictures became our consolidated subsidiary.

Transactions with Entities Affiliated with Our Directors and Officers

Jack Ma, one of our directors, Joe Tsai, our executive vice chairman, and J. Michael Evans, our president and director, have purchased their own aircraft for both business and personal use. The use of the above-mentioned directors' and executive officers' own aircrafts in connection with the performance of their duties is free of charge to us, and we have agreed to assume the cost of maintenance, crew and operation of the aircraft where the cost is allocated for business purposes.

Relationship with Investment Funds Affiliated with Jack Ma

Jack Ma currently holds minority interests in the general partners of a number of Yunfeng investment funds, in which he is entitled to receive a portion of carried interest proceeds. We refer to these funds collectively as the Yunfeng Funds. He also holds minority interests in certain investment advisor entities of certain Yunfeng Funds. In addition, Jack, his wife, certain trusts established for the benefit of his family and certain entities controlled by Jack and his wife have committed, or are expected to commit, funds to the general partners or as limited partners of certain Yunfeng Funds.

Jack has either non-voting interests or has waived the exercise of his voting power with respect to his interests in each of the investment advisor entities and the managing entities of certain Yunfeng Funds. Jack has also agreed to donate all distributions of (x) carried interest proceeds he may receive in respect of the Yunfeng Funds and (y) dividends he may receive with respect to his holdings of shares in any investment advisor entity of the Yunfeng Funds, which we collectively refer to as the Yunfeng GP Distributions, to, or for the benefit of, the Alibaba Group Charitable Fund or other entities identified by Jack that serve charitable purposes. In addition, Jack has agreed that, other than his income tax obligations arising from recognition of income from Yunfeng GP Distributions, he will not

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claim any charitable deductions with respect to donations of his Yunfeng GP Distributions against his other income tax obligations. See “— Commitments of Jack Ma to Alibaba Group.” We believe that, through its expertise, knowledge base and extensive network of contacts in private equity in China, Yunfeng Capital will assist us in developing a range of relevant strategic investment opportunities.

The Yunfeng Funds have historically entered into co-investment transactions with us and third parties, such as our co-investment in Beijing Easyhome Furnishing Chain Group Co., Ltd., one of the largest home improvement supplies and furniture chains in the PRC. We have also invested in other businesses in which the Yunfeng Funds are shareholders, such as our acquisition in March 2017 of all of the issued and outstanding shares of Damai, a leading online ticketing platform for live events in China, in which an Yunfeng Fund was a shareholder.

Commitments of Jack Ma to Alibaba Group

Jack Ma, one of our directors, has confirmed the following commitments to our board of directors:

- He intends to reduce and thereafter limit his direct and indirect economic interest in Ant Financial over time (for the avoidance of doubt, other than the equity stake in Ant Financial held by our Company), to a percentage that does not exceed his and his affiliates’ interest in our Company immediately prior to our initial public offering and that the reduction will occur in a manner by which neither Jack nor any of his affiliates would receive any economic benefit;
- He will donate all of his Yunfeng GP Distributions to, or for the benefit of, the Alibaba Group Charitable Fund or other entities identified by him that serve charitable purposes;
- Other than his income tax obligations arising from recognition of income from Yunfeng GP Distributions, he will not claim any charitable deductions with respect to donations of his Yunfeng GP Distributions against his other income tax obligations; and
- If required by us, while he remains an Alibaba executive, he will assume for our benefit legal ownership of investment vehicles, holding companies and variable interest entities that further our business interests in Internet, media and telecom related businesses and, in this case, he will disclaim all economic benefits from his ownership and enter into agreements to transfer any benefits to us (or as we may direct) when permitted by applicable law.

Pledge for the Benefit of and Loan Arrangement with a Related Party

In May 2015, we entered into a pledge with a financial institution in the PRC in connection with certain wealth management products with an aggregate principal amount of RMB7.3 billion we invested in to secure a RMB6.9 billion financing provided by this financial institution to Simon Xie, one of our founders and an equity holder in certain of our variable interest entities, to finance the minority investment by a PRC limited partnership in Wasu, a company listed on the Shenzhen Stock Exchange and engaged in the business of digital media broadcasting and distribution in China. As of June 30, 2019, RMB420 million of the pledge had been released. In addition, we entered into a loan agreement for a principal amount of up to RMB2.0 billion with Simon Xie in April 2015 to finance the

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repayment by Simon of the principal and interest under this financing. These arrangements strengthen our strategic business cooperation with Wasu to enhance our entertainment strategy. Our loan to Simon will be made at an interest rate equal to SHIBOR as specified by us from time to time and is repayable in five years. The loan is secured by a pledge of Simon's limited partnership interest in the PRC limited partnership. As of June 30, 2019, the balance of this loan was RMB1,620 million (US\$236 million).

We have entered into strategic cooperation agreements with a major shareholder of Wasu in order to enhance our capabilities and influence in the entertainment sector in China. A company controlled by Jack Ma serves as one of the general partners of the PRC limited partnership. Yuzhu Shi, the founder, chairman and a principal shareholder of Giant Interactive, a China-based online game company that was previously listed on the NYSE, and who is also an entrepreneur with significant experience in and knowledge of the media industry in China, serves as the other general partner. Jack, through his control of one of the general partners, and Mr. Shi, as the other general partner and the executive partner, jointly control this PRC limited partnership. The interest of the general partner controlled by Jack in the limited partnership is limited to the return of its RMB10,000 contributed capital.

Transactions with Cainiao Network

In October 2017, our equity interest in Cainiao Network increased to approximately 51% and it became one of our consolidated subsidiaries.

Before Cainiao Network became our consolidated subsidiary in October 2017,

- we had commercial arrangements with Cainiao Network to receive certain logistics services that are conducted on an arm's length basis. Service fees in connection with the logistics services provided by Cainiao Network in fiscal years 2017 and 2018 (prior to its becoming our consolidated subsidiary) amounted to RMB4,444 million and RMB3,437 million, respectively; and
- we also provided Cainiao Network with various administrative and support services. Service fees in connection with the administrative and support services we provided to Cainiao Network amounted to RMB152 million and RMB123 million in fiscal years 2017 and 2018 (prior to its becoming our consolidated subsidiary), respectively.

Transactions with Weibo

We entered into a strategic collaboration agreement and a marketing cooperation agreement with Weibo, one of our equity investees, during fiscal year 2014. These agreements expired in January 2016. In fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, service fees in connection with the marketing services provided by Weibo pursuant to these agreements and other commercial arrangements amounted to RMB340 million, RMB615 million, RMB624 million, RMB206 million and RMB156 million (US\$23 million), respectively.

We also have other commercial arrangements with Weibo primarily relating to the provision of cloud computing services. Service fees in connection with the cloud computing services provided by us amounted to RMB105 million, RMB223 million, RMB304 million, RMB68 million and RMB71 million (US\$10 million) in fiscal years 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

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Transactions with Other Investees

We have commercial arrangements with certain of our investees related to logistics services. Revenue recognized in connection with the logistics services we provided to our investees amounted to RMB72 million, RMB261 million, RMB24 million and RMB264 million (US\$38 million) in the period from the date of consolidation of Cainiao Network in October 2017 to March 31, 2018, the year ended March 31, 2019 and the three months ended June 30, 2018 and 2019, respectively. Fees incurred in connection with the logistics service provided by our investees to Cainiao Network, after it became one of our consolidated subsidiaries, and certain of our other businesses in fiscal years 2018 and 2019 and the three months ended June 30, 2018 and 2019 amounted to RMB5,608 million, RMB12,933 million, RMB3,709 million and RMB2,226 million (US\$324 million), respectively.

We have also extended loans to certain of our investees for working capital and other uses in conjunction with our investments. As of June 30, 2019, the aggregate outstanding balance of these loans was RMB2,401 million (US\$350 million), with durations generally ranging from one month to ten years and interest rates of up to 10% per annum.

We have also co-invested with certain of our investees in other businesses. For example, we have made co-investments with Hangzhou Hanyun Xinling Equity Investment Fund Partnership and New Retail Strategic Opportunities Fund, L.P. – both of which are our investees that focus on retail-related businesses – in a number of companies, including Red Star Macalline Group Corporation Limited, Sun Art, Beijing Easyhome Furnishing Chain Group Co., Ltd., ZTO Express (Cayman) Inc., and Focus Media Information Technology Co., Ltd.

Other Commercial Transactions with Investees

Other than the transactions disclosed above, we also have commercial arrangements with certain of our investees and other related parties in which:

- we recorded cost and expenses paid to investees for content acquisition, merchant commission rebate, purchase of inventory, market services, traffic acquisition and various other services; and
- we recorded income generated from investees for providing marketing, cloud computing and other services.

The amounts relating to these services provided and received represent less than 1% of our revenue and total costs and expenses, respectively, for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

Contractual Arrangements among Our Wholly Owned Entities, Variable Interest Entities and the Variable Interest Entity Equity Holders

Chinese law restricts foreign ownership in enterprises that provide value-added telecommunications services, which includes the ICPs. As a result, we operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited in China through contractual arrangements between our wholly owned entities, our variable interest entities, which, where applicable, hold the ICP licenses and other regulated licenses and generally operate our Internet businesses and other businesses in which foreign investment is restricted or prohibited, and the variable interest entity equity holders. For a

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description of these contractual arrangements, see “Our History and Corporate Structure — Contractual Arrangements among Our Wholly Owned Entities, Variable Interest Entities and the Variable Interest Entity Equity Holders.”

Indemnification Agreements

We have entered into indemnification agreements with our directors and executive officers. These agreements require us to indemnify these individuals, to the fullest extent permitted by law, for certain liabilities to which they may become subject as a result of their affiliation with us.

Employment Agreements

See “Directors, Senior Management and Employees — Compensation — Employment Agreements.”

Share Options

See “Directors, Senior Management and Employees — Compensation — Equity Incentive Plans.”

REGULATION

We operate in an increasingly complex legal and regulatory environment. We and our key service provider, Ant Financial, are subject to a variety of PRC and foreign laws, rules and regulations across a number of aspects of our business. As we have expanded our operations to other countries, we have become increasingly subject to applicable regulations in these jurisdictions. This section primarily summarizes the principal PRC laws, rules and regulations relevant to our business and operations, because the PRC remains the country where we conduct the substantial majority of our business and generate the substantial majority of our revenues. Other jurisdictions where we conduct business have their own laws and regulations that cover many of the areas covered by PRC laws and regulations, but their focus, specifics and approaches may differ considerably. Areas in which we are subject to laws, rules and regulations outside of the PRC include data protection and privacy, consumer protection, content regulation, intellectual property, competition, cross-border trade, taxation, anti-money laundering and anti-corruption. We may also face protectionist policies and regulatory scrutiny on national security grounds in foreign countries in which we conduct business or investment activities. See “Risk Factors — Risks Related to Our Business and Industry — We and Ant Financial are subject to a broad range of laws and regulations, and future laws and regulations may impose additional requirements and other obligations that could materially and adversely affect our business, financial condition and results of operations.”

Our online and mobile commerce businesses are classified as value-added telecommunication businesses by the PRC government. Current PRC laws, rules and regulations generally restrict foreign ownership in value-added telecommunication services. As a result, we operate our online and mobile commerce businesses and other businesses in which foreign investment is restricted or prohibited through variable interest entities, each of which is owned by PRC citizens or by PRC entities owned by PRC citizens, and holds all licenses associated with these businesses.

The applicable PRC laws, rules and regulations governing value-added telecommunication services may change in the future. We may be required to obtain additional approvals, licenses and permits and to comply with any new regulatory requirements adopted from time to time. Moreover, substantial uncertainties exist with respect to the interpretation and implementation of these PRC laws, rules and regulations. See “Risk Factors — Risks Related to Doing Business in the People’s Republic of China — There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

Regulation of Telecommunications and Internet Information Services

Regulation of Telecommunication Services

Under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), or the Telecommunications Regulations, promulgated on September 25, 2000 by the State Council of the PRC and most recently amended in February 2016, a telecommunication service provider in China must obtain an operating license from the MIIT, or its provincial counterparts. The Telecommunications Regulations categorize all telecommunication services in China as either basic telecommunications services or value-added telecommunications services. Our online and mobile commerce businesses, as well as Youku’s online video businesses, are classified as value-added telecommunications services. The Administrative Measures for Telecommunications Business Operating License (《電信業務經營許可管理辦法》) promulgated by the MIIT in September 2017 set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining the licenses and the administration and supervision of these licenses.

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Foreign investment in telecommunications businesses is governed by the State Council's Administrative Rules for Foreign Investment in Telecommunications Enterprises (《外商投資電信企業管理規定》), or the Foreign Investment Telecommunications Rules, issued by the State Council on December 11, 2001 and most recently amended in February 2016, under which a foreign investor's beneficial equity ownership in an entity providing value-added telecommunications services in China is not permitted to exceed 50%. In addition, for a foreign investor to acquire any equity interest in a business providing value-added telecommunications services in China, it must demonstrate a positive track record and experience in providing these services. However, according to the Notice on Lifting the Restriction to Foreign Shareholding Percentage in Online Data Processing and Transaction Processing Business (Operational E-commerce) (《關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告》) promulgated by the MIIT on June 19, 2015, foreign investors are allowed to hold up to 100% of all equity interest in the online data processing and transaction processing business (operational e-commerce) in China, while other requirements provided by the Foreign Investment Telecommunications Rules shall still apply. The Negative List also allows foreign investors to hold more than 50% equity interests in a value-added telecommunications service provider engaging in domestic multi-party communication, storage-and-forward and call center businesses. Since the Negative List was recently amended and no implementing rules with respect to the new policies on foreign investment in value-add telecommunications services have been promulgated, there exist significant uncertainties with respect to its interpretation and implementation by authorities. The MIIT's Notice Regarding Strengthening Administration of Foreign Investment in Operating Value-Added Telecommunication Businesses (《關於加強外商投資經營增值電信業務管理的通知》), or the MIIT Notice, issued on July 13, 2006 prohibits holders of these services licenses from leasing, transferring or selling their licenses in any form, or providing any resource, sites or facilities, to any foreign investors intending to conduct this type of businesses in China.

In addition to restricting dealings with foreign investors, the MIIT Notice contains a number of detailed requirements applicable to holders of value-added telecommunications services licenses, including that license holders or their shareholders must directly own the domain names and trademarks used in their daily operations and each license holder must possess the necessary facilities for its approved business operations and maintain its facilities in the regions covered by its license, including maintaining its network and providing Internet security in accordance with the relevant regulatory standards. The MIIT or its provincial counterparts have the power to require corrective actions after they discover any non-compliance by license holders, and where license holders fail to take those steps, the MIIT or its provincial counterparts have the power to revoke the value-added telecommunications services licenses.

On December 28, 2016, the MIIT promulgated the Notice on Regulating Telecommunication Services Agreement Matters (《關於規範電信服務協議有關事項的通知》), or the Telecommunication Services Agreement Notice, which came into effect on February 1, 2017. According to the Telecommunication Services Agreement Notice, telecommunication service providers must require their users to present valid identification certificates and verify the users' identification information before provision of services. Telecommunication service providers are not permitted to provide services to users with unverifiable identity or who decline identity verification.

Regulation of Internet Information Services

As a subsector of the telecommunications industry, Internet information services are regulated by the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), or the ICP Measures, promulgated on September 25, 2000 by the State Council and amended on January 8, 2011. “Internet information services” are defined as services that provide information to online users through the Internet. Internet information service providers, also called ICPs, that provide commercial services are required to obtain an operating license from the MIIT or its provincial counterpart.

To the extent the Internet information services provided relate to certain matters, including news, publication, education or medical and healthcare (including pharmaceutical products and medical equipment), approvals must also be obtained from the relevant industry regulators in accordance with the laws, rules and regulations governing those industries.

Regulation of Advertising Services

The principal regulations governing advertising businesses in China are:

- the Advertising Law of the PRC (《中華人民共和國廣告法》) (2018, as amended);
- the Advertising Administrative Regulations (《廣告管理條例》) (1987);
- the Administrative Regulations on Internet Information Search Services (《互聯網信息搜索服務管理規定》) (2016); and
- the Internet Advertising Measures (2016).

These laws, rules and regulations require companies such as ours that engage in advertising activities to obtain a business license that explicitly includes advertising in the business scope from the SAMR, formerly the SAIC, or its local branches.

Applicable PRC advertising laws, rules and regulations contain certain prohibitions on the content of advertisements in China (including prohibitions on misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest). Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited, and the dissemination of advertisements of certain other products, such as tobacco, patented products, pharmaceuticals, medical instruments, agrochemicals, foodstuff, alcohol and cosmetics, are also subject to specific restrictions and requirements.

Advertisers, advertising operators and advertising distributors, including the businesses that certain of the variable interest entities operate, are required by applicable PRC advertising laws, rules and regulations to ensure that the content of the advertisements they prepare or distribute are true and in compliance with applicable laws, rules and regulations. Violation of these laws, rules and regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAMR or its local branches may revoke the violator’s license or permit for advertising business operations. In addition, advertisers, advertising operators or

advertising distributors may be subject to civil liability if they infringe the legal rights and interests of third parties, such as infringement of intellectual proprietary rights, unauthorized use of a name or portrait and defamation.

On June 25, 2016, the Cyberspace Administration of China promulgated the Administrative Regulations on Internet Information Search Services, or the Internet Search Regulations, which came into effect on August 1, 2016. According to the Internet Search Regulations, Internet search service providers must verify paid-search service customers' qualifications, limit the ratio of paid-search results on each webpage, and clearly distinguish paid-search results from natural search results.

The Internet Advertising Measures, which were promulgated by the SAIC on July 4, 2016 and came into effect on September 1, 2016, defined Internet advertising as any commercial advertising that directly or indirectly promotes goods or services through websites, webpages, Internet applications and other Internet media in the forms of words, picture, audio, video or others, including promotion through emails, texts, images, video with embedded links and paid-for search results. The Internet Advertising Measures set out, among other things, the following requirements for Internet advertising activities:

- online advertisements for prescription medicine or tobacco are not allowed, while advertisements for special commodities or services such as medical treatment, pharmaceuticals, food for special medical purposes, medical instruments, agrochemicals, veterinary medicine and other health foods must be reviewed by competent authorities before online publication;
- Internet advertisements must be visibly marked as “advertisement,” while paid-search results must be obviously distinguished from natural search results; and
- Internet advertisements must not affect users' normal use of the Internet; “pop-up ads” must be clearly marked with a “close” sign and be closable with one click; and no deceptive means may be used to lure users into clicking on advertisements.

According to the Internet Advertising Measures, Internet information service providers must prevent those advertisements they know or should have known to be illegal from being published through their information services. Furthermore, according to the Internet Advertising Measures, Internet advertisers are responsible for the authenticity of the content of Internet advertisements, while Internet advertisement publishers and advertisement agencies are required to verify the identities of Internet advertisers and their qualifications, review the content of Internet advertisement, and employ inspectors who are familiar with PRC laws and regulations governing Internet advertising.

Regulation of Online and Mobile Commerce

China's online and mobile commerce industry is at an early stage of development and there are few PRC laws, regulations or rules specifically regulating this industry. The SAIC adopted the Interim Measures for the Administration of Online Commodities Trading and Relevant Services (《網絡商品交易及有關服務行為管理暫行辦法》) on May 31, 2010 and replaced those measures with the Administrative Measures for Online Trading (《網絡交易管理辦法》) on January 26, 2014, which became effective on March 15, 2014. On December 24, 2014, the MOFCOM promulgated the Provisions on the Procedures for Formulating Transaction Rules of Third Party Online Retail Platforms (Trial) (《網絡零售第三方平台交易規則制定程序規定(試行)》) to regulate the formulation, revision and

enforcement of transaction rules for online retail marketplace platforms. These measures impose more stringent requirements and obligations on online trading or service operators as well as marketplace platform providers. For example, marketplace platform providers are obligated to make public and file their transaction rules with MOFCOM or its respective provincial counterparts, examine the legal status of each third-party merchant selling products or services on their platforms and display on a prominent location on a merchant's web page the information stated in the merchant's business license or a link to its business license, and group buying website operators must only allow a third-party merchant with a proper business license to sell products or services on their platforms. Where marketplace platform providers also act as online distributors, these marketplace platform providers must make a clear distinction between their online direct sales and sales of third-party merchant products on their marketplace platforms.

Since the promulgation of the Administrative Measures for Online Trading, the SAIC had issued a number of guidelines and implementing rules aimed at adding greater specificity to these regulations. The relevant governmental authorities continue to consider and issue guidelines and implementing rules, and we expect that regulation in this industry will further develop. For example, three PRC governmental authorities (the MOF, General Administration of Customs and STA) issued a notice on March 24, 2016 to regulate cross-border e-commerce trading which has experienced rapid growth in recent years. The New Cross-Border E-commerce Tax Notice (《關於跨境電子商務零售進口稅收政策的通知》), which became effective on April 8, 2016, introduced the concept of the Cross-Border E-Commerce Retail Importation Goods Inventory (《跨境電子商務零售進口商品清單》), or the Cross-Border E-Commerce Goods Inventory, which is to be issued and updated by the three authorities together with other relevant authorities from time to time. Goods outside the scope of the Cross-Border E-commerce Goods Inventory will have no tax codes and be effectively removed from cross-border e-commerce platforms. Two versions of the Cross-Border E-Commerce Goods Inventory have been issued on April 6, 2016 and April 15, 2016, respectively. Cosmetics imported for the first time, nutrition supplements and other special food products required to be registered with the National Medical Products Administration, formerly known as State Drug Administration or State Food and Drug Administration, are excluded from the Cross-Border E-Commerce Goods Inventory and will not be able to be sold on the relevant cross-border e-commerce platforms. However, pursuant to a transition policy issued by the General Administration of Customs, goods that have been imported to or in transit to the bonded areas and special regulated areas of customs before April 8, 2016 can still be sold on the cross-border e-commerce platforms no matter whether these goods are included in the Cross-Border E-Commerce Goods Inventory or not. Furthermore, pursuant to the Notice of Relevant Matters on Implementation of New Cross-Border E-Commerce Retail Importation Supervision and Administration Requirements (《關於執行跨境電子商務零售進口新的監管要求有關事宜的通知》), or the New Cross-Border E-Commerce Tax Implementation Notice, issued by the General Administration of Customs on May 24, 2016, the implementation of certain provisions of the New Cross-Border E-commerce Tax Notice will be suspended until the expiration of a transition period, which was supposed to conclude by the end of 2017. According to the New Cross-Border E-Commerce Tax Implementation Notice, the requirement of presenting customs clearance for bonded goods purchased online is suspended in ten cities, and the requirement of presenting first-time import license, registration or filing for online purchased cosmetics imported for the first time, nutrition supplements and other special food products, are suspended until the end of the transition period. Furthermore, according to an official MOFCOM news release issued on March 17, 2017, from January 1, 2018 retail goods imported on cross-border e-commerce platforms will be temporarily treated as personal items that are not subject to stricter regulation and higher tax rates applicable to normal imported goods in 15 cross-border e-commerce trial areas. On September 20, 2017, the

State Council decided to extend the transition period for cross-border e-commerce retail import regulations to the end of 2018, during which period cross-border e-commerce retail import goods were to be temporarily regulated as personal items in ten pilot cities.

Furthermore, according to a December 7, 2017 statement by the MOFCOM, starting on January 1, 2018, the transitional period policy will be extended to 15 pilot cities. On November 28, 2018, the MOFCOM, the NDRC, and the MOF jointly issued the Notice on Improving the Supervision over Cross-border E-commerce Retail Imports (《關於完善跨境電子商務零售進口監管有關工作的通知》), which came into effect on January 1, 2019.

According to this notice, the transitional period policy continued to be adopted in 37 cross-border e-commerce pilot areas, which means the retail goods imported on cross-border e-commerce platforms will still be regulated as personal items, and the registration or filing requirements for goods imported for the first time will not apply, except for goods that are temporarily prohibited from being imported from epidemic areas and goods for which risk emergency response is initiated to address major risks in product quality and safety. Cross-Border E-Commerce Goods Inventory was also revised on November 20, 2018 to reflect this change.

On August 31, 2018, the Standing Committee of the National People's Congress promulgated the E-commerce Law of the PRC (《中華人民共和國電子商務法》), which came into effect on January 1, 2019. The E-commerce Law imposes a series of requirements on e-commerce operators including e-commerce platform operators, merchants operating on the platform and the individuals and entities carrying out business online. According to the E-commerce Law, e-commerce operators who provide search results based on consumers' characteristics such as hobbies and consumption habits shall also provide consumers with options that are not targeted at their personal characteristics at the same time, respect and fairly protect the legitimate interests of the consumers. The E-commerce Law requires the e-commerce platform operators to:

- verify and register the identities, addresses, contacts and licenses of merchants who apply to provide goods or services on its platform, establish registration archives and update this information on a regular basis;
- record and retain information of the products and services published on its platform, as well as transaction information, for a no less than three years unless otherwise provided by laws and regulations, and ensure the completeness, confidentiality and availability of this information;
- use noticeable labels to clearly distinguish the products or services provided by the platform operators from those provided by merchants;
- submit the identification information of the merchants on its platform to market regulatory administrative authorities as required and remind the merchants to complete the registration with market regulatory administrative authorities;
- submit identification information and tax-related information to tax authorities as required in accordance with the laws and regulations regarding the administration of tax collection and remind the individual merchants to complete the tax registration;
- display the platform service agreement and the transaction rules or links to this information on the homepage of the platform;

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- establish a credit evaluation system and publish the credit evaluation rules, and provide consumers with methods to evaluate products sold or services provided on the platform; and
- establish intellectual property rights protection rules, and take necessary measures against infringement of intellectual property rights by merchants on its platform. In addition, e-commerce platform operators are not allowed to impose unreasonable restrictions over or add unjustified conditions to transactions concluded on their platforms by merchants, or charge merchants operating on its platform any unreasonable fees.

According to the E-commerce Law, e-commerce platform operators are required to assume joint liability with the merchants and may be subject to warnings and fines up to RMB2,000,000 where (i) they fail to take necessary actions when they know or should have known that the products or services provided by the merchants on the platform do not meet personal and property security requirements, or otherwise infringe upon consumers' legitimate rights; or (ii) they fail to take necessary actions, such as deleting and blocking information, disconnecting, terminating transactions and services, when they know or should have known that the merchants on the platform infringe upon the intellectual property rights of others. With respect to products or services affecting consumers' health and safety, e-commerce platform operators will be held liable if they fail to review the qualifications of merchants or fail to safeguard the interests of consumers, and may be subject to warnings and fines up to RMB2,000,000.

Regulation of Mobile Apps

On June 28, 2016, the Cyberspace Administration of China promulgated the Regulations for the Administration of Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》), which came into effect on August 1, 2016, requiring ICPs who provide information services through mobile Internet applications, or “apps,” to:

- verify the real identities of registered users through mobile phone numbers or other similar channels;
- establish and improve procedures for protection of user information;
- establish and improve procedures for information content censorship;
- ensure that users are given adequate information concerning an app, and are able to choose whether an app is installed and whether or not to use an installed app and its functions;
- respect and protect intellectual property rights; and
- keep records of users' logs for 60 days.

If an ICP who provides information services through apps violates these regulations, mobile app stores through which the ICP distributes its apps may issue warnings, suspend the release of its apps, or terminate the sale of its apps, and/or report the violations to governmental authorities.

Regulation of Internet Content

The PRC government has promulgated measures relating to Internet content through various ministries and agencies, including the MIIT, the News Office of the State Council, the Ministry of Culture and Tourism and the General Administration of Press and Publication. In addition to various approval and license requirements, these measures specifically prohibit Internet activities that result in the dissemination of any content that is found to contain pornography, promote gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC or compromise State security or secrets. ICPs must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the content immediately, keep a record of it and report to the relevant authorities. If an ICP violates these measures, the PRC government may impose fines and revoke any relevant business operation licenses.

Regulations on Broadcasting Audio/Video Programs through the Internet

On April 13, 2005, the State Council announced Several Decisions on Investment by Non-state-owned Companies in Culture-related Business in China (《關於非公有資本進入文化產業的若干決定》). These decisions encourage and support non-state-owned companies to enter certain culture-related business in China, subject to restrictions and prohibitions for investment in audio/video broadcasting, website news and certain other businesses by non-state-owned companies. These decisions authorize the State Administration of Radio, Film, and Television, or the SARFT, the Ministry of Culture and the General Administration of Press and Publication, to adopt detailed implementing rules according to these decisions.

On December 20, 2007, the SARFT and the MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services (《互聯網視聽節目服務管理規定》), commonly known as Circular 56, which came into effect on January 31, 2008 and was amended on August 28, 2015. Among other things, Circular 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to relevant official answers to press questions published on the SARFT's website dated February 3, 2008, officials from the SARFT and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Circular 56 may re-register and continue to operate without becoming state-owned or controlled, provided that the providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Circular 56 was issued. These policies have been reflected in the Application Procedure for Audio/Video Program Transmission License.

On March 17, 2010, the SARFT issued the Internet Audio/Video Program Services Categories (Provisional) (《互聯網視聽節目服務業務分類目錄(試行)》), or the Provisional Categories, which were amended on March 10, 2017. The amended Provisional Categories classified Internet audio/video programs into four categories, which are further divided into seventeen sub-categories.

In 2009, the SARFT released a Notice on Strengthening the Administration of Online Audio/Video Content (《關於加強互聯網視聽節目內容管理的通知》). This notice reiterated, among other things, that all movies and television shows released or published online must comply with relevant regulations on the administration of radio, film and television. In other words, these movies and television shows, whether produced in the PRC or overseas, must be pre-approved by the SARFT, and the distributors of these movies and television shows must obtain an applicable permit before releasing any of these movies or television shows. In 2012, the SARFT and the State Internet Information Office of the PRC issued a

Notice on Improving the Administration of Online Audio/Video Content Including Internet Drama and Micro Films (《關於進一步加強網絡劇、微電影等網絡視聽節目管理的通知》). In 2014, the General Administration of Press and Publication, Radio, Film and Television, or GAPPRT (which was split into the National Radio and Television Administration, or NRTA, and the State Administration of News and Publication in March 2018) released a Supplemental Notice on Improving the Administration of Online Audio/Video Content Including Internet Drama and Micro Films (《關於進一步完善網絡劇、微電影等網絡視聽節目管理的補充通知》). This notice stresses that entities producing online audio/video content, such as Internet dramas and micro films, must obtain a permit for radio and television program production and operation, and that online audio/video content service providers should not release any Internet dramas or micro films that were produced by any entity lacking the permit. For Internet dramas or micro films produced and uploaded by individual users, the online audio/video service providers transmitting this content will be deemed responsible as the producer. Furthermore, under this notice, online audio/video service providers can only transmit content uploaded by individuals whose identity has been verified and the content must comply with the relevant content management rules. This notice also requires that online audio/video content, including Internet drama and micro films, be filed with the relevant authorities before release.

On September 2, 2014, the GAPPRT promulgated a Notice on Further Implementing the Relevant Provisions for the Administration of Broadcasting Foreign Films and TV dramas (《關於進一步落實網上境外影視劇管理有關規定的通知》). The notice stresses that any foreign film or TV drama must have a License for Film Publication or a TV drama Issuance License before being broadcast online, and that the annual total number of foreign films and TV dramas broadcast by a website must not exceed 30% of the total amount of domestic films and TV dramas broadcast by the relevant website in the preceding year. Furthermore, online video operators are required to report their annual plans for the import of foreign films and TV dramas to the GAPPRT before the end of the preceding year. If the online video operators' import plans are approved, the samples, contracts, copyright certificates, plot summaries and other materials relevant to the foreign films and TV dramas are subject to further content examination before the issuance of Licenses for Film Publication or the TV drama Issuance Licenses. The notice also requires these online video operators to upload information about the foreign films and TV dramas to be broadcast to a unified platform for registration before March 31, 2015. Since April 1, 2015, unregistered foreign films and TV dramas are no longer allowed to be broadcast online.

On April 25, 2016, the GAPPRT promulgated the Administration Measures on Audio/Video Program Services via Special Network and Directional Transmission (《專網及定向傳播視聽節目服務管理規定》), or Circular 6, which came into effect on June 1, 2016 and replaced the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, which were promulgated in July 2004. Pursuant to Circular 6, providers of audio/video program services via special network and directional transmission, including content providing, integrated broadcasting controlling and transmission and delivery, must obtain an audio/video program transmission license, with a term of three years, issued by the GAPPRT and operate pursuant to the scope as provided in these licenses. Foreign invested enterprises are not allowed to engage in these businesses.

On March 16, 2018, the GAPPRT promulgated the Notice on Further Regulating the Transmission of Internet Audio/Video Programs (《關於進一步規範網絡視聽節目傳播秩序的通知》), which requires that, among other things, audio/video platforms must: (i) not re-edit, re-dub, re-caption or otherwise ridicule classic works, radio and television programs, or original Internet audio/video programs without authorization, (ii) not broadcast clips and

trailers of audio/video programs without due approval or those already sanctioned by the GAPPFT, (iii) not transmit re-edited programs that unfairly distort the original content, (iv) strictly monitor the adapted content uploaded by platform users and not provide transmission channels for illicit content, and (v) immediately take down unauthorized content upon receipt of complaints from copyright owners, radio and television stations, or film and television production institutions. Pursuant to this notice, online audio/video programs may not cooperate with entities that illegally conduct Internet audio/video program services without approval, including accepting sponsorship or endorsement from these entities.

On December 27, 2018, the NRTA issued the Notice on the Upgrading of the Network Audio/Visual Program Information Filing System (《關於網絡視聽節目信息備案系統升級的通知》). According to this notice, since February 15, 2019, a producer shall submit relevant information, such as name, type, content outline and budget, of any major network movie or teleplay (including network plays, network movies and network animations) to the NRTA's "Major Network Movies and Teleplays Information Filing System" before producing the movie or teleplay. Major network movies and teleplays include any network series, and network animations, with total investment of over RMB5 million, and any network movie with an investment of over RMB1 million. After shooting and production of any major network movie or teleplay, the producers shall file the relevant information, such as the expected broadcasting platform, amount of actual investment and actor's remuneration, with the above-mentioned filing system, and submit the finished program to the relevant radio and television administrative departments. An online filing number will be assigned to a major network series after the content passes the review of the relevant radio and television administrative department. Major network series, network movies and network animations with online filing numbers are permitted to be broadcasted and promoted on the home pages of various audio-visual program websites, and may be used for promoting investment, membership recommendation, online recommendation and program optimization of audio-visual program websites.

Regulations on Internet Publication

The SARFT is responsible for nationwide supervision and administration of publishing activities in China. On February 4, 2016, the GAPPFT, the SARFT's predecessor, and the MIIT jointly promulgated the Online Publication Service Administration Rules (《網絡出版服務管理規定》), or the Online Publication Rules, which took effect on March 10, 2016 and replaced the Internet Publication Tentative Administrative Measures (《互聯網出版管理暫行規定》), which were promulgated in June 2002. Pursuant to the Online Publication Rules, an online publication service provider must obtain the Online Publication Service License from the GAPPFT. The term "online publication service" is defined as the provision of online publications to the public through information networks. The term "online publications" is defined as digital works characteristic of publishing such as editing, production or processing provided to the public through information networks, and primarily includes:

- original digital works such as texts, pictures, maps, games, cartoons and audio-visual reading materials in the fields of literature, art, science, etc., that are of knowledge or ideology;
- digital works, the content of which is the same as that which has already been published, such as books, newspapers, periodicals and electronic publications;

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- digital works such as online document databases formed by way of selecting, compiling or collecting the abovementioned works; and
- other types of digital works determined by the GAPPRFT.

The Online Publication Rules expressly prohibit foreign invested enterprises from providing online publication services. In addition, if an online publication service provider intends to cooperate for an online publication services project with foreign invested enterprises, overseas organizations or overseas individuals, it must report to the GAPPRFT and obtain an approval in advance. Also, an online publication service provider is prohibited from lending, leasing, selling or otherwise transferring the Online Publication Service License, or to allow any other online information service provider to provide online publication services in its name.

Pursuant to the Online Publication Rules, book, audio-visual, electronic, newspaper or periodical publishers who intend to engage in online publication services must have:

- a specific publishing platform, such as domain name and smart terminal application, for conducting online publication business;
- a specific online publication service scope; and
- necessary technical equipment for the provision of online publication services, with the related server and storage equipment located within the territory of the PRC.

Other entities that intend to engage in online publication services must have:

- a specific name and articles of association that is not identical to those of any other publication service provider;
- a legal representative and key responsible persons who shall be PRC citizens living permanently in the PRC who have full civil capacity to act, and at least one of these legal representatives or key responsible persons must have a mid-level or higher professional qualification in the field of publication;
- at least eight full-time editing and publishing staff, other than the legal representative and key responsible persons, who have professional qualifications in publishing or other relevant fields recognized by the GAPPRFT and meet the needs of the entity's scope of online publication services, among whom at least three must have mid-level or higher professional qualification;
- a content review system meeting the needs of the provision of online publication services;
- fixed working premises; and
- other items as required by relevant laws, administrative regulations or the GAPPRFT.

Regulations on Internet Drug Information Service

The State Food and Drug Administration, or the SFDA, the predecessor of the National Medical Products Administration, promulgated the Administrative Measures on Internet Drug Information Service (《互聯網藥品信息服務管理辦法》) in July 2004 and further amended the same in November 2017. Since the promulgation of the Administrative Measures on Internet Drug Information Service, the SFDA had issued certain implementing rules and notices aimed at adding specificity to these regulations. These measures set out regulations governing the classification, application, approval, content, qualifications and requirements for Internet drug information services. An ICP service operator that provides information regarding drugs or medical equipment must obtain an Internet Drug Information Service Qualification Certificate from the applicable provincial level counterpart of the National Medical Products Administration.

Regulations on Internet News Information Services

Publishing and disseminating news through the Internet are highly regulated in the PRC. On November 6, 2000, the State Council Information Office, or SCIO, and the MIIT jointly promulgated the Provisional Measures for Administering Internet Websites Carrying on the News Publication Business (《互聯網站從事登載新聞業務管理暫行規定》), or Internet News Measures.

These measures require an ICP operator (other than a government authorized news unit) to obtain the approval from SCIO to publish news on its website or disseminate news through the Internet. Furthermore, any disseminated news is required to be obtained from government-approved sources based on contracts between the ICP operator and these sources. The copies of these contracts must be filed with relevant government authorities.

On September 25, 2005, the SCIO and the MIIT jointly issued the Provisions on the Administration of Internet News Information Services (《互聯網新聞信息服務管理規定》), or the 2005 Internet News Information Provisions, requiring Internet news information service organizations to provide services as approved by the SCIO, subject to annual inspection under the new provisions. These Provisions also provide that no foreign invested enterprise, whether jointly or wholly owned by the foreign investor, may be an Internet news information service organization, and no cooperation between Internet news information service organizations and foreign invested enterprises is allowed before the SCIO completes the security evaluation.

On May 2, 2017, the Cyberspace Administration issued the Administrative Provisions on Internet News Information Services (《互聯網新聞信息服務管理規定》), or the 2017 Internet News Information Provisions, which came into effect on June 1, 2017 and redefine news information as reports and commentary on political, economic, military, diplomatic and other social and public affairs, as well as reports and commentary on emergency social events. Pursuant to the 2017 Internet News Information Provisions, the Cyberspace Administration and its local counterparts replaced the SCIO as the government department in charge of supervision and administration of Internet news information. Furthermore, an ICP operator must obtain approval from the Cyberspace Administration in order to provide Internet news information services, including through websites, applications, forums, blogs, microblogs, public accounts, instant messaging tools, and webcasts. The 2005 Internet News Information Provisions were later repealed by the MIIT on October 20, 2017 in light of the issuance of the 2017 Internet News Information Provisions.

Regulations on Internet Culture Activities

On February 17, 2011, the Ministry of Culture, the predecessor of the Ministry of Culture and Tourism, promulgated the Internet Culture Administration Tentative Measures (《互聯網文化管理暫行規定》), or the Internet Culture Measures, which was most recently amended in December 2017. The Internet Culture Measures require ICP operators engaging in “Internet culture activities” to obtain a permit from the Ministry of Culture and Tourism. The term “Internet culture activities” includes, among other things, online dissemination of Internet cultural products (such as audio-video products, gaming products, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, publication and broadcasting of Internet cultural products.

On November 20, 2006, the Ministry of Culture issued Several Suggestions of the Ministry of Culture on the Development and Administration of Internet Music (《文化部關於網絡音樂發展和管理的若干意見》), or the Suggestions, which became effective on November 20, 2006. The Suggestions, among other things, reiterate the requirement for an Internet service provider to obtain an Internet culture business permit to carry on any business relating to Internet music products. In addition, foreign investors are prohibited from operating Internet culture businesses. However, the laws and regulations on Internet music products are still evolving, and there have not been any provisions stipulating whether or how music videos will be regulated by the Suggestions.

On August 12, 2013, the Ministry of Culture promulgated the Notice on Implementing the Administrative Measures for the Content Self-examination of Internet Culture Business Entities (《關於實施<網絡文化經營單位內容自審管理辦法>的通知》). According to this notice, any cultural product or service shall be reviewed by the provider before being released to the public and the review process shall be done by persons who have obtained the relevant content review certificate.

On October 23, 2015, the Ministry of Culture promulgated the Notice on Further Strengthening and Improving the Content Review of Online Music (《關於進一步加強和改進網絡音樂內容管理工作的通知》), which took effect on January 1, 2016 and stipulated that ICPs shall carry out self-examination in respect of the content management of online music, which shall be regulated by the cultural administration departments in process or afterwards. According to this notice, ICP operators are required to submit their content administrative system, review procedures, and work standards to the provincial culture administrative department where they are located for filing within a prescribed period.

Regulations on Producing Audio/Video Programs

On July 19, 2004, the SARFT promulgated the Administrative Measures on the Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》), effective as of August 20, 2004 and amended on August 28, 2015. These Measures provide that anyone who wishes to produce or operate radio or television programs must first obtain an operating permit for their business.

On December 25, 2001, the State Council promulgated the Regulations for the Administration of Films (《電影管理條例》), or the Film Regulations, which became effective on February 1, 2002. The Film Regulations set forth the general regulatory guidelines for China’s film industry and address practical issues with respect to production, censorship, distribution and screening. They also establish the SARFT as the sector’s

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regulatory authority, and serve as the foundation for all other legislation promulgated in this area. The Film Regulations provide the framework for an industry-wide licensing system operated by the SARFT, under which separate permits (and permit application procedures) apply.

Regulation of Express Delivery Services

The PRC Postal Law (《中華人民共和國郵政法》), which took effect in October 2009 and was most recently amended in 2015, sets forth the fundamental rules on the establishment and operation of an express delivery company. According to the Postal Law, an enterprise that operates and provides express delivery services is required to obtain a Courier Service Operation Permit. Pursuant to the Postal Law, “delivery” refers to delivery of correspondence, parcels, printed materials and other items to specific individuals or entities according to the names and addresses on the envelopes or packages, including mail acceptance, sorting, transportation, delivery, and “express delivery” refers to rapid mail “delivery” within a specified time limit. The above-mentioned requirements are also provided for in the Administrative Measures for Express Delivery Market (《快遞市場管理辦法》), which were promulgated by the Ministry of Transport in January 2013 and became effective in March 2013.

The PRC Postal Law also requires that a company operating express delivery services must apply for and obtain the Courier Service Operation Permit prior to applying for its business license. Pursuant to the Administrative Measures on Courier Service Operation Permits, which were promulgated by the Ministry of Transport in June 2015 and amended in October 2018, any entity engaging in express delivery services is required to obtain a Courier Service Operation Permit from the State Post Bureau or its local counterpart and is subject to their supervision and regulation. The express delivery business must be operated within the permitted scope and the valid term of the Courier Service Operation Permit.

On March 2, 2018, the State Council promulgated the Provisional Regulations for Express Delivery (《快遞暫行條例》), or the Provisional Regulations, which came into effect on May 1, 2018 and was amended on March 2, 2019. The Provisional Regulations reiterate that a company operating express delivery services must obtain the Courier Service Operation Permit and sets forth specific rules and security requirements for express delivery operations.

Regulation of Foreign Investment

On March 15, 2019, the National People’s Congress promulgated the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace the major existing laws and regulations governing foreign investment in the PRC. Pursuant to the 2019 PRC Foreign Investment Law, “foreign investments” refer to investment activities conducted by foreign investors directly or “indirectly” in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council.

According to the 2019 PRC Foreign Investment Law, China adopts a system of national treatment plus negative list with respect to foreign investment administration, and the negative list will be issued by, amended or released upon approval by the State Council,

from time to time. The negative list sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the negative list for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the negative list would be treated equally. The current industry entry clearance requirements governing investment activities in the PRC by foreign investors are set out in two categories, namely the Encouraged Catalog and the Negative List. Industries not listed in these two categories are generally deemed “permitted” for foreign investment. The Negative List expands the scope of industries in which foreign investment is permitted by reducing the number of industries that fall within the Negative List where foreign investment is prohibited or restrictions on the shareholding percentage or requirements on the composition of board or senior management still exist. Among our Major Subsidiaries, Taobao (China) Software Co., Ltd. and Zhejiang Tmall Technology Co., Ltd. are registered in China and mainly engaged in software development, technical services and consultations, and Hangzhou Cainiao Supply Chain Management Co., Ltd. is also registered in China and mainly engaged in logistics services and supply chain solutions, all of which fall into the encouraged or permitted category according to the Encouraged Catalog and the Negative List. These three Major Subsidiaries have obtained all material approvals required for their business operations. Neither the Encouraged Catalog nor the Negative List applies to our subsidiaries that are registered, domiciled and operate outside China. The businesses of our other PRC subsidiaries – including PRC subsidiaries of our subsidiaries – are generally software development, technical services and consulting, which fall into the encouraged or permitted category. Industries such as value-added telecommunication services, including Internet information services, are generally restricted to foreign investment pursuant to the latest Negative List. We conduct business operations that are restricted or prohibited to foreign investment through our variable interest entities.

On January 12, 2017, the State Council issued the Notice on Several Measures for Expansion of Opening-up Policy and Active Use of Foreign Capital (《關於擴大對外開放積極利用外資若干措施的通知》), or the Notice No. 5, which purports to relax restrictions on foreign investment in sectors including services, manufacturing and mining. Specifically, the Notice No. 5 proposes to gradually open up telecommunication, Internet, culture, education and transportation industries to foreign investors. However, there are still substantial uncertainties with respect to the implementing rules and regulations of Notice No. 5.

Regulation of Internet Security

The Decision in Relation to Protection of Internet Security (《關於維護互聯網安全的決定》) enacted by the Standing Committee of the National People’s Congress of China on December 28, 2000, as amended, provides that the following activities conducted through the Internet are subject to criminal punishment:

- gaining improper entry into a computer or system of strategic importance;
- disseminating politically disruptive information or obscenities;

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- leaking State secrets;
- spreading false commercial information; or
- infringing intellectual property rights.

The Administrative Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), issued by the Ministry of Public Security on December 16, 1997 and amended on January 8, 2011, prohibit the use of the Internet in a manner that would result in the leakage of State secrets or the spread of socially destabilizing content. The Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), or the Internet Security Protection Measures, promulgated on December 13, 2005 by the Ministry of Public Security require all ICPs to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. Under these measures, value-added telecommunications services license holders must regularly update information security and content control systems for their websites and must also report any public dissemination of prohibited content to local public security authorities. If a value-added telecommunications services license holder violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

The Communication Network Security Protection Administrative Measures (《通信網絡安全防護管理辦法》), which were promulgated by the MIIT on January 21, 2010, require that all communication network operators, including telecommunications service providers and Internet domain name service providers, divide their own communication networks into units. These communication network units shall be rated in accordance with degree of damage to national security, economic operation, social order and public interest in the event a unit is damaged. Communication network operators must file the division and ratings of their communication networks with MIIT or its local counterparts. If a communication network operator violates these measures, the MIIT or its local counterparts may order rectification or impose a fine up to RMB30,000 in case a violation is not duly rectified. Internet security in China is also regulated and restricted from a national security standpoint. On July 1, 2015, the National People's Congress Standing Committee promulgated the new National Security Law, which took effect on the same date and replaced the former National Security Law promulgated in 1993. According to the new National Security Law, the state shall ensure that the information system and data in important areas are secure and controllable. In addition, according to the new National Security Law, the state shall establish national security review and supervision institutions and mechanisms, and conduct national security reviews of key technologies and IT products and services that affect or may affect national security. There are uncertainties on how the new National Security Law will be implemented in practice.

On November 7, 2016, the National People's Congress Standing Committee promulgated the Cybersecurity Law (《中華人民共和國網絡安全法》), which came into effect on June 1, 2017, and applies to the construction, operation, maintenance and use of networks as well as the supervision and administration of cybersecurity in China. The Cybersecurity Law defines "networks" as systems that are composed of computers or other information terminals and relevant facilities used for the purpose of collecting, storing, transmitting,

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exchanging and processing information in accordance with certain rules and procedures. “Network operators,” who are broadly defined as owners and administrators of networks and network service providers, are subject to various security protection-related obligations including:

- complying with security protection obligations in accordance with tiered cybersecurity system’s protection requirements, which include formulating internal security management rules and manual, appointing cybersecurity responsible personnel, adopting technical measures to prevent computer viruses and cybersecurity endangering activities, adopting technical measures to monitor and record network operation status, cybersecurity events, retaining user logs for at least six months and adopting measures such as data classification, key data backup and encryption, for the purpose of securing networks from interference, vandalization, or unauthorized visit and preventing network data from leakage, theft or tampering;
- verifying user’s identities before signing agreements or providing services such as network access, domain name registration, landline telephone or mobile phone access, information publishing or real-time communication services;
- formulating cybersecurity emergency response plans, timely handling security risks, initiating emergency response plans, taking appropriate remedial measures and reporting to regulatory authorities; and
- providing technical assistance and support for public security and national security authorities for protection of national security and criminal investigations in accordanances with the law.

According to the Cybersecurity Law, network service providers must inform users about and report to the relevant authorities any known security defects and bugs, and must provide continuous security maintenance services for their products and services. Network products and service providers shall not contain or provide malware. Network service providers who do not comply with the Cybersecurity Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

On May 2, 2017, the Cyberspace Administration issued the Measures for Security Review of Cyber Products and Services (《網絡產品和服務安全審查辦法(試行)》), or the Cybersecurity Review Measures, which came into effect on June 1, 2017. According to the Cybersecurity Review Measures, the following cyber products and services will be subject to cybersecurity review:

- important cyber products and services purchased by networks and information systems related to national security; and
- the purchase of cyber products and services by operators of critical information infrastructure in important industries and fields such as public communications and information services, energy, transportation, water resources, finance, public service and electronic administration, and other critical information infrastructure, which may affect national security.

The Cyberspace Administration is responsible for organizing and implementing cybersecurity reviews, while the competent departments in key industries such as finance, telecommunications, energy and transport shall be responsible for organizing and implementing security review of cyber products and services in their respective industries or fields. There are still substantial uncertainties with respect to the interpretation and implementation of the Cybersecurity Review Measures.

On November 15, 2018, the Cyberspace Administration issued the Provisions on Security Assessment of the Internet Information Services with Public Opinion Attributes or Social Mobilization Capacity (《具有輿論屬性或社會動員能力的互聯網信息服務安全評估規定》), which came into effect on November 30, 2018. The provisions require ICPs to conduct security assessments on their Internet information services if their services include forums, blogs, microblogs, chat rooms, communication groups, public accounts, short-form videos, online live-streaming, information sharing, mini programs or other functions that provide channels for the public to express opinions or have the capability of mobilizing the public to engage in specific activities. ICPs must conduct self-assessment on, among other things, the legality of new technology involved in the services and the effectiveness of security risk prevention measures, and file the assessment report with the local competent cyberspace administration authority and public security authority.

Regulation of Privacy Protection

Under the ICP Measures, ICPs are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes upon the lawful rights and interests of others. Depending on the nature of the violation, ICPs may face criminal charges or sanctions by PRC security authorities for these acts, and may be ordered to suspend temporarily their services or have their licenses revoked.

Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT on December 29, 2011, ICPs are also prohibited from collecting any personal user information or providing any information to third parties without the consent of the user. The Cybersecurity Law provides an exception to the consent requirement where the information is anonymous, not personally identifiable and unrecoverable. ICPs must expressly inform the users of the method, content and purpose of the collection and processing of user personal information and may only collect information necessary for its services. ICPs are also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, ICPs must take remedial measures immediately and report any material leak to the telecommunications regulatory authority.

In addition, the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) promulgated by the Standing Committee of the National People's Congress on December 28, 2012 emphasizes the need to protect electronic information that contains individual identification information and other private data. The decision requires ICPs to establish and publish policies regarding the collection and use of personal electronic information and to take necessary measures to ensure the security of the information and to prevent leakage, damage or loss. Furthermore, MIIT's Rules on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》) promulgated on July 16, 2013 contain detailed requirements on the use and collection of personal information as well as the security measures to be taken by ICPs.

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The PRC government retains the power and authority to order ICPs to provide an Internet user's personal information if a user posts any prohibited content or engages in any illegal activities through the Internet.

According to the Cybersecurity Law, individuals may request that network operators make corrections to or delete their personal information in case the information is wrong or was collected or used beyond an individuals' agreement with network operators.

Regulation of Consumer Protection

Our online and mobile commerce business is subject to a variety of consumer protection laws, including the PRC Consumer Rights and Interests Protection Law (《中華人民共和國消費者權益保護法》), as amended and effective as of March 15, 2014, and the Administrative Measures for Online Trading, both of which have imposed stringent requirements and obligations on business operators, including Internet business operators and platform service providers like us. For example, consumers are entitled to return goods purchased online, subject to certain exceptions, within seven days upon receipt of goods for no reason. On January 6, 2017, the SAIC issued the Interim Measures for No Reason Return of Online Purchased Commodities within Seven Days (《網絡購買商品七日無理由退貨暫行辦法》), which came into effect on March 15, 2017, further clarifying the scope of consumers' rights to make returns without a reason, including exceptions, return procedures and online marketplace platform providers' responsibility to formulate seven-day no-reason return rules and related consumer protection systems, and supervise the merchants for compliance with these rules. To ensure that merchants and service providers comply with these laws and regulations, we, as platform operators, are required to implement rules governing transactions on our platform, monitor the information posted by merchants and service providers, and report any violations by merchants or service providers to the relevant authorities. In addition, online marketplace platform providers may, pursuant to PRC consumer protection laws, be subject to liabilities if the lawful rights and interests of consumers are infringed in connection with consumers' purchase of goods or acceptance of services on online marketplace platforms and the platform service providers fail to provide consumers with the contact information of the merchant or manufacturer. In addition, platform service providers may be jointly and severally liable with merchants and manufacturers if they are aware or should be aware that the merchant or manufacturer is using the online platform to infringe upon the lawful rights and interests of consumers and fail to take measures necessary to prevent or stop this activity.

Failure to comply with these consumer protection laws could subject us to administrative sanctions, such as the issuance of a warning, confiscation of illegal income, imposition of a fine, an order to cease business operations, revocation of business licenses, as well as potential civil or criminal liabilities.

Regulation of Pricing

In China, the prices of a very small number of products and services are guided or fixed by the government. According to the Pricing Law of the PRC (《中華人民共和國價格法》), business operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the name, production origin, specifications, and other related particulars clearly. Business operators may not sell products at a premium or charge any fees that are not explicitly indicated. Business operators must not commit the specified unlawful pricing activities, such as colluding with others to manipulate the market price, providing fraudulent discounted price information, using false or misleading prices to deceive consumers to transact, or conducting price discrimination against other business

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operators. Failure to comply with the Pricing Law or other rules or regulations on pricing may subject business operators to administrative sanctions such as warning, orders to cease unlawful activities, payment of compensation to consumers, confiscation of illegal gains, and/or fines. The business operators may be ordered to suspend business for rectification, or have their business licenses revoked if the circumstances are severe. Merchants on Tmall and Taobao Marketplace undertake the primary obligation under the Pricing Law. However, in some cases, we have been and may in the future be held liable and be subject to fines or other penalties if the authorities determine that, as the platform operator, our guidance for platform-wide promotional activities resulted in unlawful pricing activities by the merchants on our platforms or if the pricing information we provided for platform-wide promotional activities was determined to be untrue or misleading.

Regulation of Intellectual Property Rights

Patent

Patents in the PRC are principally protected under the Patent Law of the PRC (《中華人民共和國專利法》). The duration of a patent right is either 10 years or 20 years from the date of application, depending on the type of patent right.

Copyright

Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law of the PRC (《中華人民共和國著作權法》) and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years. The Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks, which was most recently amended on January 30, 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and Internet service providers.

Trademark

Registered trademarks are protected under the Trademark Law of the PRC (《中華人民共和國商標法》) and related rules and regulations. Trademarks are registered with the State Intellectual Property Office, formerly the Trademark Office of the SAIC. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain Name

Domain names are protected under the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on August 24, 2017 and effective as of November 1, 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

Regulation of Anti-counterfeiting

According to the Trademark Law of the PRC, counterfeit or unauthorized production of the label of another person's registered trademark, or sale of any label that is counterfeited or produced without authorization will be deemed as an infringement of the exclusive right to use a registered trademark. The infringing party will be ordered to cease infringement immediately, a fine may be imposed and the counterfeit goods will be confiscated. The infringing party may also be held liable for damages suffered by the owner of the intellectual property rights, which will be equal to the gains obtained by the infringing party or the losses suffered by the owner as a result of the infringement, including reasonable expenses incurred by the owner in connection with enforcing its rights.

Under the Tort Liability Law of the PRC (《中華人民共和國侵權責任法》), an Internet service provider may be subject to joint liability if it is aware that an Internet user is infringing upon the intellectual property rights of others through its Internet services, such as selling counterfeit products, and fails to take necessary measures to stop that activity. If an Internet service provider receives a notice from an infringed party regarding an infringement, the Internet service provider is required to take certain measures, including deleting, blocking and unlinking the infringing content, in a timely manner.

In addition, under the Administrative Measures for Online Trading issued by the SAIC on January 26, 2014, as an operator of an online trading platform, we must adopt measures to ensure safe online transactions, protect consumers' rights and prevent trademark infringement.

Tax Regulations

PRC Enterprise Income Tax

The PRC EIT is calculated based on the taxable income determined under the applicable EIT Law and its implementation rules, both of which became effective on January 1, 2008 and were most recently amended on December 29, 2018 and April 23, 2019, respectively. The EIT Law generally imposes a uniform EIT rate of 25% on all resident enterprises in China, including foreign-invested enterprises.

The EIT Law and its implementation rules permit certain High and New Technologies Enterprises, or HNTes, to enjoy a reduced 15% EIT rate subject to these HNTes meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years, while entities qualified as key software enterprises can enjoy a preferential EIT rate of 10%. A number of our PRC subsidiaries and operating entities enjoy these types of preferential tax treatment.

Uncertainties exist with respect to how the EIT Law applies to the tax residence status of our Company and our offshore subsidiaries. Under the EIT Law, an enterprise established outside of China with a "de facto management body" within China is considered a "resident enterprise," which means that it is treated in the same manner as a Chinese enterprise for EIT purposes. Although the implementation rules of the EIT Law define "de facto management body" as a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise, the only official guidance for this definition currently available is set forth in Circular 82 issued by the STA in April 2009 and most recently amended in December 2017.

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Circular 82 provides guidance on the determination of the tax residence status of a Chinese-controlled offshore incorporated enterprise, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder. Although our Company does not have a PRC enterprise or enterprise group as our primary controlling shareholder and is therefore not a Chinese-controlled offshore incorporated enterprise within the meaning of Circular 82, in the absence of guidance specifically applicable to us, we have applied the guidance set forth in Circular 82 to evaluate the tax residence status of our Company and our subsidiaries organized outside the PRC.

According to Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC EIT on its worldwide income only if all of the following criteria are met:

- the primary location of the day-to-day operational management is in the PRC;
- decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC;
- the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in the PRC; and
- 50% or more of voting board members or senior executives habitually reside in the PRC.

We do not believe that our Company meets any of the conditions outlined in the immediately preceding paragraph. Our Company and our offshore subsidiaries are incorporated outside the PRC. As a holding company, our key assets and records, including the resolutions and meeting minutes of our board of directors and the resolutions and meeting minutes of our shareholders, are located and maintained outside the PRC. In addition, we are not aware of any offshore holding companies with a corporate structure similar to ours that have been deemed a PRC “resident enterprise” by the PRC tax authorities. Accordingly, we believe that our Company and our offshore subsidiaries should not be treated as a “resident enterprise” for PRC tax purposes if the criteria for “de facto management body” as set forth in Circular 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we will continue to monitor our tax status. See “Risk Factors — Risks Related to Doing Business in the People’s Republic of China — We may be treated as a resident enterprise for PRC tax purposes under the PRC EIT Law, and we may therefore be subject to PRC income tax on our global income.”

In the event that our Company or any of our offshore subsidiaries is considered to be a PRC resident enterprise:

- our Company or our offshore subsidiaries, as the case may be, may be subject to the PRC EIT at the rate of 25% on our worldwide taxable income;
- dividend income that our Company or our offshore subsidiaries, as the case may be, received from our PRC subsidiaries may be exempt from the PRC withholding tax; and

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- dividends paid to our overseas shareholders or ADS holders who are non-PRC resident enterprises as well as gains realized by these shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of up to 10%, subject to any reduction or exemption set forth in relevant tax treaties, and similarly, dividends paid to our overseas shareholders or ADS holders who are non-PRC resident individuals, as well as gains realized by these shareholders or ADS holders from the transfer of our shares or ADSs, may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of 20%, subject to any reduction or exemption set forth in relevant tax treaties.

Bulletin 7 was issued by the STA on February 3, 2015 and most recently amended pursuant to Bulletin 37, which was issued by the STA on October 17, 2017 and became effective as of December 1, 2017. Pursuant to Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if the arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC EIT. As a result, gains derived from an indirect transfer may be subject to PRC EIT. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment or a place of business in China, immovable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business, the relevant gain is to be regarded as effectively connected with the PRC establishment or a place of business and therefore included in its EIT filing, and would consequently be subject to PRC EIT at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment or a place of business of a non-resident enterprise, a PRC EIT at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. There is uncertainty as to the implementation details of Bulletin 7. If Bulletin 7 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with Bulletin 7 or to establish that the relevant transactions should not be taxed under Bulletin 7, which may materially and adversely affect us. See “Risk Factors — Risks Related to Doing Business in the People’s Republic of China — We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a PRC establishment of a non-PRC company.”

According to Bulletin 37, if a non-PRC resident fails to comply with the tax payment obligations, the tax authority may seek the payment of tax arrears and late fees payable from other income of the non-PRC resident within the territory of China.

PRC Business Tax and Value-Added Tax

Before August 2013 and pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenues generated from providing services. However, if the services provided are related to technology development and transfer, the business tax may be exempted subject to approval by the relevant tax authorities.

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In November 2011, the MOF and the STA promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》). In May and December 2013, April 2014, March 2016 and July 2017, the MOF and the STA promulgated Circular 37, Circular 106, Circular 43, Circular 36 and Circular 58 to further expand the scope of services that are to be subject to VAT instead of business tax. Pursuant to these tax rules, from August 1, 2013, a VAT was imposed to replace the business tax in certain service industries, including technology services and advertising services, and from May 1, 2016, VAT replaced business tax in all industries, on a nationwide basis. On November 19, 2017, the State Council further amended the Interim Regulation of the People's Republic of China on Value Added Tax (《中華人民共和國增值稅暫行條例》) to reflect the normalization of the pilot program. A VAT rate of 6% applies to revenue derived from the provision of certain services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the revenue from services provided. Accordingly, although the 6% VAT rate is higher than the previously applicable 5% business tax rate, no materially different tax cost to us has resulted nor do we expect one to result from the replacement of the business tax with a VAT on our services.

On April 4, 2018, the MOF and the STA issued the Notice on Adjustment of VAT Rates (《關於調整增值稅稅率的通知》), which came into effect on May 1, 2018. According to the abovementioned notice, the taxable goods previously subject to VAT rates of 17% and 11% respectively become subject to lower VAT rates of 16% and 10% respectively starting from May 1, 2018.

On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs issued the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》), or Announcement 39, which came into effect on April 2019, to further slash VAT rates. According to Announcement 39, (i) for general VAT payers' sales activities or imports previously subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%.

PRC Import Tax

Consumer goods imported through cross-border e-commerce platforms were originally classified as "personal baggage or postal articles" under the Notice on Pilot Bonded Area Import Pattern of Cross-Border Trade E-Commerce Services (《關於跨境貿易電子商務服務試點網購保稅進口模式有關問題的通知》) issued by PRC General Administration of Customs on March 4, 2014. A personal baggage or postal articles tax was levied on these goods before the online retailers could deliver the same to buyers. The personal baggage or postal articles tax was exempted if the payable amount was lower than RMB50. The rate of personal baggage or postal articles tax was respectively 10%, 20%, 30% and 50% for different categories of products imported. Under this tax pattern, a quota of RMB1,000 for each purchase order was imposed on online buyers, otherwise the imported goods were classified as normal goods, which are subject to VAT, consumption tax and tariff.

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The above-mentioned notice was abolished pursuant to the New Cross-Border E-commerce Tax Notice (《關於跨境電子商務零售進口稅收政策的通知》). The goods imported through cross-border e-commerce platforms are now treated as normal goods rather than “personal baggage or postal articles” and subject to the usual VAT, consumption tax and tariff. In general, a VAT at the rate of 17% (before May 1, 2018) and 16% (from May 1, 2018 onwards) is levied on most products sold on the cross-border e-commerce platform and a 15% consumption tax on high-end cosmetics, while no consumption tax is levied on skin care products, maternity and baby care products. As a preferential tax treatment, the Notice on Improving the Tax Policies on Cross-Border E-Commerce Retail Imports (《關於完善跨境電子商務零售進口稅收政策的通知》), which was issued on November 29, 2018 provides that, if the goods imported through cross-border e-commerce platforms are within the quota of RMB5,000 per purchase order and RMB26,000 per year per buyer, there is a 30% discount off the applicable VAT and the consumption tax, and the tariff is waived.

PRC Export Tax

According to the Notice on the Taxation Policies for Cross-border E-Commerce Retail Export, or the E-Commerce Export Taxation Notice (《關於跨境電子商務零售出口稅收的政策的通知》), which was jointly issued by the MOF and the STA and took effect as of January 1, 2014, an e-commerce export enterprise may be exempt from or refunded with consumption tax and VAT upon satisfaction of the following conditions:

- it is a general VAT taxpayer, and has been granted the export tax refund/exemption eligibility;
- the customs export declarations (specifically for export tax refund) for exported goods have been obtained and information thereon is consistent with the electronic information of the customs export declarations;
- the foreign exchange for the exported goods is received prior to the deadline of tax refund or tax exemption; and
- where the e-commerce export enterprise is a foreign trade enterprise, it must have obtained corresponding special VAT invoices, special payment statements for consumption tax (split pages) or special customs statements for payment of import VAT or consumption tax for purchase of the goods for export, and relevant information on the foregoing documents shall be consistent with that contained in the customs export declarations (specifically for export tax refunds).

Even if an e-commerce export enterprise does not satisfy the foregoing conditions, it may also be exempt from consumption tax and VAT if it meets the following requirements:

- it has completed tax registration;
- it has obtained customs export declarations for the exported goods; and
- it has obtained legal and valid proof for purchase of the exported goods.

Third-party e-commerce platforms providing transaction services for e-commerce export enterprises are not eligible for a tax refund or exemption under the E-Commerce Export Taxation Notice.

Regulation of Foreign Exchange and Dividend Distribution

Foreign Exchange Regulation

The principal regulations governing foreign currency exchange in China are the Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》). Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans or foreign currency is to be remitted into China under the capital account, such as a capital increase or foreign currency loans to our PRC subsidiaries.

In August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》), or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of RMB capital may not be changed without SAFE's approval, and RMB capital may not in any case be used to repay RMB loans if the proceeds of the loans have not been used.

To further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of foreign invested enterprises, SAFE issued the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas (《關於在部分地區開展外商投資企業外匯資本金結匯管理方式改革試點有關問題的通知》) in July 2014, which became effective on August 4, 2014. This circular suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in these areas with a business scope including "investment" to use the RMB capital converted from foreign currency registered capital for equity investments within the PRC. SAFE released the Notice on the Reform of the Administration Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) or SAFE Circular 19, in March 2015, which came into force and superseded SAFE Circular 142 on June 1, 2015. Circular 19 allows foreign invested enterprises to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation and provides the procedures for foreign invested companies to use Renminbi converted from foreign currency-denominated capital for equity investment. Nevertheless, Circular 19 also reiterates the principle that Renminbi converted from foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope.

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In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》), as amended, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents (《關於印發<外國投資者境內直接投資外匯管理規定>及配套文件的通知》) in May 2013, as amended, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. In February 2015, SAFE promulgated the Circular of Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Circular 13, which became effective on June 1, 2015. Under SAFE Circular 13, the current foreign exchange procedures will be further simplified, and foreign exchange registrations of direct investment will be handled by the banks designated by the foreign exchange authority instead of SAFE and its branches. However, the foreign invested enterprises were still prohibited by SAFE Circular 13 to use the RMB converted from foreign currency-registered capital to extend entrustment loans, repay bank loans or inter-company loans.

In June 2016, SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》), or Circular 16, which took effect on the same day. Compared to Circular 19, Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding Renminbi obtained from foreign exchange settlement are not restricted from extending loans to related parties or repaying the inter-company loans (including advances by third parties). However, there still exist substantial uncertainties with respect to the interpretation and implementation of Circular 16 in practice.

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》), or Circular 3, which took effect on the same day. Circular 3 sets out various measures, including the following:

- relaxing the policy restriction on foreign exchange inflow to further enhance trade and investment facilitation, including:
 - expanding the scope of foreign exchange settlement for domestic foreign exchange loans,
 - allowing the capital repatriation for offshore financing against domestic guarantee,
 - facilitating the centralized management of foreign exchange funds of multinational companies, and

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- allowing offshore institutions within pilot free trade zones to settle foreign exchange in domestic foreign exchange accounts, and
- tightening genuineness and compliance verification of cross-border transactions and cross-border capital flow, including:
 - improving the statistics of current account foreign currency earnings deposited offshore,
 - requiring banks to verify board resolutions, tax filing form, and audited financial statements before wiring foreign invested enterprises' foreign exchange distribution above US\$50,000,
 - strengthening genuineness and compliance verification of foreign direct investments, and
 - implementing full scale management of offshore loans in Renminbi and foreign currencies by requiring the total amount of offshore loans be no higher than 30% of the onshore lender's equity shown on its audited financial statements of the last year.

On October 23, 2019, SAFE issued Circular 28, which took effect on the same day. Circular 28 allows non-investment foreign-invested enterprises to use their capital funds to make equity investments in China, provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. Since Circular 28 was issued only recently, its interpretation and implementation in practice are still subject to substantial uncertainties.

We typically do not need to use our offshore foreign currency to fund our PRC operations. In the event we need to do so, we will apply to obtain the relevant approvals of SAFE and other PRC government authorities as necessary. Our PRC subsidiaries' distributions to their offshore parents and our cross-border foreign exchange activities are required to comply with the various requirements as described above.

SAFE Circular 37

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with their legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore,

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failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. On February 13, 2015, SAFE released SAFE Circular 13, under which local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, from June 1, 2015. There exist substantial uncertainties with respect to its interpretation and implementation by governmental authorities and banks.

We have notified substantial beneficial owners of Shares who we know are PRC residents of their filing obligation, and pursuant to SAFE Circular 37, we have periodically filed and updated foreign exchange registration, on behalf of certain employee shareholders whom we know are PRC residents. However, we may not be aware of the identities of all our beneficial owners who are PRC residents. In addition, we do not have control over our beneficial owners and cannot assure you that all of our PRC resident beneficial owners will comply with SAFE Circular 37. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 or the failure of future beneficial owners of our Company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 may subject these beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or amend the registration may also limit our ability to contribute additional capital to our PRC subsidiaries or receive dividends or other distributions from our PRC subsidiaries or other proceeds from disposal of our PRC subsidiaries, or we may be penalized by SAFE.

Share option rules

Under the Administration Measures on Individual Foreign Exchange Control (《個人外匯管理辦法》) issued by the PBOC on December 25, 2006, all foreign exchange matters involved in employee share ownership plans and share option plans in which PRC citizens participate require approval from SAFE or its authorized branch. Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In addition, under the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly-Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or the Share Option Rules, issued by SAFE on February 15, 2012, PRC residents who are granted shares or share options by companies listed on overseas stock exchanges under share incentive plans are required to (i) register with SAFE or its local branches, (ii) retain a qualified PRC agent, which may be a PRC subsidiary of the overseas listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plans on behalf of the participants, and (iii) retain an overseas institution to handle matters in connection with their exercise of share options, purchase and sale of shares or interests and funds transfers.

Regulation of dividend distribution

The principal laws, rules and regulations governing dividend distribution by foreign-invested enterprises in the PRC are the PRC Company Law, as amended, the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) and its implementation regulations and the Chinese-foreign Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》) and its implementation regulations. Under these laws, rules and regulations, foreign-invested enterprises may pay dividends only out of their accumulated profit, if any, as determined in accordance with PRC accounting standards and regulations. Both PRC

domestic companies and wholly-foreign owned PRC enterprises are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of their reserves reaches 50% of their registered capital. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Labor Laws and Social Insurance

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》) and the PRC Labor Contract Law (《中華人民共和國勞動合同法》), employers must execute written labor contracts with full-time employees. All employers must comply with local minimum wage standards. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violations.

In addition, according to the PRC Social Insurance Law (《中華人民共和國社會保險法》) and the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), employers in China must provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds.

Anti-monopoly Law

The PRC Anti-monopoly Law (《中華人民共和國反壟斷法》), which took effect on August 1, 2008, prohibits monopolistic conduct, such as entering into monopoly agreements, abuse of dominant market position and concentration of undertakings that have the effect of eliminating or restricting competition.

Monopoly Agreement

Competing business operators may not enter into monopoly agreements that eliminate or restrict competition, such as by boycotting transactions, fixing or changing the price of commodities, limiting the output of commodities, fixing the price of commodities for resale to third parties, among others, unless the agreement will satisfy the exemptions under the Anti-monopoly Law, such as improving technologies, increasing the efficiency and competitiveness of small and medium-sized undertakings, or safeguarding legitimate interests in cross-border trade and economic cooperation with foreign counterparts. Sanctions for violations include an order to cease the relevant activities, and confiscation of illegal gains and fines (from 1% to 10% of sales revenue from the previous year, or RMB500,000 if the intended monopoly agreement has not been performed).

On June 26, 2019, the SAMR further issued the Interim Provisions on the Prohibitions of Monopoly Agreements (《禁止壟斷協議暫行規定》) which took effect on September 1, 2019 and supersedes certain anti-monopoly rules and regulations previously issued by the SAIC.

Abuse of Dominant Market Position

A business operator with a dominant market position may not abuse its dominant market position to conduct acts, such as selling commodities at unfairly high prices or buying commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, and refusing to trade with a trading party without any justifiable cause. Sanctions for violation of the prohibition on the abuse of dominant market position include an order to cease the relevant activities, confiscation of the illegal gains and fines (from 1% to 10% of sales revenue from the previous year).

On June 26, 2019, the SAMR issued the Interim Provisions on the Prohibitions of Acts of Abuse of Dominant Market Positions (《禁止濫用市場支配地位行為暫行規定》) which took effect on September 1, 2019 to further prevent and prohibit the abuse of dominant market positions.

Concentration of Undertakings

Where a concentration of undertakings reaches the declaration threshold stipulated by the State Council, a declaration must be approved by the anti-monopoly authority before the parties implement the concentration.

Concentration refers to (1) a merger of undertakings; (2) acquiring control over other undertakings by acquiring equities or assets; or (3) acquisition of control over, or the possibility of exercising decisive influence on, an undertaking by contract or by any other means. If business operators fail to comply with the mandatory declaration requirement, the anti-monopoly authority is empowered to terminate and/or unwind the transaction, dispose of relevant assets, shares or businesses within certain periods and impose fines of up to RMB500,000.

See “Risk Factors — Risks Related to Our Business and Industry — Anti-monopoly and unfair competition claims or regulatory actions against us may result in our being subject to fines as well as constraints on our business.”

Anti-terrorism Law

The PRC Anti-terrorism Law (《中華人民共和國反恐怖主義法》), which was promulgated on December 27, 2015, came into effect on January 1, 2016 and was amended on April 27, 2018, imposing obligations on telecommunication business operators and Internet service providers to provide technical interfaces and technical assistance in decryption and other efforts to public and national security authorities in terrorism prevention and investigation. Also, the Anti-terrorism Law requires Internet service providers to implement network security and information and content monitoring systems and adopt technical security measures to prevent the dissemination of information containing terrorist or extremist content. Once content of this type is detected, Internet service providers shall cease the transmission of the information, keep the relevant records, delete the information and report to public and national security bodies. In addition, the Anti-terrorism Law requires telecommunication business operators and Internet service providers to verify the identity of their clients, and not to provide services to anyone whose identity is unclear or who declines to verify his/her identity. However, the Anti-terrorism Law does not further specify the required verification measures. Since the Anti-terrorism Law was promulgated recently, there exist substantial uncertainties with respect to its interpretation and implementation by governmental authorities.

Regulation Applicable to Alipay

Regulation of Non-financial Institution Payment Services

According to the Administrative Measures for the Payment Services Provided by Non-financial Institutions (《非金融機構支付服務管理辦法》), or the Payment Services Measures, promulgated by the PBOC on June 14, 2010 and effective as of September 1, 2010, a payment institution, a non-financial institution providing monetary transfer services as an intermediary between payees and payers, including online payment, issuance and acceptance of prepaid cards or bank cards, and other payment services specified by the PBOC, is required to obtain a payment business license. Any non-financial institution or individual engaged in the payment business without this license may be ordered to cease its payment services and be subject to administrative sanctions and even criminal liabilities. Applications for payment business licenses are examined by the local branches of the PBOC and then submitted to the PBOC for approval. The registered capital of an applicant that engages in a nationwide payment business must be at least RMB100 million, while that of an applicant engaging in a payment business within a province must be at least RMB30 million.

A payment institution is required to conduct its business within the scope of business indicated in its payment business license, and may not undertake any business beyond that scope or outsource its payment business. No payment institution may transfer, lease or lend its payment business license.

On January 20, 2015, the SAFE promulgated the Guiding Opinions on the Pilot Services of Cross-Border Foreign Exchange Payment by Payment Institutions (《支付機構跨境外匯支付業務試點指導意見》), or the Guiding Opinions, which replaced the previous guiding opinion issued by SAFE on February 1, 2013. Pursuant to the Guiding Opinions, a payment institution is required to obtain approval from the SAFE in order to engage in pilot cross-border foreign exchange payment services and may only provide cross-border foreign exchange payment services for trade in goods or trade in services with real and legitimate transaction background. The payment institution must also verify the real names and identity information of the customers involved in the cross-border transactions, maintain records of the relevant transactions and make monthly reports to the local branch of the SAFE. On April 29, 2019, the SAFE promulgated the Administrative Measures for the Foreign Exchange Business of Payment Institutions (《支付機構外匯業務管理辦法》), which superseded the Guiding Opinions and allowed payment institutions to engage in foreign exchange payment services after completing the directory registration with the SAFE branches.

In addition, on December 28, 2015, the PBOC promulgated the Administrative Measures for the Online Payment Business of Non-bank Payment Institutions (《非銀行支付機構網絡支付業務管理辦法》), or the Online Payment Measures, which came into effect on July 1, 2016. The Online Payment Measures require online payment institutions to conduct “know your client” checks and implement the real name system for payment accounts. The Online Payment Measures classify online payment accounts into three categories and require online payment institutions to impose real-name based, classified management, including imposing limits on annual payment volume with respect to different categories of online payment accounts. In addition, a payment account can only be opened by a payment institution with Internet payment business license at the request of customers.

REGULATION

On January 13, 2017, the PBOC issued the Notice on Matters Related to Implementation of Centralized Custody of Clients' Reserve Funds of Payment Institutions (《關於實施支付機構客戶備付金集中存管有關事項的通知》), which requires that from April 17, 2017, payment institutions transfer a portion of customer reserve funds to a specifically designated bank account upon the request of the PBOC and that no interest shall accrue upon the transferred customer reserve funds. On June 29, 2018, the PBOC issued the Notice on Matters Related to Fully-centralized Custody of Clients' Reserve Funds of Payment Institutions (《關於支付機構客戶備付金全部集中交存有關事宜的通知》), which requires payment institutions to deposit 100% of their customer reserve funds by January 14, 2019.

We rely on Alipay to provide payment services on our marketplaces and Alipay has obtained a payment business license from the PBOC as well as approval for cross-border foreign exchange payment services from the SAFE.

Anti-money Laundering Regulations

The PRC Anti-money Laundering Law (《中華人民共和國反洗錢法》), which became effective on January 1, 2007, sets forth the principal anti-money laundering requirements applicable to both financial and non-financial institutions with anti-money laundering obligations, such as Alipay, including the adoption of precautionary and supervisory measures, establishment of various systems for client identification, preservation of clients' identification information and transactions records, and reports on block transactions and suspicious transactions. The Payment Services Measures also require that the payment institution follow the rules associated with anti-money laundering and comply with their anti-money laundering obligations.

In addition, the PBOC promulgated the Administrative Measures for Payment Institutions Regarding Anti-money Laundering and Counter Terrorism Financing (《支付機構反洗錢和反恐怖融資管理辦法》) on March 5, 2012, or the Anti-money Laundering Measures, according to which the payment institution must establish and improve unified anti-money laundering internal control systems and file their systems with the local branch of the PBOC. The Anti-money Laundering Measures also require the payment institution to set up an anti-money laundering department or designate an internal department to be responsible for anti-money laundering and counter terrorism financing work.

Alipay is in the process of expanding its business internationally, and it may become subject to additional laws, rules and regulations of the jurisdictions in which it chooses to operate. These regulatory regimes may be complex and require extensive time and resources to ensure compliance.

Data Protection Regulation in Europe

On May 25, 2018, EU Directive 95/46/EEC was replaced by the GDPR on the protection of natural persons with regard to the processing and free movement of personal data. The GDPR applies directly in all EU member states from May 25, 2018 and applies to companies with an establishment in the European Economic Area, or the EEA, and to certain other companies not in the EEA that offer or provide goods or services to individuals located in the EEA or monitor individuals located in the EEA. The GDPR implements more stringent operational requirements for controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information and pseudonymized data, increased cyber security requirements, mandatory data breach notification requirements and higher standards for controllers to demonstrate that they have obtained a valid legal basis for certain data processing activities.

The activities of data processors will be regulated for the first time, and companies undertaking processing activities are required to offer certain guarantees in relation to the security of processing and the handling of personal data. Contracts with data processors will also need to be updated to include certain terms prescribed by the GDPR, and negotiating these updates may not be fully successful in all cases. Failure to comply with EU laws, including failure under the GDPR and other laws relating to the security of personal data may result in fines up to €20,000,000 or up to 4% of the total worldwide annual turnover of the preceding financial year, if greater, and other administrative penalties including criminal liability.

SHARE CAPITAL

The following is a description of our authorized share capital as of the Latest Practicable Date, after having accounted for the Share Split and immediately following the completion of the Global Offering (without taking into account the exercise of the Over-allotment Option):

	Shares	Total par value US\$	
Authorized share capital	32,000,000,000	100,000	
Description of Shares	Shares	Total par value US\$	Approximate percentage of authorized share capital %
Issued share capital	20,886,784,264	65,271.20	65.27
Shares immediately following completion of the Global Offering (assuming no exercise of the Over-allotment Option)	21,386,784,264	66,833.70	66.83
Shares immediately following completion of the Global Offering (assuming full exercise of the Over-allotment Option)	21,461,784,264	67,068.08	67.07

Assumptions

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased by us.

Ranking

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

SHARE CAPITAL

Share Repurchases

In May 2017, we announced the adoption of the 2017 Share Repurchase Program in an aggregate amount of up to US\$6.0 billion over a period of two years. The 2017 Share Repurchase Program has expired.

In May 2019, our board of directors authorized a new share repurchase program for an amount of up to US\$6.0 billion over a period of another two years.

In addition, our equity incentive award agreements generally provide that, in the event of a grantee's termination for cause or violation of a non-competition undertaking, we will have the right to repurchase the Shares acquired by the grantee, generally at par or the exercise price paid for these shares. See "Directors, Senior Management and Employees — Compensation — Equity Incentive Plans." In addition, when an employee leaves our Company, we repurchase any Shares acquired by the employee pursuant to early-exercised but unvested options.

The table below summarizes the repurchases we made in the periods indicated, after having accounted for the Share Split.

Month	Total Number of Shares Purchased ⁽¹⁾	Total Price Paid ⁽¹⁾ (US\$)	Average Price Paid Per Share ⁽²⁾ (US\$)	Total Number of Shares Purchased as Part of Share Repurchase Program
April 2018	—	—	—	—
May 2018	—	—	—	—
June 2018	—	—	—	—
July 2018	—	—	—	—
August 2018	—	—	—	—
September 2018	11,326,792	222,444,761	19.64	11,297,248
October 2018	52,097,360	945,861,849	18.16	52,097,360
November 2018	11,544,232	203,318,974	17.61	11,544,232
December 2018	11,811,496	199,621,195	16.90	11,779,648
January 2019	180,056	2,925,579	16.25	180,056
February 2019	—	—	—	—
March 2019	13,744	—	Par value	—
April 2019	—	—	—	—
May 2019	100,000	231,250	2.31	—
June 2019	31,976	—	Par value	—
July 2019	—	—	—	—
August 2019	—	—	—	—
September 2019	2,144	—	Par value	—

(1) Includes, after having accounted for the Share Split, (i) an aggregate of 86,898,544 Shares we repurchased pursuant to our Share Repurchase Program and (ii) an aggregate of 209,256 Shares, including 100,000 Shares underlying unvested awards, we repurchased pursuant to our equity incentive award agreements.

(2) Pursuant to the 2017 Share Repurchase Program, we repurchased ADSs, each representing eight shares after the Share Split and the simultaneous adjustment of the ADS-to-Share ratio on July 30, 2019, from the market. Shares we repurchased pursuant to our equity incentive award agreements were generally repurchased at par or the exercise price paid by the grantee for these shares. As such, the average price paid per Share does not reflect the market prices of our ADSs.

SHARE CAPITAL

Registration Rights

Pursuant to the amended and restated registration rights agreement entered into on September 18, 2012, as amended on January 24, 2018, we have granted certain registration rights to certain shareholders, including SoftBank and Altaba, among others, and holders specified by us from time to time, of our registrable securities, which include our ordinary shares and ordinary shares issued as a dividend or other distribution therefor. Set forth below is a description of the registration rights.

Demand registration rights

Subject to any applicable lock-up agreement they may enter into, at any time after the completion of our initial public offering, SoftBank, its affiliates and Altaba have the right to demand that we file a registration statement to enable the sale of their registrable securities. We have the right to defer the filing of a registration statement up to 90 days if our board of directors determines in good faith that such registration and offering would be seriously detrimental to us and our shareholders, provided that we may not utilize this right more than twice in any 12-month period and during such 90-day period, we shall not file a registration statement with respect to the public offering of our securities.

Piggyback registration rights

If we initiate any underwritten offering, we shall notify all holders of registrable securities and afford them an opportunity to include in the registration all or any part of their registrable securities that each such holder may request to be registered, provided that we may engage in one such underwritten offering initiated by us without providing the holders with such rights.

Form S-3 or F-3 registration

Holders of our registrable securities have the right to request that we file a registration statement on Form S-3 or Form F-3. We also have the right to postpone a registration pursuant to this request up to 90 days if our board of directors determines in good faith that it would be seriously detrimental to us for such registration statement to be filed, provided that we may not file a registration statement with respect to the public offering of our securities during such 90-day period. We may not utilize this right more than twice in any 12-month period.

Expenses of registration

We will pay all expenses (other than underwriting discounts and commissions) in connection with the demand registration, Form S-3 or Form F-3 registration and piggyback registration including, among others, all registration and filing fees, printers' and accounting fees, fees and disbursements of counsel for us, reasonable fees and disbursements of a single special counsel for the holders.

Limitation on granting of further registration rights

We shall not, without the prior written consent of the holders of a majority of the registrable securities then outstanding, enter into any agreement with the holder of any securities that would grant such holder demand registration rights senior to, or in parity with, those granted to the holders under the amended and restated registration rights agreement.

SHARE CAPITAL

Lock-up agreements

Subject to certain conditions and waivers, at our request or the request of the underwriters of an underwritten offering, the holders of our registrable securities will agree not to sell or otherwise transfer or dispose any of their registrable securities for up to one year from the listing date of our shares in such underwritten offering.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$93,542 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$188.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK\$107,605 million if the Over-allotment Option is exercised in full.

The International Offer Price in the International Offering may be higher than, or the same as, the Public Offer Price in the Hong Kong Public Offering. See “Structure of the Global Offering — Pricing and Allocation.”

We plan to use the net proceeds we will receive from the Global Offering to facilitate the implementation of our strategies:

- **Driving user growth and engagement.** We will continue to expand and make available a broad range of products and services across our digital economy. For example, in addition to physical goods sold through our marketplaces, we continue to expand and promote our consumer service offering through our on-demand delivery and local services platform, Ele.me, and online travel platform, Fliggy. We also continue to build out our digital media and entertainment offerings through Youku, one of the leading online video platforms in China, and a number of other distribution and content platforms.
- **Empowering businesses to facilitate digital transformation and improve operational efficiency.** We will continue to implement New Retail initiatives, which entail continued investment in cloud computing technologies, supply chain management and sales and marketing systems. These efforts facilitate the integration of online and offline operations, improve operating efficiencies and create better consumer experiences for our enterprise customers and partners.
- **Continuing to innovate.** We will invest in order to continue to be an innovator in products and technology as well as an enabler of new business models. For example, it is important for us to continue to invest in and develop new technologies, including machine learning technology and cloud computing technology, to support our own and our customers’ businesses.

UNDERWRITING

Hong Kong Underwriters

China International Capital Corporation Hong Kong Securities Limited
Credit Suisse (Hong Kong) Limited
Citigroup Global Markets Asia Limited
J.P. Morgan Securities (Asia Pacific) Limited
Morgan Stanley Asia Limited
The Hongkong and Shanghai Banking Corporation Limited
ICBC International Securities Limited
Deutsche Bank AG, Hong Kong Branch
DBS Asia Capital Limited
Mizuho Securities Asia Limited
ABCI Securities Company Limited
BOCI Asia Limited
BOCOM International Securities Limited
CCB International Capital Limited
CLSA Limited
CMB International Capital Limited
Yunfeng Securities Limited

Underwriting

We publish this prospectus solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. We expect the International Offering to be fully underwritten by the International Underwriters. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 12,500,000 Hong Kong Offer Shares and the International Offering of initially 487,500,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

Underwriting Arrangements and Expenses

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus at the Public Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time, on the Main Board of the Hong Kong Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable

UNDERWRITING

proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their absolute discretion and by giving written notice to us to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (a) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market or the Hong Kong Stock Exchange;
- (b) trading of any of our securities shall have been suspended on any exchange or in any over-the-counter market;
- (c) a material disruption in securities settlement, payment or clearance services in the United States, the Cayman Islands, the PRC or Hong Kong shall have occurred;
- (d) any moratorium on commercial banking activities shall have been declared by United States Federal, New York State, the Cayman Islands, the PRC or Hong Kong authorities; or
- (e) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the reasonable judgment of the Joint Representatives, is material and adverse and which, singly or together with any other event specified in this paragraph, makes it, in the reasonable judgment of the Joint Representatives, impracticable to proceed with the offer, sale or delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus, and the registration statement, the general disclosure package and the final prospectus to be filed or issued by us in connection with the International Offering.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

We have undertaken to each of the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that for the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the “Lock-Up Period”), or such earlier date that the Joint Sponsors (for themselves and on behalf of the Underwriters) consent to in writing, and unless in compliance with the requirements of the Hong Kong Listing Rules, we will not, directly or indirectly, take any of the following actions with respect to our Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any of our Shares or ADSs (“Lock-Up Securities”):

- (a) offer, sell, issue, pledge, contract to sell or otherwise dispose of Lock-Up Securities,

UNDERWRITING

- (b) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities,
- (c) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-Up Securities within the meaning of Section 16 of the U.S. Exchange Act; or
- (d) file with the SEC a registration statement under the U.S. Securities Act relating to Lock-Up Securities, other than registration statements on Form S-8 relating to the issuance, vesting, exercise or settlement of equity awards granted or to be granted pursuant to any employee benefit plan described in this prospectus,

without the prior written consent of the Joint Sponsors, *provided, however*, that we shall be permitted during the Lock-Up Period to

- (1) sell, or cause to be sold, the Offer Shares to be sold and/or issued hereunder, including, for avoidance of doubt, any Shares to be loaned and sold pursuant to the borrowing arrangement by and among the Joint Sponsors (for themselves and on behalf of the Underwriters) and PCIP I, which arrangement is intended to facilitate stabilizing activities in connection with the Global Offering;
- (2) issue Shares or ADSs or the grant of options to purchase Shares, restricted shares, RSUs or any other equity-linked rights issuable under our share incentive plans existing on the date of the Hong Kong Underwriting Agreement, including the effect of one or more bulk issuances of Shares, or ADSs upon deposit of Shares with the Depositary, and delivered to our brokerage accounts existing on the date of the Hong Kong Underwriting Agreement, in contemplation of future issuance under our share incentive plans existing on the date of the Hong Kong Underwriting Agreement;
- (3) effect any capitalization issue, capital reduction or consolidation or sub-division of the Shares;
- (4) issue securities upon the exercise of an option or a warrant, the vesting of a restricted share unit or the conversion of a security outstanding on the date of the Hong Kong Underwriting Agreement;
- (5) issue any securities by us in connection with our acquisition of one or more businesses, assets, products or technologies, joint ventures, commercial relationships or other strategic corporate transactions, provided that the recipients of such securities execute a lock-up agreement in favor of the Underwriters; and
- (6) repurchase securities pursuant to our share repurchase programs existing on the date of the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with among others, the Joint Representatives (for themselves and on behalf of the International Underwriters) on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the

UNDERWRITING

International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. The International Offering will consist of a U.S. offering and a non-U.S. offering. We expect that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering — The International Offering.”

Over-allotment Option

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 75,000,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See “Structure of the Global Offering — Over-allotment Option.”

Commissions and Expenses

The Underwriters will receive an underwriting commission of 0.25% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an indicative offer price of HK\$188.00 per Offer Share for both Hong Kong Public Offering and International Offering and the exercise of the Over-allotment Option in full) will be approximately HK\$270 million.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, SEC registration fees, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$495 million (assuming an indicative offer price of HK\$188.00 per Offer Share for both Hong Kong Public Offering and International Offering and the exercise of the Over-allotment Option in full) and will be paid by us.

Activities by Syndicate Members

The underwriters of the Hong Kong Public Offering and the International Offering, together, the Syndicate Members and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

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The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to our assets, securities and/or instruments and/or persons and entities with relationships with us and may also include swaps and other financial instruments entered into for hedging purposes in connection with our loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

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- the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and certain of our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of the Offer Shares in the Global Offering.

Lock-up

Undertakings by our Directors and Executive Officers

Our directors and executive officers, including Jack Ma and Joe Tsai, who owned approximately 9.0% of our issued share capital in aggregate as of the Latest Practicable Date, have agreed that, subject to limited exceptions, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the “Director & Executive Officer Lock-Up Period”), they will not, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, directly or indirectly: (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any Shares or ADSs, whether now owned or hereafter acquired, owned directly by them (including holding as custodian) or with respect to which they have beneficial ownership within the rules and regulations of the SEC (collectively, the “Director & Executive Officer Lock-Up Securities”), (ii) enter into a transaction which would have the same effect as the transactions set forth in (i) above, or enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Director & Executive Officer Lock-Up Securities, (iii) publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, or (iv) make any demand for or exercise any right with respect to, the registration of any Director & Executive Officer Lock-Up Securities; provided, however, that the foregoing restrictions shall not apply to:

- (a) any transaction relating only to (i) Shares or ADSs purchased in open market transactions after the completion of the Global Offering or (ii) Shares or ADSs acquired in private transactions after the completion of the Global Offering from third parties to the extent such acquired Shares or ADSs are not subject to any lock-up or similar transfer restrictions;
- (b) any conversion of the Director & Executive Officer Lock-Up Securities into, or exchange or exercise of the Director & Executive Officer Lock-Up Securities for, Shares or ADSs by them, provided that the Shares or ADSs received by them upon such conversion, exchange or exercise shall be subject to the terms of the lock-up restriction set forth above;

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- (c) the establishment of a trading plan (a “Plan”) pursuant to Rule 10b5-1 under the U.S. Exchange Act for the transfer of the Director & Executive Officer Lock-Up Securities, provided that such Plan does not provide for the sale of any Director & Executive Officer Lock-Up Securities during the Director & Executive Officer Lock-Up Period; for the avoidance of doubt, the restrictions contained herein shall not apply to any sales or other transfers of their Shares or ADSs pursuant to a Plan adopted pursuant to Rule 10b5-1 under the U.S. Exchange Act in effect as of the date of the Hong Kong Underwriting Agreement;
- (d) with respect to Shares or ADSs subject to equity incentive awards granted to them prior to the date of the Hong Kong Underwriting Agreement pursuant to Equity Incentive Plans that are disclosed in this prospectus, any (i) withholding by, or transfer to, us of Shares or ADSs vested in respect of such awards, to the extent such awards vest as provided by such awards, or (ii) sale of such number of Shares or ADSs as required for the purpose of paying applicable income tax, provided that, in each case, such withholding, transfer or sale shall only be permitted to the extent required to cover applicable withholding or tax obligations, as applicable;
- (e) any transfer of the Director & Executive Officer Lock-Up Securities pursuant to a *bona fide* third-party tender offer, merger, consolidation or other similar transaction involving all holders of the Shares or ADSs in connection with a change of control of our Company; provided, that in the event the tender offer, merger, consolidation or other such transaction is not completed, their Director & Executive Officer Lock-Up Securities shall remain subject to the restrictions set forth above;
- (f) any transfer of the Director & Executive Officer Lock-Up Securities (i) as a *bona fide* gift or gifts, (ii) through will or intestacy, (iii) to a charitable or not-for-profit organization or educational institution or (iv) to an immediate family member or a trust (including, for the avoidance of doubt, an entity owned and controlled by such trust) or an entity beneficially owned and controlled by them (the transferees in (iv) collectively, the “Permitted Transferees”), including any transfer of options, RSUs, restricted shares or underlying Shares to a charitable trust or similar entity they have established or will establish; provided in case of (i) and (iv) above that the transferee agrees to be bound in writing by the terms of the lock-up agreement entered into by them and delivers such writing to the Joint Sponsors prior to such transfer;
- (g) by operation of law or by order of a court of competent jurisdiction pursuant to a qualified domestic order or in connection with a divorce settlement; or
- (h) the maintenance of existing, or the grant of additional, pledges of the Director & Executive Officer Lock-Up Securities to one or more lenders for the purpose of securing personal loans (“Loans”) to them or a Permitted Transferee provided under facilities outstanding as of the date of the Hong Kong Underwriting Agreement (as such may be amended, refinanced or modified from time to time, provided that the total line of credit of such facility is not increased after the date of the Hong Kong Underwriting Agreement), or any sale, disposition or transfer of the pledged Director & Executive Officer Lock-Up Securities of the relevant directors or executive officers in connection with any enforcement action

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or foreclosure or exercise of other rights by such lenders under any provision in such Loan documentation, including any foreclosure sale, disposition or transfer directed by a security agent under such Loans,

provided that in each case other than (c) and (e) above, no filing or other public announcement by any party shall be required or made voluntarily during the Director & Executive Officer Lock-Up Period in connection with the transactions contemplated therein.

Furthermore, the foregoing restrictions shall not apply to any transfer to our Company by our executive officers arising as a result of the termination of his/her employment and pursuant to employment agreements under which our Company has the option to repurchase Shares, ADSs or other securities or a right of first refusal with respect to transfers of his/her Shares or ADSs.

Undertakings by Softbank

Softbank, being our largest shareholder, has agreed that, subject to certain exceptions, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the “Softbank Lock-Up Period”), it will not, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, directly or indirectly: (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any Shares or ADSs, whether now owned or hereafter acquired, owned directly by it (including holding as custodian) or with respect to which it has beneficial ownership within the rules and regulations of the SEC (collectively, the “Softbank Lock-Up Securities”), (ii) enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Softbank Lock-Up Securities, (iii) publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, provided that Softbank may make announcements with respect to (x) any transfer of, or intention to transfer, the Softbank Lock-Up Securities to an entity that is directly or indirectly wholly-owned by Softbank (a “Shareholder Group Member”) if such transfer is not a disposition for value received from an entity or other person that is not a Shareholder Group Member, and (y) after 60 days from the date of the Price Determination Date, (i) any other intended offer, sale, transfer, merger, consolidation, spin-off, split-off or restructuring involving the equity interests of Softbank or any Shareholder Group Member, which does not also constitute a direct transfer of the Softbank Lock-Up Securities (including the filing by Softbank or an affiliate of a registration statement or proxy statement or other public filing with respect thereto) or (ii) any intention to transfer the Softbank Lock-Up Securities to us or one or more of our wholly-owned subsidiaries (including the filing by Softbank or a wholly-owned subsidiary of Softbank of a proxy statement or other public filing (other than a registration statement) with respect thereto) in compliance with the terms hereof, provided in the case of (y) that no such transaction is effected prior to the date such transaction would otherwise be permitted under the lock-up agreement entered into by Softbank, or (iv) make any demand for or exercise any right with respect to, the registration of any Softbank Lock-Up Securities; provided, however, that the foregoing restrictions shall not apply to:

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- (a) any transaction relating only to (i) Shares or ADSs purchased in open market transactions after the completion of the Global Offering or (ii) Shares or ADSs acquired in private transactions after the completion of the Global Offering from third parties to the extent such acquired Shares or ADSs are not subject to any lock-up or similar transfer restrictions;
- (b) any conversion of the Softbank Lock-Up Securities into, or exchange or exercise of the Softbank Lock-Up Securities for, Shares or ADSs by it, provided that the Shares or ADSs received by it upon such conversion, exchange or exercise shall be subject to the terms of the lock-up restriction set forth above;
- (c) the establishment of a trading plan (a “Plan”) pursuant to Rule 10b5-1 under the U.S. Exchange Act for the transfer of the Softbank Lock-Up Securities, provided that such Plan does not provide for the transfer of any Softbank Lock-Up Securities during the Softbank Lock-Up Period;
- (d) with respect to Shares or ADSs subject to equity incentive awards granted to it prior to the date of the Hong Kong Underwriting Agreement pursuant to Equity Incentive Plans that are disclosed in this prospectus, any withholding by, or transfer to, us of the Shares or ADSs vested in respect of such awards, to the extent such awards vest as provided by such awards, provided that such withholding or transfer shall only be permitted to the extent required to cover applicable withholding tax obligations;
- (e) any transfer of the Softbank Lock-Up Securities pursuant to a *bona fide* third-party tender offer, merger, consolidation or other similar transaction involving all holders of the Shares or ADSs in connection with a change of control of our Company; provided, that in the event the tender offer, merger, consolidation or other such transaction is not completed, the Softbank’s Lock-Up Securities shall remain subject to the restrictions set forth above;
- (f) any transfer of the Softbank Lock-Up Securities as a *bona fide* gift or gifts or through will or intestacy, or to a charitable organization, an immediate family member or a trust or an entity beneficially owned and controlled by it, provided in each case that any such transfer shall not involve a disposition for value;
- (g) any transfer of the Softbank Lock-Up Securities to a Shareholder Group Member, provided that any such transfer shall not involve a disposition for value received from an entity or other person that is not a Shareholder Group Member;
- (h) the maintenance of existing, or the grant of additional, pledges of the Softbank Lock-Up Securities to one or more lenders for the purpose of securing loans (“Loans”) to Softbank or a Shareholder Group Member provided under facilities outstanding as of the date of the Hong Kong Underwriting Agreement (as such may be amended, refinanced or modified from time to time, provided that the total size of such facility is not increased), or any sale, disposition or transfer of Softbank’s or such Shareholder Group Member’s pledged Softbank Lock-Up Securities in connection with any enforcement action or foreclosure or exercise of other rights by such lenders under any provision in such Loan documentation, including any foreclosure sale, disposition or transfer directed by a security agent under such Loans; or

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- (i) with respect to Softbank Lock-Up Securities that are subject to an existing pledge (which for the avoidance of doubt includes a pledge in the form of a share mortgage), the grant of a right of rehypothecation, right of use or similar right (encompassing the right to loan, sell or re-pledge such Softbank Lock-Up Securities), and the exercise of any such right of rehypothecation, right of use or similar right,

provided that in the case of each of clause (a), (b), (c), (d) and (f) above, no filing or other public announcement by any party shall be required or made voluntarily during the Softbank Lock-Up Period in connection with the transactions contemplated therein; provided, further, that in the case of each of clause (f) or (g), any transferee that directly receives Softbank Lock-Up Securities agrees to be bound in writing by the terms of the lock-up agreement entered into by Softbank and delivers such writing to the Joint Sponsors (or, prior to their designation, the Company) prior to such transfer.

Furthermore, if any of the Company, Jack Yun Ma, Joseph C. Tsai or any record or beneficial owner, as of the date of the Hong Kong Underwriting Agreement, of 5% or more of the outstanding Shares (each, a “Principal Party”), is granted an early release during the Softbank Lock-Up Period from any restriction described in such Principal Party’s lock-up agreement, then SoftBank shall also be notified and granted an early release from such restriction on a pro rata basis based on the percentage of Shares or ADSs held by any Principal Party (or, in the case of our Company, based on the percentage of Shares issued and outstanding) being released from such restriction, *provided* that the foregoing provision shall not apply to a release of a Principal Party in connection with a registered offering pursuant to which SoftBank has been offered the opportunity to participate in accordance with the terms of the Amended and Restated Registration Rights Agreement, dated September 12, 2012, by and between our Company and the persons whose names are set out in Schedule I thereto.

STRUCTURE OF THE GLOBAL OFFERING

The Global Offering

We publish this prospectus in connection with the Hong Kong Public Offering as part of the Global Offering.

The listing of the Shares on the Main Board of the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

We are initially offering 500,000,000 Offer Shares under the Global Offering comprising:

- the Hong Kong Public Offering of initially 12,500,000 Shares (subject to adjustment) in Hong Kong as described in “— The Hong Kong Public Offering” below; and
- the International Offering of initially 487,500,000 Shares (subject to adjustment and the Over-allotment Option) pursuant to the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on November 13, 2019, and the preliminary prospectus supplement filed with the SEC on November 13, 2019 and the final prospectus supplement to be filed with the SEC on or about November 20, 2019.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 2.34% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 2.68% of the total Shares in issue immediately following the completion of the Global Offering (without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time).

References in this prospectus to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

The Hong Kong Public Offering

Number of Offer Shares initially offered

We are initially offering 12,500,000 Shares for subscription by the public in Hong Kong at the Public Offer Price, representing 2.50% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.06% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of the options or the vesting of RSUs or other awards that have been or may be granted from time to time).

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “— Conditions of the Global Offering” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 6,250,000 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

STRUCTURE OF THE GLOBAL OFFERING

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules to the effect as further described below.

12,500,000 Offer Shares are initially available in the Hong Kong Public Offering, representing 2.5% of the Offer Shares initially available under the Global Offering.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 10 times or more but less than 15 times, (b) 15 times or more but less than 20 times and (c) 20 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 25,000,000 Offer Shares (in the case of (a)), 37,500,000 Offer Shares (in the case of (b)) and 50,000,000 Offer Shares (in the case of (c)), representing 5.0%, 7.5% and 10.0% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate.

In addition, the Joint Representatives may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to the clawback mechanism above, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 25,000,000 Shares, representing 5.0% of the total number of Offer Shares initially available under the Global Offering).

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the allotment results announcement of the Hong Kong Public Offering, which is expected to be published on November 25, 2019.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Public Offer Price of HK\$188.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$18,989.45 for one board lot of 100 Shares. If the Public Offer Price, as finally determined in the manner described in “— Pricing and Allocation” below, is less than the maximum Public Offer Price of HK\$188.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares.”

The International Offering

Number of Offer Shares initially offered

The International Offering will consist of an initial offering of 487,500,000 Offer Shares offered by us (subject to adjustment and the Over-allotment Option), representing 97.5% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 2.28% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time).

Allocation

The International Offering will include U.S. offering of Offer Shares in the United States as well as non-U.S. offering to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and the benefit of the shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 75,000,000 Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 0.35% of the total Shares in issue immediately following the completion of the Global Offering without taking into account the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time. If the Over-allotment Option is exercised, an announcement will be made.

Stabilization

Underwriters use stabilization in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which the Stabilizing Manager may bid for or purchase the securities is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as our best interest, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under clauses (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in clauses (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- the Stabilizing Manager may not bid for or purchase the securities in order to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Friday, December 20, 2019, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further purchase or bids may be made, demand for the Shares, and therefore the price of the Shares, could fall;
- the Stabilizing Manager cannot assure the price of the Shares to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or through the Stock Borrowing Agreement as detailed below, or through a combination of these means.

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Stock Borrowing Agreement

To cover any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 75,000,000 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from PCIP I, pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and PCIP I on or about the Price Determination Date.

The same number of Shares so borrowed must be returned to PCIP I or their nominees, as the case may be, on or before the fifth business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to PCIP I by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

Pricing And Allocation

Determining the Offer Price

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Wednesday, November 20, 2019 and, in any event, no later than Monday, November 25, 2019, by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters), and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date, and the Public Offer Price will not be more than HK\$188.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on the NYSE are set out below.

Period ⁽¹⁾	High	Low	ADTV
	(US\$)	(US\$)	(million ADSs) ⁽²⁾
Fiscal year ended March 31, 2019	210.86	130.60	18.6
Fiscal year of 2020 (up to the Latest Practicable Date)	195.21	149.26	16.8

Notes:

- (1) We have not declared or paid any dividends on our ADSs or Shares since our inception and up to the Latest Practicable Date, including the periods presented.
- (2) Average daily trading volume ("ADTV") represents daily average number of our ADSs traded over the relevant period.

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Applicants under the Hong Kong Public Offering must pay, on application, the maximum Public Offer Price of HK\$188.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$18,989.45 for one board lot of 100 Shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

We reserve the right not to proceed with the Hong Kong Public Offering or the International Offering on or at any time until the Price Determination Date if, for any reason, including as a result of volatility in the price of our ADSs or other changes in market conditions, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, November 25, 2019.

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our website and the website of the Hong Kong Stock Exchange at www.alibabagroup.com and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of

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the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

Announcement of Final Pricing of the Offer Shares

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares — D. Publication of Results.”

Underwriting

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, our agreeing with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in “Underwriting.”

Conditions of the Global Offering

Acceptance of all applications for Offer Shares will be conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time, on the Main Board of the Hong Kong Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- the pricing of the Offer Shares having been agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and us;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

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If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares on or before Monday, November 25, 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us on our website and the website of the Hong Kong Stock Exchange at www.alibabagroup.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Tuesday, November 26, 2019, provided that the Global Offering has become unconditional in all respects at or before that time.

Dealings in the Shares

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, November 26, 2019, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, November 26, 2019.

The Shares will be traded in board lots of 100 Shares each and the stock code of the Shares will be 9988.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at www.alibabagroup.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 3426 9988 from 9:00 a.m. to 9:00 p.m. on Friday, November 15, 2019, Monday, November 18, 2019 and Tuesday, November 19, 2019, from 9:00 a.m. to 6:00 p.m. on Saturday, November 16, 2019 and Sunday, November 17, 2019 and from 9:00 a.m. to 12:00 noon on Wednesday, November 20, 2019.

A. Applications for the Hong Kong Offer Shares

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request.

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If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for the Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- have a Hong Kong address.

If an application is made by a person under a power of attorney, we and the Joint Representatives may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange (details of the relevant waivers are set out in the sections headed "Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Subscription for Shares by existing shareholders" and "Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Dealings in the Shares prior to the Listing"), you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;
- you are our director or chief executive and/or a director or chief executive officer of our subsidiaries;
- you are a close associate of any of the above persons;
- you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Joint Representatives (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (WUMP) Ordinance and the Cayman Companies Law;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of us, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;

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- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “— Personal Collection” below to collect the Share certificate(s) and/or refund check(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that we, our directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

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4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 100 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
100	18,989.45	3,500	664,630.67	70,000	13,292,613.32	3,000,000	569,683,428.00
200	37,978.90	4,000	759,577.90	80,000	15,191,558.08	4,000,000	759,577,904.00
300	56,968.34	4,500	854,525.14	90,000	17,090,502.84	5,000,000	949,472,380.00
400	75,957.79	5,000	949,472.38	100,000	18,989,447.60	6,250,000 ⁽¹⁾	1,186,840,475.00
500	94,947.24	6,000	1,139,366.86	200,000	37,978,895.20		
600	113,936.69	7,000	1,329,261.33	300,000	56,968,342.80		
700	132,926.13	8,000	1,519,155.81	400,000	75,957,790.40		
800	151,915.58	9,000	1,709,050.28	500,000	94,947,238.00		
900	170,905.03	10,000	1,898,944.76	600,000	113,936,685.60		
1,000	189,894.48	20,000	3,797,889.52	700,000	132,926,133.20		
1,500	284,841.71	30,000	5,696,834.28	800,000	151,915,580.80		
2,000	379,788.95	40,000	7,595,779.04	900,000	170,905,028.40		
2,500	474,736.19	50,000	9,494,723.80	1,000,000	189,894,476.00		
3,000	569,683.43	60,000	11,393,668.56	2,000,000	379,788,952.00		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in “— Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of the **White Form eIPO** Service Provider at +852 3426 9988 which is available from 9:00 a.m. to 9:00 p.m. on Friday, November 15, 2019, Monday, November 18, 2019 and Tuesday, November 19, 2019, from 9:00 a.m. to 6:00 p.m. on Saturday, November 16, 2019 and Sunday, November 17, 2019 and from 9:00 a.m. to 12:00 noon on Wednesday, November 20, 2019.

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Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Friday, November 15, 2019 until 11:30 a.m. on Wednesday, November 20, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, November 20, 2019, the last day for applications, or such later time as described in “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these electronic application instructions through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Joint Sponsors, the Joint Representatives and the Hong Kong Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant’s stock account on your behalf or your CCASS Investor Participant’s stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

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- undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
- confirm that you understand that we, our directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day

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after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Hong Kong Offer Shares;
- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (WUMP) Ordinance and the Cayman Companies Law; and
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, November 15, 2019	– 9:00 a.m. to 8:30 p.m.
Saturday, November 16, 2019	– 8:00 a.m. to 1:00 p.m.
Monday, November 18, 2019	– 8:00 a.m. to 8:30 p.m.
Tuesday, November 19, 2019	– 8:00 a.m. to 8:30 p.m.
Wednesday, November 20, 2019	– 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, November 15, 2019 until 12:00 noon on Wednesday, November 20, 2019 (24 hours daily, except on Wednesday, November 20, 2019, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, November 20, 2019, the last day for applications, or such later time as described in “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Note:

- (1) The times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

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Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS eIPO** service (directly or indirectly through your **broker** or **custodian**) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service

HOW TO APPLY FOR HONG KONG OFFER SHARES

interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an unlisted company makes an application and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. How Much are the Hong Kong Offer Shares

The maximum Public Offer Price is HK\$188.00 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 100 Hong Kong Offer Shares, you will pay HK\$18,989.45.

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You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for the Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 100 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 100 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section “— 4. Minimum Application Amount and Permitted Numbers”.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see “Structure of the Global Offering — Pricing and Allocation.”

C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, November 20, 2019. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, November 20, 2019 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” we will make an announcement on our websites at <http://www.alibabagroup.com> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

D. Publication of Results

We expect to announce the pricing of the Offer Shares on Wednesday, November 20, 2019 on our website at <http://www.alibabagroup.com> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Monday, November 25, 2019 on our website at <http://www.alibabagroup.com> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at www.alibabagroup.com and www.hkexnews.hk, respectively, by no later than Monday, November 25, 2019;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Monday, November 25, 2019 to 12:00 midnight on Sunday, December 1, 2019; and
- from the allocation results telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, November 25, 2019 to Thursday, November 28, 2019.

If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. Circumstances in Which You Will Not be allocated the Hong Kong Offer Shares

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person’s responsibility for this prospectus; or

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- if any supplement to this prospectus is issued, in which case we will notify applicants who have already submitted an application that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and the International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- you apply for more than 6,250,000 Hong Kong Offer Shares, being 50% of the 12,500,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Representatives believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

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F. Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering — Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or around Monday, November 25, 2019.

G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on despatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or around Monday, November 25, 2019. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, November 26, 2019, provided that the Global Offering has become unconditional in all respects at or before that time.

Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

Personal Collection

- *If you apply through White Form eIPO service:*
 - If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, November 25, 2019, or any other place or date notified by us.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, November 25, 2019 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.
- ***If you apply through CCASS EIPO service:***

Allocation of the Hong Kong Offer Shares

- For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, November 25, 2019 or on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "— Publication of Results" above on Monday, November 25, 2019. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, November 25, 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that **broker** or **custodian**.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, November 25, 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Monday, November 25, 2019.

H. Admission of the Shares into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following is the text of a report set out on pages IA-1 to IA-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ALIBABA GROUP HOLDING LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CREDIT SUISSE (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Alibaba Group Holding Limited and its subsidiaries (together, the "Company") set out on pages IA-4 to IA-132, which comprises the consolidated balance sheets as of March 31, 2017, 2018 and 2019 and June 30, 2019, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-4 to IA-132 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 15, 2019 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note 2(a) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of

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Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note 2(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the consolidated financial position of the Company as of March 31, 2017, 2018 and 2019 and June 30, 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation set out in Note 2(a) to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Company which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders’ equity and the consolidated statement of cash flows for the three months ended June 30, 2018 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 2(a) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated with no adjustments to the Historical Financial Statements as defined on page IA-4 as were considered necessary.

Dividends

We refer to Note 27 to the Historical Financial Information which states that no dividends have been paid by Alibaba Group Holding Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
November 15, 2019

I. HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the financial statements of the Company for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2019 (collectively referred as "Historical Financial Statements"). The financial statements for the years ended March 31, 2017, 2018 and 2019 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the financial statements and the effectiveness of internal control over financial reporting. The financial statements for the three months ended June 30, 2019 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with the standards of PCAOB relating to the financial statements only.

The Historical Financial Information is presented in Renminbi and United States Dollars. All values are rounded to the nearest million except when otherwise indicated.

CONSOLIDATED INCOME STATEMENTS

		Year ended March 31,			Three months ended June 30,		
		2017	2018	2019	2018	2019	
Notes		RMB	RMB	RMB	RMB	RMB	US\$
		(Unaudited)				(Note 2(a))	
		(in millions, except per share data)					
Revenue	5, 22	158,273	250,266	376,844	80,920	114,924	16,741
Cost of revenue	22	(59,483)	(107,044)	(206,929)	(43,720)	(59,987)	(8,738)
Product development expenses	22	(17,060)	(22,754)	(37,435)	(11,510)	(10,478)	(1,526)
Sales and marketing expenses	22	(16,314)	(27,299)	(39,780)	(8,921)	(10,698)	(1,558)
General and administrative expenses	22	(12,239)	(16,241)	(24,889)	(6,645)	(6,320)	(921)
Amortization of intangible assets	16	(5,122)	(7,120)	(10,727)	(2,104)	(3,066)	(447)
Impairment of goodwill	17	–	(494)	–	–	–	–
Income from operations		48,055	69,314	57,084	8,020	24,375	3,551
Interest and investment income, net		8,559	30,495	44,106	7,246	187	27
Interest expense		(2,671)	(3,566)	(5,190)	(1,213)	(1,346)	(196)
Other income (loss), net	6, 22	6,086	4,160	221	(83)	2,101	306
Income before income tax and share of results of equity investees		60,029	100,403	96,221	13,970	25,317	3,688
Income tax expenses	8	(13,776)	(18,199)	(16,553)	(5,665)	(6,712)	(978)
Share of results of equity investees	14	(5,027)	(20,792)	566	(655)	517	75
Net income		41,226	61,412	80,234	7,650	19,122	2,785
Net loss attributable to noncontrolling interests		2,449	2,681	7,652	1,070	2,326	339
Net income attributable to Alibaba Group Holding Limited		43,675	64,093	87,886	8,720	21,448	3,124
Accretion of mezzanine equity		–	(108)	(286)	(35)	(196)	(28)
Net income attributable to ordinary shareholders		43,675	63,985	87,600	8,685	21,252	3,096
Earnings per share attributable to ordinary shareholders (Note)	10						
Basic		2.19	3.13	4.24	0.42	1.02	0.15
Diluted		2.12	3.06	4.17	0.41	1.01	0.15
Earnings per ADS attributable to ordinary shareholders (one ADS equals eight ordinary shares)	10						
Basic		17.52	25.06	33.95	3.36	8.18	1.19
Diluted		16.97	24.51	33.38	3.30	8.06	1.17
Weighted average number of shares used in computing earnings per share (million shares) (Note)	10						
Basic		19,941	20,425	20,640	20,648	20,776	
Diluted		20,579	20,881	20,988	21,014	21,075	

Note: Basic and diluted earnings per share and the number of shares have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	RMB	RMB	RMB	RMB	US\$
				(Unaudited)	(Note 2(a))
				(in millions)	
Net income	<u>41,226</u>	<u>61,412</u>	<u>80,234</u>	<u>7,650</u>	<u>19,122</u>
Other comprehensive income (loss):					
– Foreign currency translation:					
Change in unrealized (losses) gains	(2,191)	(805)	1,068	1,496	1,348
Reclassification adjustment for losses recorded in net income	44	–	–	–	–
Net change	<u>(2,147)</u>	<u>(805)</u>	<u>1,068</u>	<u>1,496</u>	<u>1,348</u>
– Available-for-sale securities:					
Change in unrealized gains	8,911	769	–	–	–
Reclassification adjustment for (gains) losses recorded in net income	(5,764)	57	–	–	–
Tax effect	<u>(1,042)</u>	<u>385</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net change	<u>2,105</u>	<u>1,211</u>	<u>–</u>	<u>–</u>	<u>–</u>
– Share of other comprehensive income of equity method investees:					
Change in unrealized gains (losses)	<u>780</u>	<u>(930)</u>	<u>582</u>	<u>(47)</u>	<u>(91)</u>
– Interest rate swaps under hedge accounting and others:					
Change in unrealized gains (losses)	<u>433</u>	<u>143</u>	<u>(295)</u>	<u>23</u>	<u>(170)</u>
– Forward exchange contracts under hedge accounting:					
Change in unrealized gains (losses)	<u>169</u>	<u>(85)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Other comprehensive income (loss)	<u>1,340</u>	<u>(466)</u>	<u>1,355</u>	<u>1,472</u>	<u>1,087</u>
Total comprehensive income	<u>42,566</u>	<u>60,946</u>	<u>81,589</u>	<u>9,122</u>	<u>20,209</u>
Total comprehensive loss attributable to noncontrolling interests	<u>389</u>	<u>2,215</u>	<u>6,637</u>	<u>571</u>	<u>2,134</u>
Total comprehensive income attributable to ordinary shareholders	<u>42,955</u>	<u>63,161</u>	<u>88,226</u>	<u>9,693</u>	<u>22,343</u>

CONSOLIDATED BALANCE SHEETS

		As of March 31,			As of June 30,	
		2017	2018	2019	2019	
	Notes	RMB	RMB	RMB	RMB	US\$
						(Note 2(a))
				(in millions)		
Assets						
Current assets:						
Cash and cash equivalents	2(p)	143,736	199,309	189,976	210,539	30,669
Short-term investments	2(q)	3,011	6,086	3,262	1,650	240
Restricted cash and escrow						
receivables	11	2,655	3,417	8,518	7,301	1,063
Investment securities	12	4,054	4,815	9,927	8,431	1,228
Prepayments, receivables and other						
assets	13	28,408	43,228	58,590	62,711	9,135
Total current assets		181,864	256,855	270,273	290,632	42,335
Investment securities	12	31,452	38,192	157,090	168,709	24,576
Prepayments, receivables and other						
assets	13	13,394	26,274	28,018	46,820	6,821
Investments in equity investees	14	120,368	139,700	84,454	85,596	12,468
Property and equipment, net	15	20,206	66,489	92,030	94,184	13,719
Intangible assets, net	16	14,108	27,465	68,276	66,019	9,617
Goodwill	17	125,420	162,149	264,935	266,894	38,877
Total assets		506,812	717,124	965,076	1,018,854	148,413
Liabilities, mezzanine equity and shareholders' equity						
Current liabilities:						
Current bank borrowings	20	5,948	6,028	7,356	7,564	1,102
Current unsecured senior notes	21	8,949	–	15,110	15,455	2,251
Income tax payable		6,125	13,689	17,685	17,764	2,588
Escrow money payable	11	2,322	3,053	8,250	6,868	1,000
Accrued expenses, accounts payable						
and other liabilities	19	46,979	81,165	117,711	119,965	17,475
Merchant deposits	2(ad)	8,189	9,578	10,762	11,167	1,627
Deferred revenue and customer						
advances	18	15,052	22,297	30,795	31,917	4,649
Total current liabilities		93,564	135,810	207,669	210,700	30,692
Deferred revenue	18	641	993	1,467	1,657	241
Deferred tax liabilities	8	10,361	19,312	22,517	21,874	3,187
Non-current bank borrowings	20	30,959	34,153	35,427	38,237	5,570
Non-current unsecured senior notes	21	45,876	85,372	76,407	78,133	11,381
Other liabilities	19	1,290	2,045	6,187	23,196	3,379
Total liabilities		182,691	277,685	349,674	373,797	54,450

CONSOLIDATED BALANCE SHEETS (CONTINUED)

	Notes	As of March 31,			As of June 30,	
		2017	2018	2019	2019	
		RMB	RMB	RMB	RMB	US\$
						(Note 2(a))
				(in millions)		
Commitments and contingencies	24, 25	–	–	–	–	–
Mezzanine equity		2,992	3,001	6,819	7,091	1,033
Shareholders' equity:						
Ordinary shares, US\$0.000003125 par value; 32,000,000,000 shares authorized as of March 31, 2017, 2018, 2019 and June 30, 2019; 20,234,913,512, 20,575,438,744, 20,696,476,576 and 20,836,609,360 shares issued and outstanding as of March 31, 2017, 2018, 2019 and June 30, 2019, respectively (Note)		1	1	1	1	–
Additional paid-in capital		164,585	186,764	231,783	238,023	34,672
Treasury shares, at cost	2(ag)	(2,823)	(2,233)	–	–	–
Restructuring reserve	4(a)	(624)	(361)	(97)	(31)	(5)
Subscription receivables		(63)	(163)	(49)	(49)	(7)
Statutory reserves	2(ah)	4,080	4,378	5,068	5,166	753
Accumulated other comprehensive income (loss)						
Cumulative translation adjustments		(3,618)	(3,594)	(2,592)	(1,405)	(205)
Unrealized gains on available-for- sale securities, interest rate swaps and others		8,703	8,677	257	92	14
Retained earnings		108,558	172,353	257,886	279,236	40,675
Total shareholders' equity		278,799	365,822	492,257	521,033	75,897
Noncontrolling interests		42,330	70,616	116,326	116,933	17,033
Total equity		321,129	436,438	608,583	637,966	92,930
Total liabilities, mezzanine equity and equity		506,812	717,124	965,076	1,018,854	148,413

Note: Par value per share and the number of shares have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Ordinary shares		Accumulated other comprehensive income (loss)														
Share (Note)	Amount RMB	Additional paid-in capital		Treasury shares	Restructuring reserve (Note 4(a))	Subscription receivables	Statutory reserves	Cumulative translation adjustments		Unrealized gains (losses) on available-for-sale securities, interest rate swaps and others		Retained earnings	Total shareholders' equity	Noncontrolling interests	Total equity	
		RMB						RMB		RMB						RMB
(in millions, except share data)																
Balance as of April 1, 2016	19,791,422,872	1	132,206	-	(888)	(172)	3,244	(1,050)	4,894	78,752	216,987	32,552	249,539			
Foreign currency translation adjustment	-	-	-	-	-	(17)	-	(2,612)	322	-	(2,307)	99	(2,208)			
Net change in unrealized gains on available-for-sale securities	-	-	-	-	-	-	-	-	2,105	-	2,105	-	2,105			
Share of additional paid-in capital and other comprehensive income of equity method investees	-	-	1,419	-	-	-	-	-	780	-	2,199	-	2,199			
Change in fair value of forward exchange contracts under hedge accounting	-	-	-	-	-	-	-	-	169	-	169	-	169			
Change in fair value of interest rate swaps under hedge accounting	-	-	-	-	-	-	-	-	433	-	433	-	433			
Net income for the year	-	-	-	-	-	-	-	-	-	43,675	43,675	(488)	43,187			
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	44	-	-	44	-	44			
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	9,209	9,209			
Issuance of shares, including exercise of share options and vesting of early exercised options and RSUs, including repayment of related employee loans	449,325,240	-	575	-	-	126	-	-	-	-	701	-	701			

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Ordinary shares		Accumulated other comprehensive income (loss)										
Share (Note)	Amount RMB	Additional paid-in capital RMB	Treasury shares RMB	Restructuring reserve (Note 4(a)) RMB	Subscription receivables RMB	Statutory reserves RMB	Cumulative translation adjustments RMB	Unrealized gains (losses) on available-for-sale securities, interest rate swaps and others RMB	Retained earnings RMB	Total shareholders' equity RMB	Noncontrolling interests RMB	Total equity RMB
											</	

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	Ordinary shares		Accumulated other comprehensive income (loss)																	
	Share (Note)	Amount	Additional paid-in capital	Treasury shares	Restructuring reserve (Note 4(a))	Subscription receivables	Statutory reserves	Cumulative translation adjustments	Unrealized gains (losses) on available-for-sale securities, interest rate swaps and others				Retained earnings	Total shareholders' equity	Noncontrolling interests	Total equity				
									RMB	RMB	RMB	RMB					RMB	RMB	RMB	RMB
(in millions, except share data)																				
Balance as of April 1, 2017	20,234,913,512	1	164,585	(2,823)	(624)	(63)	4,080	(3,618)	8,703	108,558	278,799	42,330	321,129							
Foreign currency translation adjustment	-	-	-	-	-	14	-	24	(366)	-	(328)	(463)	(791)							
Net change in unrealized gains on available-for-sale securities	-	-	-	-	-	-	-	-	1,212	-	1,212	(1)	1,211							
Share of additional paid-in capital and other comprehensive income of equity method investees	-	-	(525)	-	-	-	-	-	(930)	-	(1,455)	-	(1,455)							
Change in fair value of forward exchange contracts under hedge accounting	-	-	-	-	-	-	-	-	(85)	-	(85)	-	(85)							
Change in fair value of interest rate swaps under hedge accounting	-	-	-	-	-	-	-	-	143	-	143	-	143			143				
Net income for the year	-	-	-	-	-	-	-	-	-	64,093	64,093	(1,751)	62,342			62,342				
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	40,087	40,087			40,087				

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	Ordinary shares		Accumulated other comprehensive income (loss)												
	Share (Note)	Amount RMB	Additional paid-in capital		Treasury shares	Restructuring reserve (Note 4(a))	Subscription receivables	Statutory reserves	Cumulative translation adjustments	Unrealized gains (losses) on available-for-sale securities, interest rate swaps and others			Total shareholders' equity	Noncontrolling interests	Total equity
			RMB	RMB						RMB	RMB	RMB			
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Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	Ordinary shares		Accumulated other comprehensive income (loss)														
	Share (Note)	Amount RMB	Additional paid-in capital		Treasury shares RMB	Restructuring reserve (Note 4(a)) RMB	Subscription receivables RMB	Statutory reserves		Cumulative translation adjustments RMB	Unrealized gains (losses) on available-for-sale securities, interest rate swaps and others RMB		Retained earnings RMB	Total shareholders' equity		Noncontrolling interests RMB	Total equity RMB
			RMB					RMB			RMB			RMB			
Balance as of March 31, 2018	20,575,438,744	1	186,764	(2,233)	(361)	(163)	4,378	(3,594)	8,677	172,353	365,822	70,616	436,438				
Cumulative effect of change in accounting principle (Note 2(f))	-	-	-	-	-	-	-	(32)	(8,164)	-	-	-	-	-	-	-	-
Balance as of April 1, 2018	20,575,438,744	1	186,764	(2,233)	(361)	(163)	4,378	(3,626)	513	180,549	365,822	70,616	436,438				
Foreign currency translation adjustment	-	-	-	-	-	(12)	-	452	39	-	479	577	1,056				
Share of additional paid-in capital and other comprehensive income of equity method investees	-	-	142	-	-	-	-	582	-	-	724	-	724				
Change in fair value of interest rate swaps under hedge accounting and others	-	-	-	-	-	-	-	-	(295)	-	(295)	-	(295)				
Net income for the year	-	-	-	-	-	-	-	-	-	87,886	87,886	(7,214)	80,672				
Acquisition of subsidiaries	-	-	7,515	-	-	-	-	-	-	-	7,515	49,805	57,320				
Issuance of shares, including vesting of RSUs and early exercised options and exercise of share options	208,011,512	-	228	-	-	126	-	-	-	-	354	-	354				
Repurchase and retirement of ordinary shares	(86,973,680)	-	(1,013)	-	-	-	-	-	-	(9,859)	(10,872)	-	(10,872)				
Transactions with noncontrolling interests	-	-	3,412	-	-	-	-	-	-	-	3,412	406	3,818				
Amortization of compensation cost	-	-	35,015	-	-	-	-	-	-	-	35,015	2,586	37,601				
Disposal of the Company's shares by Suning (Note 4(aa))	-	-	-	2,233	-	-	-	-	-	-	2,233	-	2,233				
Appropriation to statutory reserves	-	-	-	-	-	-	690	-	-	(690)	-	-	-				
Others	-	-	(280)	-	264	-	-	-	-	-	(16)	(450)	(466)				
Balance as of March 31, 2019	20,696,476,576	1	231,783	-	(97)	(49)	5,068	(2,592)	257	257,886	492,257	116,326	608,583				

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Ordinary shares			Additional paid-in capital				Restructuring reserve (Note 4(a))	Accumulated other comprehensive income (loss)				Total shareholders' equity				Noncontrolling interests		Total equity
Share (Note)	Amount	RMB	Treasury shares	RMB	RMB	Subscription receivables	Statutory reserves	Cumulative translation adjustments	Unrealized gains on interest rate swaps and others	Retained earnings	Total equity	RMB	RMB	RMB	RMB	RMB	RMB	
(in millions, except share data)																		
(Unaudited)																		
Balance as of April 1, 2018	20,575,438,744	1	186,764	(2,233)	(361)	(163)	4,378	(3,626)	513	180,549	365,822	70,616	436,438					
Foreign currency translation adjustment	-	-	-	-	-	(9)	-	1,062	28	-	1,081	406	1,487					
Share of additional paid-in capital and other comprehensive income of equity method investees	-	-	(106)	-	-	-	-	(47)	-	-	(153)	-	(153)					
Change in fair value of interest rate swaps under hedge accounting and others	-	-	-	-	-	-	-	-	23	-	23	-	23					
Net income for the period	-	-	-	-	-	-	-	-	-	8,720	8,720	(977)	7,743					
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	7,211	7,211					
Issuance of shares, including vesting of RSUs and early exercised options and exercise of share options	158,477,656	-	176	-	-	-	-	-	-	-	176	-	176					
Partial disposal of the Company's shares by Suning (Note 4(aa))	-	-	-	821	-	-	-	-	-	-	821	-	821					
Transactions with noncontrolling interests	-	-	693	-	-	-	-	-	-	-	693	1,752	2,445					
Amortization of compensation cost	-	-	15,873	-	-	-	-	-	-	-	15,873	534	16,407					
Appropriation to statutory reserves	-	-	-	-	-	-	150	-	-	(150)	-	-	-					
Others	-	-	(33)	-	66	-	-	-	-	-	33	(37)	(4)					
Balance as of June 30, 2018	20,733,916,400	1	203,367	(1,412)	(295)	(172)	4,528	(2,611)	564	189,119	393,089	79,505	472,594					

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

Ordinary shares	Accumulated other comprehensive income (loss)
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Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a) and Note 28.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
				(Unaudited)	(Note 2(a))	
				(in millions)		
Cash flows from operating activities:						
Net income	41,226	61,412	80,234	7,650	19,122	2,785
Adjustments to reconcile net income to net cash provided by operating activities:						
Revaluation gain on previously held equity interest	(770)	(24,436)	(30,187)	(1,834)	–	–
Gain on disposals of equity investees	(536)	(2,971)	(42)	–	(1)	–
Realized and unrealized (gain) loss related to investment securities	(5,488)	(70)	(16,082)	(3,665)	1,966	286
Change in fair value of other assets and liabilities	(759)	1,415	(1,422)	(22)	(401)	(58)
Loss (Gain) on disposals of subsidiaries	35	(14)	4	4	–	–
Depreciation and amortization of property and equipment, and operating lease cost relating to land use rights	5,284	8,789	14,962	2,857	4,682	682
Amortization of intangible assets and licensed copyrights	9,008	13,231	22,118	4,770	5,174	754
Tax benefits from share-based awards	(1,369)	–	–	–	–	–
Share-based compensation expense	15,995	20,075	37,491	16,378	7,115	1,036
Impairment of cost method investees and investment securities	2,298	1,816	10,867	–	250	36
Impairment of goodwill and licensed copyrights	857	1,295	2,843	–	452	66
Loss (Gain) on disposals of property and equipment	34	(95)	55	35	(48)	(7)
Amortization of restructuring reserve	264	264	264	66	66	10
Share of results of equity investees	5,027	20,792	(566)	655	(517)	(75)
Deferred income taxes	281	976	(2,197)	(406)	(849)	(124)
Allowance for doubtful accounts	1,680	601	383	35	300	43
Changes in assets and liabilities, net of effects of acquisitions and disposals:						
Prepayments, receivables and other assets	(8,237)	(14,765)	(10,185)	(1,133)	(21,871)	(3,185)
Income tax payable	4,698	6,610	3,060	529	92	13
Escrow money payable	2,528	643	5,197	2,319	(1,382)	(201)
Accrued expenses, accounts payable and other liabilities	5,312	23,158	24,355	6,352	18,773	2,735
Merchant deposits	875	1,389	1,184	(394)	405	59
Deferred revenue and customer advances	4,611	5,690	8,639	1,921	1,284	187
Net cash provided by operating activities	82,854	125,805	150,975	36,117	34,612	5,042

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
				(Unaudited)	(Note 2(a))	
	(in millions)					
Cash flows from investing activities:						
Decrease (Increase) in short-term investments, net	5,761	(730)	8,028	565	1,726	251
Decrease in trading securities, net	468	–	–	–	–	–
Payments for settlement of forward exchange contracts	(256)	(582)	(15)	–	(25)	(3)
Acquisitions of investment securities	(4,677)	(11,872)	(72,472)	(26,008)	(15,743)	(2,292)
Disposals of investment securities	4,354	7,223	10,057	571	4,144	603
Acquisitions of equity investees	(39,429)	(53,742)	(11,860)	(2,896)	(1,171)	(171)
Disposals of equity investees	4,941	6,185	282	77	3	–
Acquisitions of:						
Land use rights and construction in progress relating to office campus	(5,326)	(4,027)	(3,146)	(1,446)	(526)	(77)
Other property and equipment	(5,680)	(15,601)	(32,336)	(5,005)	(5,856)	(853)
Licensed copyrights and other intangible assets	(6,540)	(10,208)	(14,161)	(4,754)	(2,395)	(349)
Cash paid for business combinations, net of cash acquired	(33,448)	(515)	(35,434)	(32,767)	(1,232)	(180)
Deconsolidation and disposal of subsidiaries, net of cash proceeds	250	(27)	(10)	(14)	(38)	(5)
Loans to employees, net of repayments	3	132	7	7	(23)	(3)
Net cash used in investing activities	(79,579)	(83,764)	(151,060)	(71,670)	(21,136)	(3,079)
Cash flows from financing activities:						
Issuance of ordinary shares	14,607	399	354	174	385	56
Repurchase of ordinary shares	(13,182)	–	(10,872)	–	–	–
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	(13,627)	(1,123)	(69)	(12)	(2)
Payment for settlement of contingent consideration	–	(770)	–	–	–	–
Subscription of rights for Partner Capital Investment Plan (Note 9(c))	87	–	–	–	–	–
Dividends paid by non-wholly owned subsidiaries to noncontrolling interests	(163)	(112)	(226)	(51)	(192)	(28)
Capital injection from noncontrolling interests	1,543	1,124	8,706	2,513	1,946	283
Tax benefits from share-based awards	689	–	–	–	–	–
Proceeds from bank borrowings and other borrowings	96,677	26,824	12,116	2,311	6,861	1,000
Repayment of bank borrowings	(67,344)	(30,414)	(16,347)	(597)	(4,426)	(645)
Proceeds from unsecured senior notes	–	45,817	–	–	–	–
Repayment of unsecured senior notes	–	(8,602)	–	–	–	–

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended March 31,			Three months ended June 30,		
	2017	2018	2019	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
				(Unaudited)		(Note 2(a))
				(in millions)		
Upfront fee payment for a revolving credit facility and syndicated loan	–	(280)	–	–	(69)	(10)
Net cash provided by (used in) financing activities	32,914	20,359	(7,392)	4,281	4,493	654
Effect of exchange rate changes on cash and cash equivalents, restricted cash and escrow receivables	2,038	(6,065)	3,245	2,783	1,377	201
Increase (Decrease) in cash and cash equivalents, restricted cash and escrow receivables	38,227	56,335	(4,232)	(28,489)	19,346	2,818
Cash and cash equivalents, restricted cash and escrow receivables at beginning of year/period	108,164	146,391	202,726	202,726	198,494	28,914
Cash and cash equivalents, restricted cash and escrow receivables at end of year/period	146,391	202,726	198,494	174,237	217,840	31,732

Supplemental disclosures of cash flow information:

Payment of income taxes

Income tax paid was RMB9,652 million, RMB10,058 million and RMB15,713 million, RMB5,600 million and RMB7,503 million, for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

Payment of interest

Interest paid was RMB2,465 million, RMB2,884 million, RMB4,972 million, RMB1,944 million and RMB2,085 million for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

Business combinations

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
				<i>(Unaudited)</i>	
				<i>(in millions of RMB)</i>	
Cash paid for business combinations	(41,836)	(17,300)	(48,206)	(35,033)	(1,265)
Cash acquired in business combinations	8,388	16,785	12,772	2,266	33
	<u>(33,448)</u>	<u>(515)</u>	<u>(35,434)</u>	<u>(32,767)</u>	<u>(1,232)</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Organization and principal activities

Alibaba Group Holding Limited (the “Company”) is a limited liability company, which was incorporated in the Cayman Islands on June 28, 1999. The Company is a holding company and conducts its businesses primarily through its subsidiaries. In these consolidated financial statements, where appropriate, the term “Company” also refers to its subsidiaries as a whole. The Company provides the technology infrastructure and marketing reach to help merchants, brands and other businesses to leverage the power of new technology to engage with their users and customers and operate in a more efficient way. As of June 30, 2019, major shareholders of the Company include SoftBank Group Corp. (together with its subsidiaries, “SoftBank”) and Altaba Inc. (formerly known as Yahoo! Inc.) (“Altaba”).

The Company has four operating and reportable segments, namely core commerce, cloud computing, digital media and entertainment, and innovation initiatives and others.

The Company’s core commerce segment is mainly comprised of (i) the retail and wholesale commerce businesses, (ii) the logistics services business and (iii) the local consumer services business. Retail commerce businesses in the People’s Republic of China (the “PRC” or “China”) primarily include the mobile commerce destination (“Taobao Marketplace”) and the third-party online and mobile platform for brands and retailers (“Tmall”). Retail commerce businesses – cross-border and global include the e-commerce platform across Southeast Asia operated by Lazada (Note 4(i)), the global retail marketplace enabling consumers from around the world to buy directly from manufacturers and distributors primarily in China (“AliExpress”) and the import e-commerce platform that allows overseas brands and retailers to reach Chinese consumers (“Tmall Global”). Wholesale commerce businesses in China include the integrated domestic wholesale marketplace (“1688.com”). Wholesale commerce businesses – cross-border and global include the integrated international online wholesale marketplace (“Alibaba.com”). Logistics services business includes a logistics data platform and a nationwide fulfillment network through Cainiao Network (Note 4(f)). Local consumer services business includes the on-demand delivery and local services platform operated by Ele.me (Note 4(c)) and the restaurant and local services guide platform for in-store consumption operated by Koubei (Note 4(c)).

The Company’s cloud computing segment is comprised of Alibaba Cloud, which offers a complete suite of cloud services including elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and Internet of Things (“IoT”) services.

The Company’s digital media and entertainment segment leverages the Company’s deep data insights to serve the broader interests of consumers through two key distribution platforms, Youku (Note 4(h)) and UC Browser, and through Alibaba Pictures (Note 4(b)) and the Company’s other diverse content platforms that provide online videos, films, live events, news feeds, literature and music, among other areas.

The Company’s innovation initiatives and others segment includes businesses such as Amap (formerly AutoNavi), DingTalk, Tmall Genie and others.

1. Organization and principal activities (Continued)

As of June 30, 2019, the Company had a profit sharing interest in Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (together with its subsidiaries including Alipay.com Co., Ltd. ("Alipay"), "Ant Financial"). Ant Financial provides payment and financial services to consumers and merchants on the Company's platforms. In September 2019, the Company received a 33% equity interest in Ant Financial and the profit sharing arrangement with Ant Financial was terminated (Note 4(a)).

2. Summary of significant accounting policies**(a) Basis of presentation**

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Significant accounting policies including the impact of adoption of the relevant new accounting standards are presented in the rest of this Note 2.

Effective on July 30, 2019, the Company subdivided each of its issued and unissued ordinary shares into eight ordinary shares (the "Share Subdivision"). Following the Share Subdivision, the Company's authorized share capital is US\$100,000 divided into 32,000,000,000 ordinary shares with a par value of US\$0.000003125 each. The number of issued and unissued ordinary shares as disclosed elsewhere in these consolidated financial statements are prepared on a basis after taking into account the effects of the Share Subdivision and have been retrospectively adjusted.

Simultaneously with the Share Subdivision, the change in ratio of the Company's American depositary share ("ADS") to ordinary share (the "ADS Ratio Change") also became effective. Following the ADS Ratio Change, each ADS now represents eight ordinary shares. Previously, each ADS represented one ordinary share. Given that the ADS Ratio Change was exactly proportionate to the Share Subdivision, no new ADSs were issued to any ADS holder and the total number of the Company's outstanding ADSs remains unchanged immediately after the Share Subdivision and the ADS Ratio Change became effective.

Translations of balances in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows from Renminbi ("RMB") into the United States Dollar ("US\$") as of and for the three months ended June 30, 2019 are solely for the convenience of the readers and are calculated at the rate of US\$1.00=RMB6.8650, representing the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on June 28, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at this rate, or at any other rate.

2. Summary of significant accounting policies (Continued)**(b) Use of estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, which include the PRC-registered entities directly or indirectly wholly owned by the Company ("WFOEs") and variable interest entities ("VIEs") over which the Company is the primary beneficiary. All transactions and balances among the Company and its subsidiaries have been eliminated upon consolidation. The results of subsidiaries acquired or disposed of are recorded in the consolidated income statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

A subsidiary is an entity in which (i) the Company directly or indirectly controls more than 50% of the voting power; or (ii) the Company has the power to appoint or remove the majority of the members of the board of directors or to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee pursuant to a statute or under an agreement among the shareholders or equity holders. A VIE is required to be consolidated by the primary beneficiary of the entity if the equity holders in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

Due to legal restrictions on foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of Internet content providers, the Company operates its Internet and other businesses in which foreign investment is restricted or prohibited in the PRC through certain PRC domestic companies. The equity interests of these PRC domestic companies are held by PRC citizens or by PRC entities owned and/or controlled by PRC citizens. Specifically, these PRC domestic companies that are material to the Company's business are Zhejiang Taobao Network Co., Ltd., Zhejiang Tmall Network Co., Ltd., Alibaba Cloud Computing Ltd., Hangzhou Alibaba Advertising Co., Ltd. and Youku Information Technology (Beijing) Co., Ltd. The registered capital of these PRC domestic companies was funded by the Company through loans extended to the equity holders of these PRC domestic companies. The Company has entered into certain exclusive technical services agreements with these PRC domestic companies, which entitle it to receive a majority of their residual returns and make it obligatory for the Company to absorb a majority of the risk of losses from their activities. In addition, the Company has entered into certain agreements with the equity holders of these PRC domestic companies, including loan agreements that require them to contribute registered capital to those PRC domestic companies, exclusive call option agreements

2. Summary of significant accounting policies (Continued)**(c) Consolidation (Continued)**

to acquire the equity interests in these companies when permitted by the PRC laws, rules and regulations, equity pledge agreements of the equity interests held by those equity holders, and proxy agreements that irrevocably authorize individuals designated by the Company to exercise the equity owner's rights over these PRC domestic companies.

Details of the typical structure of the Company's significant VIEs are set forth below:

(i) Contracts that give the Company effective control of VIEs

Loan agreements

Pursuant to the relevant loan agreements, the respective WFOEs have granted loans to the equity holders of the VIEs, which may only be used for the purpose of its business operation activities agreed by the WFOEs. The WFOEs may require acceleration of repayment at their absolute discretion. When the equity holders of the VIEs make early repayment of the outstanding amount, the WFOEs or a third-party designated by the WFOEs may purchase the equity interests in the VIEs at a price equal to the outstanding amount of the loan, subject to any applicable PRC laws, rules and regulations. The equity holders of the VIEs undertake not to enter into any prohibited transactions in relation to the VIEs, including the transfer of any business, material assets, intellectual property rights or equity interests in the VIEs to any third party.

Exclusive call option agreements

The equity holders of the VIEs have granted the WFOEs exclusive call options to purchase their equity interest in the VIEs at an exercise price equal to the higher of (i) the paid-in registered capital in the VIEs; and (ii) the minimum price as permitted by applicable PRC laws. Each relevant VIE has further granted the relevant WFOE an exclusive call option to purchase its assets at an exercise price equal to the book value of the assets or the minimum price as permitted by applicable PRC laws, whichever is higher. Certain VIEs and their equity holders will also jointly grant the WFOEs (A) exclusive call options to request the VIEs to decrease their registered capital at an exercise price equal to the higher of (i) the paid-in registered capital in the VIEs and (ii) the minimum price as permitted by applicable PRC laws (the "Capital Decrease Price"), and (B) exclusive call options to subscribe for the increased capital of the VIEs at a price equal to the sum of the Capital Decrease Price and the unpaid registered capital, if applicable, as of the capital decrease. The WFOEs may nominate another entity or individual to purchase the equity interest or assets, or to subscribe for the increased capital, if applicable, under the call options. Execution of each call option shall not violate the applicable PRC laws, rules and regulations. Each equity holder of the VIE has agreed that the following amounts, to the extent in excess of the original registered capital that they contributed to the VIE (after deduction of relevant tax expenses), belong to and shall be paid to the WFOEs: (i) proceeds from the transfer of its equity interests in the VIE, (ii) proceeds received in connection with a capital decrease in the VIE, and (iii) distributions or liquidation residuals from the disposal of its equity interests in the VIE upon termination or

2. Summary of significant accounting policies (Continued)**(c) Consolidation (Continued)****(i) Contracts that give the Company effective control of VIEs (Continued)**

liquidation. Moreover, any profits, distributions or dividends (after deduction of relevant tax expenses) received by the VIEs also belong to and shall be paid to the WFOEs. The exclusive call option agreements remain in effect until the equity interest or assets that are the subject of these agreements are transferred to the WFOEs.

Proxy agreements

Pursuant to the relevant proxy agreements, the equity holders of the VIEs irrevocably authorize any person designated by the WFOEs to exercise their rights as the equity holders of the VIEs, including without limitation the right to vote and appoint directors.

Equity pledge agreements

Pursuant to the relevant equity pledge agreements, the equity holders of the VIEs have pledged all of their interests in the equity of the VIEs as a continuing first priority security interest in favor of the corresponding WFOEs to secure the outstanding amounts advanced under the relevant loan agreements described above and to secure the performance of obligations by the VIEs and/or the equity holders under the other structure contracts. Each WFOE is entitled to exercise its right to dispose of the pledged interests in the equity of the VIE held by the equity holders and has priority in receiving payment by the application of proceeds from the auction or sale of the pledged interests, in the event of any breach or default under the loan agreement or other structure contracts, if applicable. These equity pledge agreements remain in force until the later of (i) the full performance of the contractual arrangements by the relevant parties, and (ii) the full repayment of the loans made to the equity holders of the VIEs.

(ii) Contracts that enable the Company to receive substantially all of the economic benefits from the VIEs*Exclusive technology services agreements or exclusive services agreements*

Each relevant VIE has entered into an exclusive technology services agreement or an exclusive services agreement with the respective WFOE, pursuant to which the relevant WFOE provides exclusive services to the VIE. In exchange, the VIE pays a service fee to the WFOE, the amount of which shall be determined, to the extent permitted by applicable PRC laws as proposed by the WFOE, resulting in a transfer of substantially all of the profits from the VIE to the WFOE.

2. Summary of significant accounting policies (Continued)**(c) Consolidation (Continued)**

- (ii) Contracts that enable the Company to receive substantially all of the economic benefits from the VIEs (Continued)

Other arrangements

The exclusive call option agreements described above also entitle the WFOEs to all profits, distributions or dividends (after deduction of relevant tax expenses) to be received by the VIEs, and the following amounts, to the extent in excess of the original registered capital that they contributed to the VIEs (after deduction of relevant tax expenses) to be received by each equity holder of the VIEs: (i) proceeds from the transfer of its equity interests in the VIEs, (ii) proceeds received in connection with a capital decrease in the VIEs, and (iii) distributions or liquidation residuals from the disposal of its equity interests in the VIEs upon termination or liquidation.

Based on these contractual agreements, the Company believes that the PRC domestic companies as described above should be considered as VIEs because the equity holders do not have significant equity at risk nor do they have the characteristics of a controlling financial interest. Given that the Company is the primary beneficiary of these PRC domestic companies, the Company believes that these VIEs should be consolidated based on the structure as described above.

2. Summary of significant accounting policies (Continued)

(c) Consolidation (Continued)

The following financial information of the VIEs in the PRC was recorded in the accompanying consolidated financial statements as follows:

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	(in millions of RMB)			
Cash and cash equivalents and short-term investments	7,586	7,507	15,019	13,260
Investments in equity investees and investment securities	17,371	26,611	28,230	26,527
Accounts receivable, net of allowance	3,301	5,733	9,540	10,977
Amounts due from non-VIE subsidiaries of the Company	1,400	1,949	6,398	7,335
Prepayment for licensed copyrights	1,469	1,736	2,633	2,576
Property and equipment and intangible assets	4,738	6,788	6,161	6,261
Others	2,926	4,139	5,992	12,133
Total assets	38,791	54,463	73,973	79,069
Amounts due to non-VIE subsidiaries of the Company	25,317	41,090	60,273	59,069
Accruals for purchase of licensed copyrights	2,244	3,686	3,498	2,636
Accrued expenses, accounts payable and other liabilities	7,545	10,931	14,594	21,705
Deferred revenue and customer advances	3,338	4,997	7,213	7,414
Deferred tax liabilities	1,481	995	448	17
Total liabilities	39,925	61,699	86,026	90,841

- (i) Revenue generated by the VIEs are primarily from cloud computing services, digital media and entertainment services, local consumer services and others.

2. Summary of significant accounting policies (Continued)**(c) Consolidation (Continued)**

The VIEs did not have any material related party transactions except for the related party transactions which are disclosed in Note 22 or elsewhere in these consolidated financial statements, and those transactions with other subsidiaries that are not VIEs, which were eliminated upon consolidation.

Under the contractual arrangements with the VIEs, the Company has the power to direct activities of the VIEs and can have assets transferred out of the VIEs under its control. Therefore, the Company considers that there is no asset in any of the VIEs that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves. As all VIEs are incorporated as limited liability companies under the Company Law of the PRC, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the VIEs.

Currently there is no contractual arrangement which requires the Company to provide additional financial support to the VIEs. However, as the Company conducts its businesses primarily based on the licenses and approvals held by its VIEs, the Company has provided and will continue to provide financial support to the VIEs considering the business requirements of the VIEs, as well as the Company's own business objectives in the future.

Unrecognized revenue-producing assets held by the VIEs include certain Internet content provision and other licenses, domain names and trademarks. The Internet content provision and other licenses are required under relevant PRC laws, rules and regulations for the operation of Internet businesses in the PRC, and therefore are integral to the Company's operations. The Internet content provision licenses require that core PRC trademark registrations and domain names are held by the VIEs that provide the relevant services.

(d) Business combinations and noncontrolling interests

The Company accounts for its business combinations using the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805 "Business Combinations." The cost of an acquisition is measured as the aggregate of the acquisition date fair value of the assets transferred to the sellers, liabilities incurred by the Company and equity instruments issued by the Company. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total costs of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statements. During the measurement period, which can be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Subsequent to the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any further adjustments are recorded in the consolidated income statements.

2. Summary of significant accounting policies (Continued)**(d) Business combinations and noncontrolling interests (Continued)**

In a business combination achieved in stages, the Company re-measures the previously held equity interest in the acquiree immediately before obtaining control at its acquisition date fair value and the re-measurement gain or loss, if any, is recognized in the consolidated income statements.

When there is a change in ownership interests or a change in contractual arrangements that results in a loss of control of a subsidiary, the Company deconsolidates the subsidiary from the date control is lost. Any retained noncontrolling investment in the former subsidiary is measured at fair value and is included in the calculation of the gain or loss upon deconsolidation of the subsidiary.

For the Company's non-wholly owned subsidiaries, a noncontrolling interest is recognized to reflect the portion of equity that is not attributable, directly or indirectly, to the Company. When the noncontrolling interest is contingently redeemable upon the occurrence of a conditional event, which is not solely within the control of the Company, the noncontrolling interest is classified as mezzanine equity. The Company accretes changes in the redemption value over the period from the date that it becomes probable that the mezzanine equity will become redeemable to the earliest redemption date using the effective interest method. Consolidated net income in the consolidated income statements includes net income (loss) attributable to noncontrolling interests and mezzanine equity holders when applicable. Net loss attributable to mezzanine equity holders is included in net loss attributable to noncontrolling interests in the consolidated income statements, while it is excluded from the consolidated statements of changes in shareholders' equity. During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, net loss attributable to mezzanine equity holders amounted to RMB1,961 million, RMB930 million, RMB438 million, RMB93 million and RMB127 million, respectively. The cumulative results of operations attributable to noncontrolling interests, along with adjustments for share-based compensation expense arising from outstanding share-based awards relating to subsidiaries' shares, are also recorded as noncontrolling interests on the Company's consolidated balance sheets. Cash flows related to transactions with noncontrolling interests are presented under financing activities in the consolidated statements of cash flows.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the "CODM"), which is comprised of certain members of the Company's management team. The Company had four operating and reportable segments during the periods presented as set out in Notes 1 and 26.

(f) Foreign currency translation

The functional currency of the Company is US\$. The Company's subsidiaries with operations in the PRC, Hong Kong, the United States and other jurisdictions generally use their respective local currencies as their functional currencies. The reporting currency of the Company is RMB as the major operations of the Company are within the PRC. The financial statements of the Company's subsidiaries, other than the subsidiaries with the functional currency of RMB, are translated into RMB using the

2. Summary of significant accounting policies (Continued)**(f) Foreign currency translation (Continued)**

exchange rate as of the balance sheet date for assets and liabilities and the average daily exchange rate for each month for income and expense items. Translation gains and losses are recorded in accumulated other comprehensive income or loss as a component of shareholders' equity.

In the financial statements of the Company's subsidiaries, transactions in currencies other than the functional currency are measured and recorded in the functional currency using the exchange rate in effect at the date of the transaction. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated into the functional currency using the exchange rate at the balance sheet date. All gains and losses arising from foreign currency transactions are recorded in the consolidated income statements during the year in which they occur.

(g) Revenue recognition

In April 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," including related amendments and implementation guidance within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 (collectively, including ASU 2014-09, "ASC 606"), issued by the Financial Accounting Standards Board ("FASB").

ASC 606 supersedes the revenue recognition requirements in ASC 605 and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606 beginning on April 1, 2018 using the modified retrospective method applied to those contracts with the customers which were not completed as of April 1, 2018.

Results for reporting periods beginning on April 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 605. The impact of adopting the new revenue standard was not material to the consolidated financial statements and there was no adjustment to the beginning retained earnings on April 1, 2018.

Revenue is principally comprised of customer management revenue, commissions on transactions, membership fees, logistics services revenue, cloud computing services revenue, sales of goods and other revenue. Revenue represents the amount of consideration the Company is entitled to upon the transfer of promised goods or services in the ordinary course of the Company's activities and is recorded net of value-added tax ("VAT"). Consistent with the criteria of ASC 606 "Revenue from Contracts with Customers," the Company recognizes revenue when performance obligations are satisfied by transferring control of a promised good or service to a customer. For performance obligations that are satisfied at a point in time, the Company also considers the following indicators to assess whether control of a promised good or service is transferred to the customer: (i) right to payment, (ii) legal title, (iii) physical possession, (iv) significant risks and rewards of ownership and (v)

2. Summary of significant accounting policies (Continued)**(g) Revenue recognition (Continued)**

acceptance of the good or service. For performance obligations satisfied over time, the Company recognizes revenue over time by measuring the progress toward complete satisfaction of a performance obligation.

For revenue arrangements with multiple distinct performance obligations, each distinct performance obligation is separately accounted for and the total consideration is allocated to each performance obligation based on the relative standalone selling price at contract inception. Revenue arrangements with multiple distinct performance obligations, such as the sale of membership packages and customer management services on wholesale marketplaces and Youku's platforms, are not significant to the Company's total revenue.

The Company evaluates if it is a principal or an agent in a transaction to determine whether revenue should be recorded on a gross or net basis. The Company is acting as the principal if it obtains control over the goods and services before they are transferred to customers. When the Company is primarily obligated in a transaction, is generally subject to inventory risk, has latitude in establishing prices, or has several but not all of these indicators, the Company acts as the principal and revenue is recorded on a gross basis. When the Company is not primarily obligated in a transaction, does not generally bear the inventory risk and does not have the ability to establish the price, the Company acts as the agent and revenue is recorded on a net basis.

When services are exchanged or swapped for other services, revenue is recognized based on the estimated standalone selling price of services promised to customer if the fair value of the services received cannot be reasonably estimated. The amount of revenue recognized for barter transactions was not material for each of the periods presented.

Practical expedients and exemptions

The Company applies the practical expedient to not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less and contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed.

The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company applies the practical expedient and does not adjust any of the transaction price for the time value of money.

2. Summary of significant accounting policies (Continued)**(g) Revenue recognition (Continued)**

Revenue recognition policies by type are as follows:

(i) Customer management revenue

Within the core commerce segment, the Company provides the following customer management services to merchants on the Company's retail and wholesale marketplaces and certain third-party marketing affiliates' websites:

Pay-for-performance ("P4P") marketing services

P4P marketing services allow merchants to bid for keywords that match product or service listings appearing in search or browser results on the Company's marketplaces. Merchants bid for keywords through an online bidding system. The positioning of the listings and the price for the positioning are determined through an online auction system, which facilitates price discovery through a market-based mechanism. In general, merchants prepay for P4P marketing services and the related revenue is recognized when a user clicks their product or service listings as this is the point of time when the merchants benefit from the marketing services rendered.

Display marketing services

Display marketing services allow merchants to place advertisements on the Company's marketplaces, at fixed prices or prices established by a real-time bidding system and in particular formats. In general, merchants need to prepay for display marketing which is accounted for as customer advances and revenue is recognized either ratably over the period in which the advertisement is displayed as the merchants simultaneously consume the benefits as the advertisement is displayed or when an advertisement is viewed by users, depending on the type of marketing services selected by the merchants.

The Company also places P4P marketing services content and display marketing content through the third-party marketing affiliate program. A substantial portion of customer management revenue generated through the third-party marketing affiliate program represented P4P marketing services revenue. In delivery of these customer management services, the Company, through the third-party marketing affiliate program, places the P4P marketing services content of the participating merchants on third-party online resources in the forms of picture or text links through contextual relevance technology to match merchants' marketing content to the textual content of the third-party online resources and the users' attributes based on the Company's systems and algorithms. When the links on third-party online resources are clicked, users are diverted to a landing page of the Company's marketplaces where listings of the participating merchant as well as similar products or services of other merchants are presented. In limited cases, the Company may embed a search box for one of its marketplaces on the third-party online resources, and when a keyword is input into the search box, the user will be diverted to the Company's marketplaces where search results are presented. Revenue is recognized when the users further click on the P4P marketing content on the landing pages. The Company places display marketing

2. Summary of significant accounting policies (Continued)**(g) Revenue recognition (Continued)****(i) Customer management revenue (Continued)***Display marketing services (Continued)*

content on third-party online resources in a similar manner. In general, merchants need to prepay for display marketing which is accounted for as customer advances and revenue is recognized ratably over the period in which the advertisement is displayed as merchants simultaneously consume the benefits as the advertisement is displayed.

P4P marketing services revenue as well as display marketing revenue generated on the Company's marketplaces or through the third-party marketing affiliate program are recorded on a gross basis when the Company is the principal to the merchants in the arrangements. For third-party marketing affiliates with whom the Company has an arrangement to share the revenue, traffic acquisition cost is also recognized at the same time if the P4P marketing content on the landing page clicked by the users is from merchants participating in the third-party marketing affiliate program.

Taobaoke services

In addition, the Company offers the Taobaoke program which generates commissions from merchants for transactions completed by consumers sourced from certain third-party marketing affiliates' websites and mobile apps. The commission rates on Taobaoke are set by the merchants. The Company's portion of commission revenue is recognized at the time when the underlying transaction is completed and is recorded on a net basis principally because the Company is not the principal as it does not have latitude in establishing prices or does not have inventory risk. In certain occasions where the Company is the principal of the arrangement (such as arrangements where the Company is obligated to pay for website inventory costs in fixed amounts to third-party marketing affiliates regardless of whether commission revenue is generated from these marketing affiliates), the commission revenue is recorded on a gross basis.

Within the digital media and entertainment segment, the Company offers P4P marketing services to merchants and marketers on websites and mobile media operated by UCWeb. Revenue is recognized when a user clicks their product or service listings as this is the point of time when the merchants benefit from the marketing services rendered. In addition, marketers can also place advertisements on websites and mobile media operated by UCWeb and Youku's platforms in different formats, including video, banners, links, logos and buttons. Revenue is recognized ratably over the period in which the advertisement is displayed as the merchants simultaneously consume the benefits as the advertisement is displayed or when an advertisement is clicked or viewed by users, depending on the type of marketing services selected by the merchants.

2. Summary of significant accounting policies (Continued)**(g) Revenue recognition (Continued)****(ii) Commissions on transactions**

The Company earns commissions from merchants when transactions are completed on Tmall and certain other retail marketplaces of the Company. The commissions are generally determined as a percentage based on the value of merchandise being sold by the merchants. The commission revenue includes merchant deposits that are expected to be non-refundable and is accounted for as variable consideration (Note 2(ad)). The variable consideration is estimated at contract inception and updated at the end of each reporting period if additional information becomes available. Revenue related to commissions is recognized in the consolidated income statements based on the expected value when the performance obligation is satisfied. Changes to the estimated variable consideration were not material for each of the periods presented.

(iii) Membership fees

The Company earns membership fees revenue from wholesale sellers in respect of the sale of membership packages and subscriptions that allow them to host premium storefronts on the Company's wholesale marketplaces, as well as the provision of other value-added services, and from customers in respect of the sale of membership packages which allow them to access premium content on Youku's paid content platforms. These service fees are paid in advance for a specific contracted service period. All these fees are initially deferred as deferred revenue and customer advances when received and revenue is recognized ratably over the term of the respective service contracts as the services are provided.

(iv) Logistics services revenue

The Company earns logistics services revenue from domestic and international one-stop-shop logistics services and the supply chain management solutions provided by Cainiao Network as well as on-demand delivery services provided by Ele.me. Revenue is recognized at the time when the logistics services are provided.

(v) Cloud computing services revenue

The Company earns cloud computing services revenue from the provision of services such as elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and IoT services. These cloud computing services allow customers to use hosted software over the contract period without taking possession of the software. Cloud computing services are mainly charged on either a subscription or consumption basis. Revenue related to cloud services charged on a subscription basis is recognized ratably over the contract period. Revenue related to cloud services charged on a consumption basis, such as the quantity of storage or elastic computing services used in a period, is recognized based on the customer utilization of the resources.

2. Summary of significant accounting policies (Continued)**(g) Revenue recognition (Continued)****(vi) Sales of goods**

Revenue from the sales of goods is mainly generated from Freshippo, a unique proprietary grocery retail format and new retail pathfinder in the fast-moving consumer goods category, Tmall Global, Intime (Note 4(g)) and Lazada (Note 4(i)). Revenue from the sales of goods is recognized when the control over the promised goods is transferred to customers. Receipts of fees in respect of all other incidental goods or services provided by the Company that are distinct performance obligations are recognized when the control of the underlying goods or services is transferred to the customers. The amounts relating to these incidental services are not material to the Company's total revenue for each of the periods presented.

(h) Cost of revenue

Cost of revenue consists primarily of logistics costs, cost of inventories, bandwidth and co-location fees, depreciation and maintenance expenses for servers and computers, call centers and other equipment, content acquisition costs, staff costs and share-based compensation expense, traffic acquisition costs, payment processing fees and other related incidental expenses that are directly attributable to the Company's principal operations.

(i) Product development expenses

Product development expenses consist primarily of staff costs and share-based compensation expense for research and development personnel and other expenses that are directly attributable to the development of new technologies and products for the businesses of the Company, such as the development of the Internet infrastructure, applications, operating systems, software, databases and networks.

The Company expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites or the development of software and website content. Costs incurred in the development phase are capitalized and amortized over the estimated product life. However, since the inception of the Company, the amount of costs qualifying for capitalization has been insignificant. As a result, all website and software development costs have been expensed as incurred.

(j) Sales and marketing expenses

Sales and marketing expenses consist primarily of online and offline advertising expenses, promotion expenses, staff costs and share-based compensation expense, sales commissions and other related incidental expenses that are incurred directly to attract or retain consumers and merchants for the Company's marketplaces, mobile products, transaction and service platforms as well as entertainment distribution platforms.

The Company expenses the costs of producing advertisements at the time production occurs, and expenses the costs of delivering advertisements in the period in which the advertising space or airtime is used. Advertising and promotional expenses totaled RMB8,799 million, RMB16,814 million, RMB22,013 million, RMB4,231 million and RMB6,204 million during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

2. Summary of significant accounting policies (Continued)**(k) Share-based compensation**

Share-based awards granted are measured at fair value on grant date and share-based compensation expense is recognized (i) immediately at the grant date if no vesting conditions are required, or (ii) using the accelerated attribution method, net of estimated forfeitures, over the requisite service period. The fair values of restricted share units ("RSUs") and restricted shares are determined with reference to the fair value of the underlying shares and the fair value of share options is generally determined using the Black-Scholes valuation model. The value is recognized as an expense over the respective service period, net of estimated forfeitures. Share-based compensation expense, when recognized, is charged to the consolidated income statements with the corresponding entry to additional paid-in capital, liability or noncontrolling interests as disclosed in Note 2(d).

On each measurement date, the Company reviews internal and external sources of information to assist in the estimation of various attributes to determine the fair value of the share-based awards granted by the Company, including the fair value of the underlying shares, expected life and expected volatility. The Company recognizes the impact of any revisions to the original forfeiture rate assumptions in the consolidated income statements, with a corresponding adjustment to equity.

In April 2019, the Company adopted ASU 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which expands the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. The amendments specify that ASC 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. Upon the adoption of this guidance, the Company no longer re-measures equity-classified share-based awards granted to consultants or non-employees at each reporting date through the vesting date and the accounting for these share-based awards to consultants or non-employees and employees will be substantially aligned. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations and cash flows. The consolidated financial statements as of and for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2018 were not retrospectively adjusted.

(l) Other employee benefits

The Company's subsidiaries in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. The relevant labor regulations require the Company's subsidiaries in the PRC to pay the local labor and social welfare authorities monthly contributions based on the applicable benchmarks and rates stipulated by the local government. The relevant local labor and social welfare authorities are responsible for meeting all retirement benefits obligations and the Company's subsidiaries in the PRC have no further commitments beyond their monthly contributions. The contributions to the plan are expensed as incurred. During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, contributions to the plan amounting to RMB2,710 million, RMB3,587 million, RMB5,608 million, RMB1,186 million and RMB1,519 million, respectively, were charged to the consolidated income statements.

The Company also makes payments to other defined contribution plans and defined benefit plans for the benefit of employees employed by subsidiaries outside of the PRC. Amounts contributed during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019 were insignificant.

2. Summary of significant accounting policies (Continued)**(m) Income taxes**

The Company accounts for income taxes using the liability method, under which deferred income taxes are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Valuation allowance is provided on deferred tax assets to the extent that it is more likely than not that the asset will not be realizable in the foreseeable future.

Deferred taxes are also recognized on the undistributed earnings of subsidiaries, which are presumed to be transferred to the parent company and are subject to withholding taxes, unless there is sufficient evidence to show that the subsidiary has invested or will invest the undistributed earnings indefinitely or that the earnings will be remitted in a tax-free liquidation.

The Company adopts ASC 740 "Income Taxes" which prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The Company did not have significant unrecognized uncertain tax positions or any unrecognized liabilities, interest or penalties associated with unrecognized tax benefit as of and for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

(n) Government grants

Government grants are recognized as income in other income, net or as a reduction of specific costs and expenses for which the grants are intended to compensate. Such amounts are recognized in the consolidated income statements upon receipt and when all conditions attached to the grants are fulfilled.

(o) Leases

In April 2019, the Company adopted ASU 2016-02, "Leases (Topic 842)", including certain transitional guidance and subsequent amendments within ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, including ASU 2016-02, "ASC 842").

ASC 842 supersedes the lease requirements in ASC 840 "Leases", and generally requires lessees to recognize operating and finance lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. Leases that transfer substantially all of the benefits and risks incidental to the ownership of assets are accounted for as finance leases as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. The Company has no significant finance leases.

2. Summary of significant accounting policies (Continued)**(o) Leases (Continued)**

The Company adopted the new lease standard using the modified retrospective method by applying the new lease standard to all leases existing as of April 1, 2019, the date of initial application, and no adjustments were made to the comparative periods.

The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to carry forward previous lease classification, the assessment on whether a contract was or contained a lease, and the initial direct costs for any leases that existed prior to April 1, 2019. Adoption of the new standard resulted in the recognition of operating lease right-of-use assets of approximately RMB24.9 billion and operating lease liabilities of approximately RMB19.4 billion on the consolidated balance sheet as of April 1, 2019. The adoption of the new lease standard does not have any significant impact on the consolidated statements of comprehensive income and cash flows and there was no adjustment to the beginning retained earnings on April 1, 2019.

Under ASC 842, the Company determines if an arrangement is a lease at inception. Operating lease right-of-use assets are included in non-current prepayments, receivables and other assets, and operating lease liabilities are included in current accrued expenses, accounts payable and other liabilities and other non-current liabilities on the consolidated balance sheets. Operating lease right-of-use assets and operating lease liabilities are initially recognized based on the present value of future lease payments at lease commencement. The operating lease right-of-use asset also includes any lease payments made prior to lease commencement and the initial direct costs incurred by the lessee and is recorded net of any lease incentives received. As the interest rates implicit in most of the leases are not readily determinable, the Company uses the incremental borrowing rates based on the information available at lease commencement to determine the present value of the future lease payments. Operating lease expenses are recognized on a straight-line basis over the term of the lease.

The Company elected to combine the lease and non-lease components for leases of certain asset classes such as shops and malls and equipment leases. Lease and non-lease components for leases of other asset classes are accounted for separately. The Company also elected not to recognize short-term leases with an initial lease term of twelve months or less.

(p) Cash and cash equivalents

The Company considers all short-term, highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. Cash and cash equivalents primarily represent bank deposits, fixed deposits with maturities of less than three months and investments in money market funds. As of March 31, 2017, 2018 and 2019 and June 30, 2019, the Company had certain amounts of cash held in accounts managed by Alipay in connection with the provision of online and mobile commerce and related services for a total amount of RMB991 million, RMB1,687 million, RMB3,720 million and RMB3,569 million, respectively, which have been classified as cash and cash equivalents on the consolidated balance sheets.

2. Summary of significant accounting policies (Continued)**(q) Short-term investments**

Short-term investments consist primarily of investments in fixed deposits with maturities between three months and one year and investments in money market funds or other investments that the Company has the intention to redeem within one year. As of March 31, 2017, 2018 and 2019 and June 30, 2019, the investments in fixed deposits that were recorded as short-term investments amounted to RMB1,075 million, RMB2,919 million, RMB961 million and RMB949 million, respectively. As of the same dates, the Company had certain amounts of short-term investments held in accounts managed by Alipay for a total amount of RMB982 million, RMB890 million, nil and nil, respectively.

(r) Accounts receivable

Accounts receivable represents the amounts that the Company has an unconditional right to consideration. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivable amounts. The allowance for doubtful accounts is estimated based upon the Company's assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect the customers' ability to pay.

(s) Inventories

Inventories mainly consist of merchandise available for sale. They are accounted for using the weighted average cost and stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(t) Investment securities

Investment securities represent the Company's investments in equity securities that are not accounted for under the equity method or cost method, as well as other investments which primarily consist of debt investments.

(i) Equity securities

In April 2018, the Company adopted ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", including related technical corrections and improvements issued within ASU 2018-13. ASU 2016-01 amended various aspects of the recognition, measurement, presentation, and disclosure for financial instruments, and simplified the impairment assessment and enhanced the disclosure requirements of equity investments.

Prior to the adoption of ASU 2016-01, equity securities that have readily determinable fair values and were not accounted for using the equity method were classified as available-for-sale, and were carried at fair value with unrealized gains and losses recorded in accumulated other comprehensive income (loss) as a component of shareholders' equity. Upon the adoption of ASU 2016-01, the Company carries these equity securities at fair value with unrealized gains and losses recorded in the consolidated income statements. Unrealized gains recorded in accumulated other comprehensive income as of March 31, 2018 related to equity securities previously classified as available-for-sale, in the amount of RMB8,196 million, net of tax, were reclassified into retained earnings as of April 1, 2018.

2. Summary of significant accounting policies (Continued)**(t) Investment securities (Continued)****(i) Equity securities (Continued)**

In addition, prior to the adoption of ASU 2016-01, the cost method was used to account for certain equity investments in privately held companies over which the Company neither has control nor significant influence through investments in common stock or in-substance common stock. Upon the adoption of ASU 2016-01, the Company no longer accounts for these equity securities using the cost method. Beginning on April 1, 2018, the Company elected to record a majority of equity investments in privately held companies using the measurement alternative at cost, less impairment, with subsequent adjustments for observable price changes resulting from orderly transactions for identical or similar investments of the same issuer that were completed on or after April 1, 2018. These equity securities, which amounted to RMB59,942 million as of March 31, 2018, were previously classified under investments in equity investees (Note 2(u)) and were reclassified into investment securities on the consolidated balance sheets as of April 1, 2018. The consolidated balance sheets as of March 31, 2017 and 2018 were not retrospectively adjusted.

Equity investments in privately held companies accounted for using the measurement alternative are subject to periodic impairment reviews. The Company's impairment analysis considers both qualitative and quantitative factors that may have a significant effect on the fair value of these equity securities.

In computing realized gains and losses on equity securities, the Company determines cost based on amounts paid using the average cost method. Dividend income is recognized when the right to receive the payment is established.

(ii) Debt investments

Debt investments are generally stated at amortized cost. The maturities of these debt investments generally range from one to ten years. In addition, the Company has elected the fair value option for certain investments including convertible and exchangeable bonds subscribed. The fair value option permits the irrevocable election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The investments accounted for under the fair value option are carried at fair value with realized or unrealized gains and losses recorded in the consolidated income statements. Interest income from debt investments is recognized using the effective interest method which is reviewed and adjusted periodically based on changes in estimated cash flows.

2. Summary of significant accounting policies (Continued)**(u) Investments in equity investees**

The Company applies the equity method to account for equity investments in common stock or in-substance common stock, according to ASC 323 “Investments – Equity Method and Joint Ventures”, over which it has significant influence but does not own a majority equity interest or otherwise control.

An investment in in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity's common stock. The Company considers subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to an investment in that entity's common stock.

Under the equity method, the Company's share of the post-acquisition profits or losses of the equity investee is recognized in the consolidated income statements and its share of post-acquisition movements in accumulated other comprehensive income is recognized in other comprehensive income. The Company records its share of the results of the equity investees on a one quarter in arrears basis. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee represents goodwill and intangible assets acquired. When the Company's share of losses in the equity investee equals or exceeds its interest in the equity investee, the Company does not recognize further losses, unless the Company has incurred obligations or made payments or guarantees on behalf of the equity investee.

The Company continually reviews its investments in equity investees to determine whether a decline in fair value below the carrying value is other-than-temporary. The primary factors the Company considers in its determination include the financial condition, operating performance and the prospects of the equity investee; other company specific information such as recent financing rounds; the geographic region, market and industry in which the equity investee operates; and the length of time that the fair value of the investment is below its carrying value. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value.

Prior to the adoption of ASU 2016-01, investments in equity investees also included certain equity investments in privately held companies over which the Company neither has control nor significant influence through investments in common stock or in-substance common stock, which were accounted for under the cost method. Under the cost method, the Company carried the investment at cost and recognized income to the extent of dividends received from the distribution of the equity investee's post-acquisition profits. Upon the adoption of ASU 2016-01, the Company no longer accounts for these equity securities using the cost method, and RMB59,942 million were reclassified into investment securities (Note 2(t)) as of April 1, 2018. The consolidated balance sheets as of March 31, 2017 and 2018 were not retrospectively adjusted.

2. Summary of significant accounting policies (Continued)**(v) Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation and any impairment loss. Depreciation is computed using the straight-line method with no residual value based on the estimated useful lives of the various classes of assets, which range as follows:

Computer equipment and software	3 – 5 years
Furniture, office and transportation equipment	3 – 10 years
Buildings	20 – 50 years
Property improvements	shorter of remaining lease period or estimated useful life

Construction in progress represents buildings and related premises under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to the respective category of property and equipment when completed and ready for its intended use.

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The cost and related accumulated depreciation of assets disposed of or retired are removed from the accounts, and any resulting gain or loss is reflected in the consolidated income statements.

(w) Land use rights

Land use rights represent lease prepayments to the local government authorities. As of March 31, 2017, 2018 and 2019, land use rights were carried at cost less accumulated amortization and any impairment loss. Amortization is provided to write off the cost of lease prepayments on a straight-line basis over the period of the right which is 30 – 50 years.

As of March 31, 2019, the Company revised the presentation to report land use rights under prepayments, receivables and other assets (Note 13) on the consolidated balance sheet. Accordingly, land use rights, net as of March 31, 2017 and 2018 in the amount of RMB4,691 million and RMB9,377 million, respectively, were reclassified into prepayments, receivables and other assets to conform with the presentation as of March 31, 2019.

Upon the initial application of ASC 842 on April 1, 2019, land use rights, net with a total carrying amount of RMB6,419 million (Note 13) were identified as operating lease right-of-use assets. Such amount is included in the opening balance of operating lease right-of-use assets as of April 1, 2019 with no adjustments made to the comparative periods.

(x) Intangible assets other than licensed copyrights

Intangible assets mainly include those acquired through business combinations and purchased intangible assets. Intangible assets acquired through business combinations are recognized as assets separate from goodwill if they satisfy either the “contractual-legal” or “separability” criterion. Intangible assets arising from business

2. Summary of significant accounting policies (Continued)**(x) Intangible assets other than licensed copyrights (Continued)**

combinations are recognized and measured at fair value upon acquisition. Purchased intangible assets are initially recognized and measured at cost upon acquisition. Separately identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method as follows:

User base and customer relationships	1 – 16 years
Trade names, trademarks and domain names	3 – 20 years
Developed technology and patents	2 – 5 years
Non-compete agreements	over the contracted term of up to 6 years

(y) Licensed copyrights

Licensed copyrights related to titles to movies, television series, variety shows, animations and other video content acquired from external parties are carried at the lower of unamortized cost or net realizable value. The amortization period for the licensed content vary depending on the type of content, which typically ranges from six months to ten years. Licensed copyrights are presented on the consolidated balance sheets as current assets under prepayments, receivables and other assets, or non-current assets under intangible assets, net, based on estimated time of usage. Licensed copyrights are generally amortized using an accelerated method based on historical viewership consumption patterns. Estimates of the consumption patterns for licensed copyrights are reviewed periodically and revised if necessary. For the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, amortization expenses in connection with the licensed copyrights of RMB3,886 million, RMB6,111 million, RMB11,391 million, RMB2,666 million and RMB2,108 million, respectively, were recorded in cost of revenue within the Company's digital media and entertainment segment.

On a periodic basis, the Company evaluates the program usefulness of its licensed copyrights pursuant to the guidance in ASC 920 "Entertainment – Broadcasters," which provides that the rights be reported at the lower of unamortized cost or estimated net realizable value. When there is a change in the expected usage of licensed copyrights, the Company estimates the net realizable value of licensed copyrights to determine if any impairment exists. The net realizable value of licensed copyrights is determined by estimating the expected cash flows from advertising and membership fees, less any direct costs, over the remaining useful lives of the licensed copyrights. The Company estimates these cash flows for each category of content separately. Estimates that impact these cash flows include anticipated levels of demand for the Company's advertising services and the expected selling prices of the Company's advertisements on the entertainment distribution platforms. For the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, impairment charges in connection with the licensed copyrights of RMB857 million, RMB801 million, RMB2,843 million, nil and RMB452 million, respectively, were recorded in cost of revenue within the Company's digital media and entertainment segment.

2. Summary of significant accounting policies (Continued)**(z) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed from the acquired entity as a result of the Company's acquisitions of interests in its subsidiaries. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of a reporting unit is less than the carrying amount, the quantitative impairment test is performed.

In performing the two-step quantitative impairment test, the first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, allocation of assets, liabilities and goodwill to reporting units, and determination of the fair value of each reporting unit.

(aa) Impairment of long-lived assets other than goodwill and licensed copyrights

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If the assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment of long-lived assets was recognized for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

(ab) Derivatives and hedging

All contracts that meet the definition of a derivative are recognized on the consolidated balance sheets as either assets or liabilities and recorded at fair value. Changes in the fair value of derivatives are either recognized periodically in the consolidated income statements or in other comprehensive income depending on the use of the derivatives and whether they qualify for hedge accounting and are so designated as cash flow hedges, fair value hedges or net investment hedges.

2. Summary of significant accounting policies (Continued)**(ab) Derivatives and hedging (Continued)**

In April 2019, the Company adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", including certain transitional guidance and subsequent amendments within ASU 2019-04 (collectively, "ASU 2017-12"). ASU 2017-12 permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test after the initial qualification, if the Company can reasonably support an expectation of high effectiveness throughout the term of the hedge. Also, for cash flow hedges and net investment hedges, if the hedge is highly effective, all changes in the fair value of the derivative hedging instrument are recorded in other comprehensive income. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations and cash flows. The consolidated financial statements as of and for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2018 were not retrospectively adjusted.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to those of the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to that of the hedged item. A hedging relationship is considered initially effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item.

Interest rate swaps

Interest rate swaps designated as hedging instruments to hedge against the cash flows attributable to recognized assets or liabilities or forecasted payments may qualify as cash flow hedges. The Company entered into interest rate swap contracts to swap floating interest payments related to certain borrowings for fixed interest payments to hedge the interest rate risk associated with certain forecasted payments and obligations. For the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018, the effective portion of changes in the fair value of interest rate swaps that were designated and qualified as cash flow hedges was recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion was recognized immediately in interest and investment income, net in the consolidated income statements. Upon the adoption of ASU 2017-12 beginning on April 1, 2019, all changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings both before and after the adoption of ASU 2017-12.

2. Summary of significant accounting policies (Continued)**(ab) Derivatives and hedging (Continued)*****Forward exchange contracts***

Forward exchange contracts designated as hedging instruments to hedge against the future changes in currency exposure of net investments in foreign operations may qualify as net investment hedges. The Company entered into forward exchange contracts to hedge the foreign currency risk associated with investments in net assets of certain subsidiaries with operations in the PRC of which the functional currency is RMB. For the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018, the effective portion of the changes in fair value of the forward exchange contracts that were designated and qualified as net investment hedges was recognized in accumulated other comprehensive income to offset the cumulative translation adjustments relating to those subsidiaries. The gain or loss relating to the ineffective portion, which was measured based on changes in forward exchange rates, was recognized immediately in other income, net in the consolidated income statements. Amounts accumulated are removed from accumulated other comprehensive income and recognized in the consolidated income statements upon disposal of those subsidiaries. Once the hedge becomes ineffective, hedge accounting is discontinued prospectively. During the three months ended June 30, 2019, there were no forward exchange contracts that were designated and qualified as net investment hedges.

Changes in the fair value of the derivatives not qualified for hedge accounting are reported in the consolidated income statements. The estimated fair value of the derivatives is determined based on relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

(ac) Bank borrowings and unsecured senior notes

Bank borrowings and unsecured senior notes are recognized initially at fair value, net of upfront fees, debt discounts or premiums, debt issuance costs and other incidental fees. Upfront fees, debt discounts or premiums, debt issuance costs and other incidental fees are recorded as a reduction of the proceeds received and the related accretion is recorded as interest expense in the consolidated income statements over the estimated term of the facilities using the effective interest method.

(ad) Merchant deposits

The Company collects deposits representing an annual upfront service fee from merchants on Tmall and AliExpress before the beginning of each calendar year. These deposits are initially recorded as a liability by the Company. The deposits are refundable to a merchant if the level of sales volume that is generated by that merchant on Tmall or AliExpress meets the target during the period. If the transaction volume target is not met at the end of each calendar year, the relevant deposits will become non-refundable. These merchant deposits are accounted for as variable consideration at an amount that is estimated at contract inception. The estimate is updated at the end of each reporting period and when there are changes in circumstances during the reporting period. Merchant deposits are recognized as commission revenue in the consolidated income statements when the likelihood of refund to the merchant is considered remote based on the patterns of sales volume generated by the merchant during the reporting period.

2. Summary of significant accounting policies (Continued)**(ae) Deferred revenue and customer advances**

Deferred revenue and customer advances generally represent cash received from customers that relate to goods or services to be provided in the future. Deferred revenue, mainly relating to membership fees and cloud computing services revenue, is stated at the amount of service fees received less the amount previously recognized as revenue upon the provision of the respective services to customers.

(af) Commitments and contingencies

In the normal course of business, the Company is subject to contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters. Liabilities for the contingencies are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses these contingent liabilities, which inherently involves judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in legal proceedings, the Company, in consultation with its legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of the reasonably possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

(ag) Treasury shares

The Company accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury shares account on the consolidated balance sheets. At retirement of the treasury shares, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings. The treasury shares account includes 166,316,768, 166,316,768, 149,903,376 and 149,903,376 ordinary shares (previously 20,789,596, 20,789,596, 18,737,922 and 18,737,922 ordinary shares as of March 31, 2017, 2018 and 2019 and June 30, 2019, respectively before the Share Subdivision as detailed in Note 2(a)) issued at par to wholly-owned subsidiaries of the Company for the purpose of certain equity investment plans for management as of March 31, 2017, 2018 and 2019 and June 30, 2019, respectively.

2. Summary of significant accounting policies (Continued)**(ag) Treasury shares (Continued)**

The Company applies the treasury stock method for the accounting of the reciprocal relationship in which Suning (Note 4(aa)) held ordinary shares of the Company. The treasury shares account included 42,098,448 and 33,302,848 ordinary shares (previously 5,262,306 and 4,162,856 ordinary shares, respectively before the Share Subdivision as detailed in Note 2(a)) representing the Company's share of Suning's investment in the Company as of March 31, 2017 and 2018, respectively. Suning disposed all of its equity interest in the Company as of March 31, 2019.

(ah) Statutory reserves

In accordance with the relevant regulations and their articles of association, subsidiaries of the Company incorporated in the PRC are required to allocate at least 10% of their after-tax profit determined based on the PRC accounting standards and regulations to the general reserve until the reserve has reached 50% of the relevant subsidiary's 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 transferable to the Company in the form of loans, advances or cash dividends. During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, appropriations to the general reserve amounted to RMB836 million, RMB298 million, RMB690 million, RMB150 million and RMB98 million, respectively. No appropriations to the enterprise expansion fund and staff welfare and bonus fund have been made by the Company.

(ai) Reclassification of comparative figures

In April 2017, the Company adopted ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which was issued by the FASB and effective for the Company for the year ended March 31, 2018 and interim reporting periods during the year ended March 31, 2018. This ASU simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as non-current in the consolidated balance sheet. The Company adopted the ASU retrospectively to all periods presented and accordingly, the consolidated balance sheet as of March 31, 2017 was retrospectively adjusted with current deferred tax assets amounting to RMB652 million reclassified from current prepayments, receivables and other assets to non-current prepayments, receivables and other assets, and current deferred tax liabilities amounting to RMB207 million reclassified from accrued expenses, accounts payable and other liabilities to deferred tax liabilities.

In April 2018, the Company adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." As a result of adopting this new accounting update, the Company retrospectively adjusted the consolidated statements of cash flows to include restricted cash and escrow receivables in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The impact of the retrospective reclassification on cash flows from operating activities, investing activities and effect of exchange rate changes for the year ended March 31, 2018 was an increase of RMB634 million, an increase of RMB126 million and an increase of RMB2 million, respectively. The impact of the retrospective application on cash flows from operating activities, investing activities and effect of exchange rate changes for the year ended March 31, 2017 was an increase of RMB2,528 million, a decrease of RMB1,215 million and a decrease of RMB4 million, respectively.

3. Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement on Credit Losses on Financial Instruments,” and issued subsequent amendments to the initial guidance and transitional guidance between November 2018 and May 2019 within ASU 2018-19, ASU 2019-04 and ASU 2019-05. ASU 2016-13 introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. Further, the new guidance indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The new guidance is effective for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies how an entity is required to test goodwill for impairment by eliminating step two from the goodwill impairment test. Step two of the goodwill impairment test measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with its carrying amount. The new guidance is effective prospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB’s disclosure framework project. The new guidance is effective for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted for the adoption of either the entire ASU or only the provisions that eliminate or modify the requirements. The Company is evaluating the effects, if any, of the adoption of this guidance on the fair value disclosure in the consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, “Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities,” which provides guidance that indirect interests held through related parties under common control will be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. These indirect interests were previously treated the same as direct interests. The consideration of indirect interests on a proportional basis is consistent with how indirect interests held through related parties under common control are treated when determining if a reporting entity within a related party group is the primary beneficiary of a VIE. The new guidance is effective retrospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021 with a

3. Recent accounting pronouncements (Continued)

cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company's financial position, results of operations and cash flows.

In November 2018, the FASB issued ASU 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606." ASU 2018-18 clarifies that elements of collaborative arrangements could qualify as transactions with customers in the scope of ASC 606. The amendments require the application of existing guidance to determine the units of account in collaborative arrangement for purposes of identifying transactions with customers. For transactions outside the scope of ASC 606, companies can apply elements of ASC 606 or other relevant guidance by analogy, or apply a reasonable accounting policy if there is no appropriate analogy. ASU 2018-18 is effective retrospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company's financial position, results of operations and cash flows.

In March 2019, the FASB issued ASU 2019-02, "Entertainment – Films – Other Assets – Film Costs (Subtopic 926-20) and Entertainment – Broadcasters – Intangibles – Goodwill and Other (Subtopic 920-350)." This guidance aligns the accounting guidance for production costs for (1) films and (2) episodic content produced for television series and streaming services. This new guidance also clarifies when a company should test films and license agreements for program material for impairment at the film-group level, amends the presentation and disclosure requirements for produced or licensed content and addresses statement of cash flows classification for license arrangements. The new guidance is effective prospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company's financial position, results of operations and cash flows.

In April 2019, the FASB issued ASU 2019-04 "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." Apart from the amendments to ASU 2016-13 mentioned above, the ASU also included subsequent amendments to ASU 2016-01, which the Company adopted in April 2018 (Note 2(t)). The guidance in relation to the amendments to ASU 2016-01 is effective for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of these guidance on the Company's financial position, results of operations and cash flows.

4. Significant restructuring transaction, mergers and acquisitions and investments***Restructuring transaction*****(a) Restructuring of the relationship with Ant Financial and Alipay****(i) Restructuring in 2011**

In light of the uncertainties relating to the license qualification and application process for a foreign-invested payment company, the Company's management determined that it was necessary to restructure Alipay as a company wholly-owned by PRC nationals in order to avail Alipay of the specific licensing guidelines applicable only to domestic PRC-owned entities. Accordingly, the Company divested all of its interest in and control over Alipay, which resulted in deconsolidation of Alipay from the consolidated financial statements.

In 2011, the Company entered into certain commercial arrangements with SoftBank, Altaba, Alipay, Ant Financial, Jack Ma and Joe Tsai and certain of their affiliates, setting out the mechanism for the future collaboration among the relevant parties relating to Ant Financial.

(ii) 2014 restructuring of the relationship with Ant Financial and Alipay, subsequent amendments and 2019 equity issuance***SAPA***

In August 2014, the Company entered into a share and asset purchase agreement (together with all subsequent amendments, the "SAPA"), and entered into or amended certain ancillary agreements including an amendment and restatement of the intellectual property license agreement with Alipay (the "2014 IPLA"). Pursuant to these agreements, the Company restructured its relationships with Ant Financial and Alipay.

As of August 2014, the fair value of the restructured arrangement exceeded the fair value of the pre-existing arrangement with Ant Financial by RMB1.3 billion. As Ant Financial was controlled by a director and major shareholder of the Company, the excess value provided to the Company in this related party transaction was accounted for as an equity contribution by the shareholder in the statement of changes in shareholders' equity. Given the nature of this transaction, the corresponding asset representing the excess value receivable by the Company was accounted for as a restructuring reserve in equity and amortized as an expense in the consolidated income statements over the expected term of the restructured arrangement which is estimated to be five years. The amortization of the excess value of RMB264 million, RMB264 million, RMB264 million, RMB66 million and RMB66 million were recorded in other income, net in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively (Note 6).

In February 2018, the Company amended both the SAPA and the Alipay commercial agreement, and agreed with Ant Financial and certain other parties on forms of certain ancillary agreements. In September 2019, the Company further amended the SAPA and entered into the cross license agreement and certain ancillary agreements and amendments, including the previously agreed form of amendment and restatement of the 2014 IPLA ("the Amended IPLA").

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(a) Restructuring of the relationship with Ant Financial and Alipay (Continued)****(ii) 2014 restructuring of the relationship with Ant Financial and Alipay, subsequent amendments and 2019 equity issuance (Continued)**

Apart from the amended provisions described below, the key terms of the agreements with Ant Financial and Alipay from the 2014 restructuring remain substantially unchanged.

Sale of SME loan business and certain other assets

Pursuant to the SAPA, the Company sold certain securities and assets primarily relating to the SME loan business and other related services to Ant Financial for an aggregate cash consideration of RMB3,219 million in February 2015. In addition, pursuant to software system use and service agreements relating to the know-how and related intellectual property that the Company agreed to sell together with the SME loan business and related services, the Company will receive annual fees (the “SME Annual Fee”) for a term of seven years. These SME Annual Fees, which are recognized as other revenue, are determined as follows: for calendar years 2015 to 2017, the entities operating the SME loan business paid an annual fee equal to 2.5% of the average daily balance of the SME loans provided by these entities, and in calendar years 2018 to 2021, these entities will pay an annual fee equal to the amount of the fees paid in calendar year 2017. The Company accounts for the SME Annual Fee in the periods when the services are provided, where the payments are expected to approximate the estimated fair values of the services provided. The SME Annual Fee of RMB847 million, RMB956 million, RMB954 million, RMB239 million and RMB239 million were recorded in revenue in the consolidated financial statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively (Note 22).

Issuance of equity interest

In September 2019, following the satisfaction of the closing conditions, the Company received the 33% equity interest in Ant Financial pursuant to the SAPA.

Under the SAPA, the consideration to acquire the newly-issued 33% equity interest in Ant Financial was fully funded by concurrent payments from Ant Financial to the Company in consideration for certain intellectual property rights and assets that the Company transferred to Ant Financial upon the issuance of the equity interest. Such consideration was determined based on the fair values of the underlying assets exchanged in the transaction as described above at contract inception in 2014, whereby the fair value of the intellectual property rights and assets approximated the fair value of the equity interest at the time.

The Company accounts for its equity interest in Ant Financial under the equity method. Upon the receipt of the equity interest in September 2019, this investment was initially measured at cost, with upward adjustments determined based on the fair value of the Company's share of Ant Financial's net assets as

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(a) Restructuring of the relationship with Ant Financial and Alipay (Continued)****(ii) 2014 restructuring of the relationship with Ant Financial and Alipay, subsequent amendments and 2019 equity issuance (Continued)**

of the completion date of the transaction. Upon the completion of the transaction, the Company recorded the 33% equity interest in Ant Financial amounting to RMB87.5 billion in investment in equity investees, and a gain of RMB69.2 billion in interest and investment income, net, which was net of the deferred tax effect of RMB18.9 billion, in the period ended September 30, 2019. The application of accounting principles related to the measurement of the 33% equity interest in Ant Financial and the recognition of the related gain requires significant management judgment.

The basis difference of the Company's share of Ant Financial's net assets mainly represents the fair value adjustments of amortizable intangible assets and equity investments. These adjustments amounted to RMB27.2 billion and RMB4.7 billion, respectively, both of which were net of their corresponding tax effects. Subsequent to the issuance of the equity interest, the proportionate share of results of Ant Financial, adjusted for the effects of the basis difference as described above, will be recorded in "Share of results of equity investees" in the consolidated income statements on a one quarter in-arrears basis.

Regulatory unwind

The SAPA provides that, if a relevant governmental authority prohibits the Company from owning all or a portion of its equity interest in Ant Financial after the equity issuance has occurred through enactment of a law, rule or regulation, or explicitly requires Ant Financial to redeem this equity interest, and the prohibition or request is not subject to appeal and cannot otherwise be resolved, then to the extent necessary, Ant Financial will redeem the equity interest; the related intellectual property and asset transfers, and ancillary transactions under the SAPA will be unwound; and the terms of the SAPA, the 2014 IPLA, and other related agreements will be restored, including the prior Profit Share Payments and liquidity event payment which equals to 37.5% of the equity value, immediately prior to the Qualified IPO, of Ant Financial as a whole. If there is a partial unwind where the Company retains a portion of its equity interest in Ant Financial, but less than the full 33%, then pursuant to the terms of the SAPA and the 2014 IPLA, the prior Profit Share Payments arrangement and liquidity event payment amount will be proportionately reduced based on the amount of equity interest retained by the Company.

Pre-emptive rights

Following the receipt of equity interest in Ant Financial, the Company has pre-emptive rights to participate in other issuances of equity securities by Ant Financial and certain of its affiliates prior to the time of a Qualified IPO of Ant Financial. These pre-emptive rights entitle the Company to maintain the equity ownership percentage the Company holds in Ant Financial immediately prior to any such issuances. In connection with the exercise of the pre-emptive rights the

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(a) Restructuring of the relationship with Ant Financial and Alipay (Continued)****(ii) 2014 restructuring of the relationship with Ant Financial and Alipay, subsequent amendments and 2019 equity issuance (Continued)**

Company is also entitled to receive certain payments from Ant Financial, effectively funding the subscription for these additional equity interest, up to a value of US\$1.5 billion, subject to certain adjustments. In addition, under the SAPA, in certain circumstances the Company is permitted to exercise pre-emptive rights through an alternative arrangement which will further protect the Company from dilution. The value of the pre-emptive rights was considered to be insignificant.

Corporate governance provisions

Under the SAPA, in addition to an independent director, the Company has the right to nominate two officers or employees of the Company for election to the board of Ant Financial. In each case, these director nomination rights will continue unless required to be terminated by applicable laws and regulations or listing rules in connection with an Ant Financial Qualified IPO process or the Company ceases to own a certain amount of its post-issuance equity interests in Ant Financial. In September 2019, the Company nominated two officers of the Company who have been elected to the board of Ant Financial pursuant to these director nomination rights under the SAPA.

2014 IPLA and Amended IPLA**2014 IPLA**

Under the 2014 IPLA, the Company received, in addition to a software technology service fee, royalty streams related to Alipay and other current and future businesses of Ant Financial (collectively, the “Profit Share Payments”). The Profit Share Payments were paid at least annually and equal the sum of an expense reimbursement plus 37.5% of the consolidated pre-tax income of Ant Financial, subject to certain adjustments. The expense reimbursement represented the reimbursement for the costs and expenses incurred by the Company in the provision of software technology services. The Company accounted for the Profit Share Payments in the periods when the services were provided, where the payments were expected to approximate the estimated fair values of the services provided. Upon the receipt of the equity interest in September 2019, the Company entered into the Amended IPLA and terminated the 2014 IPLA.

Income in connection with the Profit Share Payments, net of costs incurred by the Company, of RMB2,086 million, RMB3,444 million, RMB517 million, RMB910 million and RMB1,627 million, was recorded in other income, net in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively (Notes 6 and 22).

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(a) Restructuring of the relationship with Ant Financial and Alipay (Continued)****(ii) 2014 restructuring of the relationship with Ant Financial and Alipay, subsequent amendments and 2019 equity issuance (Continued)***Amended IPLA*

Pursuant to the SAPA, the Company, Ant Financial and Alipay entered into the Amended IPLA upon the receipt of a 33% equity interest in Ant Financial in September 2019, at which time the Company also transferred certain intellectual property and assets to Ant Financial and its subsidiaries and the Profit Share Payments arrangement was terminated.

The Amended IPLA will terminate upon the earliest of:

- the full payment of all pre-emptive rights funded payments under the SAPA;
- the closing of a Qualified IPO of Ant Financial or Alipay; and
- the transfer to Ant Financial of intellectual property the Company owns that is exclusively related to the business of Ant Financial.

*Mergers and acquisitions***(b) Acquisition of Alibaba Pictures Group Limited (“Alibaba Pictures”)**

Alibaba Pictures, a company that is listed on the Hong Kong Stock Exchange (“HKSE”), is an Internet-driven integrated platform that covers content production, promotion and distribution, IP licensing and integrated management, cinema ticketing management and data services for the entertainment industry. In June 2014, the Company initially acquired a controlling equity interest in Alibaba Pictures. In June 2015, following a financing transaction that diluted the Company’s shareholding from a controlling interest to a minority investment, the Company deconsolidated the financial results of Alibaba Pictures and accounted for the investment in the remaining equity interest under the equity method. A gain of RMB24,734 million arising from the revaluation of the Company’s remaining equity interest was recognized in the consolidated income statement for the year ended March 31, 2016. In December 2017, the Company determined that the decline in the market value against the carrying value of this investment was other-than-temporary and an impairment charge of RMB18,116 million was recorded in share of results of equity investees in the consolidated income statement for the year ended March 31, 2018 (Note 14).

In March 2019, the Company subscribed for newly issued ordinary shares of Alibaba Pictures for a cash consideration of Hong Kong Dollar (“HK\$”)1,250 million (RMB1,069 million). Upon the completion of the transaction, the Company’s equity interest in Alibaba Pictures increased from approximately 49% to approximately 51%, and Alibaba Pictures became a consolidated subsidiary of the Company.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(b) Acquisition of Alibaba Pictures Group Limited (“Alibaba Pictures”) (Continued)

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts <i>(in millions of RMB)</i>
Net assets acquired (i)	11,032
Amortizable intangible assets (ii)	
User base and customer relationships	2,269
License	934
Developed technology and patents	533
Trade names, trademarks and domain names	221
Goodwill	20,052
Deferred tax liabilities	(844)
Noncontrolling interests (iii)	(16,899)
	<hr/>
Total	17,298
	<hr/> <hr/>

	Amounts <i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	1,069
– fair value of previously held equity interests	16,229
	<hr/>
Total	17,298
	<hr/> <hr/>

- (i) Net assets acquired primarily included cash, cash equivalents and short-term investments of RMB4,444 million and investment securities of RMB4,365 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 15 years and a weighted-average amortization period of 11.3 years.
- (iii) Fair value of the noncontrolling interests was estimated with reference to the market price per share as of the acquisition date.

A gain of RMB5,825 million in relation to the revaluation of the previously held equity interests was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2019. The fair value of the previously held equity interests was estimated with reference to the market price per share as of the acquisition date.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(b) Acquisition of Alibaba Pictures Group Limited (“Alibaba Pictures”) (Continued)**

The Company expected greater integration and synergies between Alibaba Pictures and the Company's related businesses on both content production and distribution to deliver high-quality entertainment experiences for consumers in the PRC. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Alibaba Pictures and the Company, the assembled workforce and their knowledge and experience in the digital media and entertainment sector in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

(c) Acquisitions and integration of Rajax Holding (“Ele.me”) and Koubei Holding Limited (“Koubei”)*Ele.me*

Ele.me is a leading on-demand delivery and local services platform in the PRC. In March 2016, the Company and Ant Financial completed a portion of the subscription for newly issued preferred shares in Ele.me through a joint investment vehicle, based on a total combined commitment of US\$1,250 million, of which the Company's total commitment was US\$900 million (RMB5,891 million). The Company paid a cash consideration of US\$540 million (RMB3,512 million) for the initial subscription in March 2016, and the remaining committed balance of US\$360 million (RMB2,394 million) was settled in cash in August 2016. After the initial subscription, the effective equity interest in Ele.me held by the Company was approximately 20% on a fully diluted basis. In April and August 2017, the joint investment vehicle completed additional investments in newly issued preferred shares in Ele.me for a total investment amount of US\$1,200 million (RMB8,090 million), of which the Company's investment was US\$864 million (RMB5,824 million). As a result, the Company's effective equity interest in Ele.me increased to approximately 27% on a fully diluted basis. The investment was accounted for under the cost method (Note 14) for the years ended March 31, 2017 and 2018. Upon the adoption of ASU 2016-01, the investment is accounted for using the measurement alternative (Note 12).

In May 2018, the joint investment vehicle completed the acquisition of all outstanding shares of Ele.me that it did not already own at a consideration of US\$5,482 million (RMB34,923 million). Upon the completion of the acquisition, Ele.me became a consolidated subsidiary of the Company.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(c) Acquisitions and integration of Rajax Holding (“Ele.me”) and Koubei Holding Limited (“Koubei”) (Continued)

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts <i>(in millions of RMB)</i>
Net liabilities assumed (i)	(6,327)
Amortizable intangible assets (ii)	
User base and customer relationships	13,702
Trade names, trademarks and domain names	5,764
Non-compete agreements	4,188
Developed technology and patents	1,415
Goodwill	34,572
Deferred tax liabilities	(481)
Noncontrolling interests (iii)	(5,015)
	<hr/>
Total	47,818
	<hr/>

	Amounts <i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	30,133
– contingent cash consideration (iv)	4,790
– fair value of previously held equity interests	12,895
	<hr/>
Total	47,818
	<hr/>

- (i) Net liabilities assumed primarily included payables to merchants and other logistics providers of RMB4,259 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding ten years and a weighted-average amortization period of 5.8 years.
- (iii) Fair value of the noncontrolling interests was estimated based on the equity value of Ele.me derived by the purchase consideration, adjusted for a discount for control premium.
- (iv) The amount is payable contingent upon the satisfaction of certain non-compete provisions by the respective selling equity holders, and will not exceed RMB4,790 million.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(c) Acquisitions and integration of Rajax Holding (“Ele.me”) and Koubei Holding Limited (“Koubei”) (Continued)**

A gain of RMB1,657 million in relation to the revaluation of the previously held equity interests was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2019. The fair value of the previously held equity interests was estimated based on the equity value of Ele.me derived by the purchase consideration, adjusted for a discount for control premium.

The Company expected that the acquisition will deepen Ele.me’s integration into the Company’s digital economy and advance the Company’s New Retail strategy to provide a seamless online and offline consumer experience in the local consumer services sector. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Ele.me and the Company, the assembled workforce and their knowledge and experience in the local consumer services sector in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

Koubei

Koubei is one of the PRC’s leading restaurant and local services guide platforms for in-store consumption. In 2015, the Company and Ant Financial set up Koubei, a joint venture in which the Company and Ant Financial each held a 49.6% equity interest, while an unrelated third party affiliated with a major Chinese establishment held the remaining minority equity interests. The capital injection from the Company included cash of RMB3.0 billion as well as the injection of certain related businesses. The injection of cash and businesses was completed as of March 31, 2017. A gain of RMB128 million, approximating the fair value of the businesses being injected, was recognized in relation to the contribution of the businesses in interest and investment income, net in the consolidated income statement for the year ended March 31, 2017. The investment was accounted for under the equity method (Note 14).

In January 2017, Koubei issued preferred equity interests to unrelated third parties, and the Company’s equity interest in Koubei was diluted to approximately 38% on a fully diluted basis.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(c) Acquisitions and integration of Rajax Holding (“Ele.me”) and Koubei Holding Limited (“Koubei”) (Continued)

Integration of Ele.me and Koubei

In December 2018, the Company completed the integration of Ele.me and Koubei under a newly established holding company and paid a cash consideration of US\$465 million (RMB3,196 million) in connection with the integration. Immediately prior to the integration, the Company held an approximately 90% equity interest in Ele.me and an approximately 38% equity interest in Koubei on a fully diluted basis. Upon the completion of the integration, the Company held an approximately 72% equity interest in this new holding company (“Local Services Holdco”) which owns substantially all of the equity interest in Ele.me and Koubei, resulting in an effective controlling equity interest held by the Company in each of Ele.me and Koubei. Upon the completion of the integration, the Company’s effective equity interest in Ele.me decreased, resulting in an increase in noncontrolling interests and additional paid-in capital amounting to RMB6,715 million and RMB7,515 million, respectively.

Upon the completion of the integration, Koubei became a consolidated subsidiary of the Company. The allocation of the purchase price as of the date of acquisition of Koubei is summarized as follows:

	Amounts
	<i>(in millions of RMB)</i>
Net assets acquired (i)	3,534
Amortizable intangible assets (ii)	
User base and customer relationships	18,330
Trade names, trademarks and domain names	1,158
Developed technology and patents	322
Goodwill	36,544
Deferred tax liabilities	(2,372)
Noncontrolling interests (iii)	(17,682)
	<hr/>
Total	39,834
	<hr/> <hr/>
	Amounts
	<i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	3,196
– non-cash consideration	14,648
– fair value of previously held equity interests	21,990
	<hr/>
Total	39,834
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4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(c) Acquisitions and integration of Rajax Holding (“Ele.me”) and Koubei Holding Limited (“Koubei”) (Continued)**

- (i) Net assets acquired primarily included cash and cash equivalents of RMB4,475 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 13 years and a weighted-average amortization period of 6.3 years.
- (iii) Fair value of the noncontrolling interests as of the acquisition date was estimated based on the purchase price to acquire newly issued preferred shares of Local Services Holdco that was paid by new and existing investors in December 2018, with certain adjustments made to reflect other factors that may affect the fair value estimation.

A gain of RMB21,990 million in relation to the revaluation of the previously held equity interests was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2019. The fair value of the previously held equity interests as of the acquisition date was estimated based on the purchase price to acquire newly issued preferred shares of Local Services Holdco that was paid by new and existing investors in December 2018, with certain adjustments made to reflect other factors that may affect the fair value estimation.

The Company expected that its commerce platform technology, know-how and infrastructure will deliver consumer insights and digitized operational solutions to empower local merchants on the Koubei platform. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Koubei and the Company, the assembled workforce and their knowledge and experience in the local consumer services sector in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

Subsequent to the integration, the Company acquired additional equity interest in Local Services Holdco for a cash consideration of US\$2,355 million (RMB16,167 million) in December 2018 and May 2019. Other investors, including SoftBank, also acquired equity interests in Local Services Holdco. As a result, noncontrolling interests increased by RMB3,216 million and RMB1,692 million during the year ended March 31, 2019 and the three months ended June 30, 2019, respectively.

In September 2019, the Company subscribed for additional equity interest in Local Services Holdco for a cash consideration of US\$450 million.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(d) Acquisition of DSM Grup Danışmanlık İletişim ve Satış Ticaret A.Ş. ("Trendyol")

Trendyol is one of the leading online fashion retailers in Turkey. In July 2018, the Company acquired an approximately 85% equity interest in Trendyol for a cash consideration of US\$728 million (RMB4,980 million). In connection with the transaction, the Company also entered into an agreement with the founders of Trendyol, allowing them to acquire additional equity interests in Trendyol from the Company or sell a portion of their equity interests in Trendyol to the Company in the future.

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts
	<i>(in millions of RMB)</i>
Net assets acquired (i)	1,009
Amortizable intangible assets (ii)	
Trade names, trademarks and domain names	660
User base and customer relationships	388
Developed technology and patents	30
Goodwill	3,938
Deferred tax liabilities	(228)
Noncontrolling interests (iii)	(817)
	<hr/>
Total	<u><u>4,980</u></u>

- (i) Net assets acquired primarily included cash and cash equivalents of RMB1,206 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 15 years and a weighted-average amortization period of 12.5 years.
- (iii) Fair value of the noncontrolling interests was estimated with reference to the purchase price per share as of the acquisition date, adjusted for a discount for control premium, and includes the fair value of an option granted to the founders of Trendyol to acquire additional interests in Trendyol from the Company as of the date of acquisition.

The acquisition of Trendyol underscored the Company's commitment to international expansion. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Trendyol and the Company, the assembled workforce and their knowledge and experience in e-commerce. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

In December 2018, the Company purchased additional equity interests in Trendyol for a cash consideration of US\$2 million (RMB16 million). The transaction resulted in a reduction of noncontrolling interests amounting to RMB14 million. Upon the completion of the transaction, the Company's equity interest in Trendyol remained at approximately 85%.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(e) Acquisition of Kaiyuan Commerce Co., Ltd. (“Kaiyuan”)

Kaiyuan is one of the leading department store operators in the northwestern part of the PRC. In April 2018, the Company acquired a 100% equity interest in Kaiyuan for a cash consideration of RMB3,362 million.

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts
	<i>(in millions of RMB)</i>
Net assets acquired (i)	2,750
Amortizable intangible assets (ii)	
Trade names, trademarks and domain names	203
Goodwill	1,047
Deferred tax liabilities	(638)
	<hr/>
Total	<u>3,362</u>

(i) Net assets acquired primarily included property and equipment of RMB3,458 million and bank borrowings of RMB651 million as of the date of acquisition.

(ii) Acquired amortizable intangible assets had estimated amortization periods of ten years.

The Company expected that Kaiyuan will complement the Company's New Retail initiatives to reengineer the fundamentals of retail operations and transform the retail landscape. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Kaiyuan and the Company, the assembled workforce and their knowledge and experience in the retail business in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

(f) Acquisition of Cainiao Smart Logistics Network Limited (“Cainiao Network”)

Cainiao Network operates a logistics data platform which leverages the capacity and capabilities of logistics partners to offer domestic and international one-stop-shop logistics services and supply chain management solutions, fulfilling various logistics needs of merchants and consumers at scale. It uses data insights and technology to improve efficiency across the logistics value chain. The Company previously held an approximately 47% equity interest in Cainiao Network. The investment was accounted for under the equity method.

In October 2017, the Company completed the subscription for newly issued ordinary shares of Cainiao Network for a cash consideration of US\$803 million (RMB5,322 million). Following the completion of the transaction, the Company's equity interest in Cainiao Network increased to approximately 51% and Cainiao Network became a consolidated subsidiary of the Company.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(f) Acquisition of Cainiao Smart Logistics Network Limited (“Cainiao Network”) (Continued)

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts <i>(in millions of RMB)</i>
Net assets acquired (i)	23,937
Amortizable intangible assets (ii)	
User base and customer relationships	9,344
Trade names, trademarks and domain names	4,965
Developed technology and patents	459
Goodwill	32,418
Deferred tax assets	920
Deferred tax liabilities	(5,197)
Noncontrolling interests (iii)	(33,189)
	<hr/>
Total	33,657
	<hr/> <hr/>

	Amounts <i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	5,322
– fair value of previously held equity interests	28,335
	<hr/>
Total	33,657
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- (i) Net assets acquired primarily included the cash consideration of RMB5,322 million, property and equipment of RMB15,144 million and bank borrowings of RMB5,288 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 16 years and a weighted-average amortization period of 14.3 years.
- (iii) Fair value of the noncontrolling interests was estimated with reference to the purchase price per share as of the acquisition date.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(f) Acquisition of Cainiao Smart Logistics Network Limited (“Cainiao Network”) (Continued)**

A gain of RMB22,442 million in relation to the revaluation of the previously held equity interests was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2018. The fair value of the previously held equity interests was estimated based on the purchase price per share of Cainiao Network as of the acquisition date.

The Company expected that the acquisition of control over Cainiao Network will help enhance the overall logistics experience for consumers and merchants across the Company's digital economy, and enable greater efficiencies and lower costs in the logistics sector in the PRC. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Cainiao Network and the Company, the assembled workforce and their knowledge and experience in the logistics sector in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

In September 2019, the Company purchased additional equity interests in Cainiao Network for a cash consideration of US\$157 million, which resulted in an increase in the Company's equity interest in Cainiao Network. In November 2019, the Company subscribed for newly issued ordinary shares of Cainiao Network together with certain of Cainiao Network's existing shareholders in connection with its equity financing transaction and to purchase certain equity interest from an existing Cainiao Network shareholder, for a total consideration of US\$3,325 million. Upon the completion of these transactions, the Company's equity interest in Cainiao Network increased from approximately 51% to approximately 63%.

(g) Acquisition of Intime Retail (Group) Company Limited (“Intime”)

Intime is one of the leading department store operators in the PRC that was previously listed on the HKSE. The Company owned a 9.9% equity interest in Intime which was accounted for as an available-for-sale security and subscribed for a convertible bond which was accounted for under the fair value option and recorded under investment securities.

In June 2016, the Company completed the conversion of all of the convertible bond that the Company previously subscribed for into newly issued ordinary shares of Intime, at a conversion price of HK\$7.13 per share. Upon the completion of the conversion, the Company's equity interest in Intime increased to approximately 28% and the investment was accounted for under the equity method. The sum of the market value of the previously held equity interests in Intime and the fair value of the convertible bond on the date of conversion, amounting to RMB4,758 million, was recognized as the cost of investment under the equity method upon the completion of the conversion. Out of this amount, RMB250 million was allocated to amortizable intangible assets, RMB426 million was allocated to deferred tax liabilities and RMB4,934 million was allocated to net assets acquired.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(g) Acquisition of Intime Retail (Group) Company Limited ("Intime") (Continued)

In May 2017, the Company and the founder of Intime completed the privatization of Intime, upon which all of the issued and outstanding shares of Intime that the Company, the founder of Intime and certain other shareholders did not own were canceled in exchange for a payment of HK\$10.00 per share in cash. The Company paid a cash consideration of HK\$12,605 million (RMB11,131 million) in the privatization. Upon the completion of the privatization, the Company increased its shareholding in Intime to approximately 74% and Intime became a consolidated subsidiary of the Company. Following the completion of the privatization, the listing of the shares of Intime on the HKSE was withdrawn.

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts
	<i>(in millions of RMB)</i>
Net assets acquired (i)	20,920
Amortizable intangible assets (ii)	
Trade names, trademarks and domain names	1,131
User base and customer relationships	72
Developed technology and patents	16
Goodwill	4,757
Deferred tax liabilities	(2,790)
Noncontrolling interests (iii)	(6,301)
	<hr/>
Total	17,805
	<hr/> <hr/>
	Amounts
	<i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	11,131
– fair value of previously held equity interests	6,674
	<hr/>
Total	17,805
	<hr/> <hr/>

- (i) Net assets acquired primarily included property and equipment of RMB23,492 million and bank borrowings of RMB4,110 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding eleven years and a weighted-average amortization period of 10.1 years.
- (iii) Fair value of the noncontrolling interests was estimated with reference to the purchase price of HK\$10.00 per share in the privatization.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(g) Acquisition of Intime Retail (Group) Company Limited (“Intime”) (Continued)**

A gain of RMB1,861 million in relation to the revaluation of the previously held equity interests was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2018. The fair value of the previously held equity interests was estimated with reference to the purchase price of HK\$10.00 per share in the privatization.

The Company expected Intime to support its strategy to transform conventional retail by leveraging its substantial consumer reach, rich data and technology. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Intime and the Company, the assembled workforce and their knowledge and experience in the retail business in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

In February 2018 and October 2018, the Company purchased additional ordinary shares of Intime from certain minority shareholders for a cash consideration of HK\$6,712 million (RMB5,428 million) and HK\$203 million (RMB180 million), respectively, which resulted in a reduction of noncontrolling interests amounting to RMB5,854 million and RMB162 million during the years ended March 31, 2018 and 2019, respectively. Upon the completion of the purchase of additional ordinary shares in October 2018, the Company's equity interest in Intime increased to approximately 99%.

(h) Acquisition of Youku Tudou Inc. (“Youku”)

Youku is one of the largest online video platforms in the PRC that was previously listed on the New York Stock Exchange (“NYSE”). In April 2016, the Company completed an acquisition of all of the issued and outstanding shares of Youku that the Company or Yunfeng, which is comprised of certain investment funds the general partner of which the Company's director and former executive chairman has equity interests in, did not previously own, at a purchase price of US\$27.60 per ADS. Following the completion of the transaction, the Company held an approximately 98% equity interest in Youku. As a result, Youku became a consolidated subsidiary of the Company, with Yunfeng holding an approximately 2% noncontrolling interests. The listing of the ADS of Youku on the NYSE was withdrawn upon the closing of the transaction.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(h) Acquisition of Youku Tudou Inc. ("Youku") (Continued)

The cash consideration of US\$4,443 million (RMB28,724 million) was paid upon the closing of the transaction. The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts <i>(in millions of RMB)</i>
Net assets acquired (i)	5,923
Amortizable intangible assets (ii)	
Trade names, trademarks and domain names	4,047
User base and customer relationships	284
Developed technology and patents	143
Others	175
Goodwill	26,395
Deferred tax assets	73
Deferred tax liabilities	(1,167)
Noncontrolling interests (iii)	(773)
	<hr/>
Total	<u>35,100</u>

	Amounts <i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	28,724
– fair value of previously held equity interests	6,376
	<hr/>
Total	<u>35,100</u>

- (i) Net assets acquired primarily included cash and cash equivalents and short-term interest-bearing deposits with total balance of RMB5,857 million and licensed copyrights of RMB703 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 20 years and a weighted-average amortization period of 17.4 years.
- (iii) Fair value of the noncontrolling interests was estimated with reference to the purchase price of US\$27.60 per ADS in the step acquisition.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(h) Acquisition of Youku Tudou Inc. (“Youku”) (Continued)**

A gain of RMB518 million in relation to the revaluation of the previously held equity interests was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2017. The fair value of the previously held equity interests was estimated with reference to the purchase price of US\$27.60 per ADS in the step acquisition.

Youku is a core part of the Company's strategy to offer digital entertainment to consumers in the Company's digital economy, thereby strengthening user engagement and loyalty as well as enabling a new marketing channel for the merchants and brands in the Company's digital economy. Further, Youku created additional revenue sources for the Company from advertising and membership subscriptions. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Youku and the Company, the assembled workforce and their knowledge and experience in the digital entertainment business. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

Subsequent to the completion of the transaction and as a resolution to negotiations with certain former management members and shareholders of Youku with respect to an option to purchase up to 15% of its equity, the Company issued 1.3 million ordinary shares (before the Share Subdivision as detailed in Note 2(a)) and 3.4 million restricted share units of the Company to certain former management members and shareholders in April 2017. An expense of RMB994 million relating to the 1.3 million ordinary shares (before the Share Subdivision as detailed in Note 2(a)) issued was recorded in interest and investment income, net in the consolidated income statement for the year ended March 31, 2018. The 3.4 million restricted share units contain vesting conditions pursuant to a non-compete agreement that was entered into by the Company and a former management member of Youku in April 2017 (Note 16).

In December 2017, the Company made a capital injection of US\$132 million (RMB870 million) in Youku, which resulted in a reduction of noncontrolling interests. As of March 31, 2019, the Company owned 100% of the equity interests in Youku.

(i) Acquisition of Lazada Group S.A. (“Lazada”)

Lazada operates a leading e-commerce platform across Southeast Asia, with local language websites and mobile apps in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. In April 2016, the Company completed an acquisition of an approximately 54% equity interest in Lazada for a cash consideration of US\$1,020 million (RMB6,607 million). Lazada became a consolidated subsidiary of the Company after the completion of the transaction.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(i) Acquisition of Lazada Group S.A. ("Lazada") (Continued)

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts <i>(in millions of RMB)</i>
Net assets acquired	2,874
Amortizable intangible assets (i)	
User base and customer relationships	2,014
Non-compete agreements	959
Trade names, trademarks and domain names	292
Developed technology and patents	79
Goodwill	5,216
Deferred tax assets	616
Deferred tax liabilities	(1,027)
Noncontrolling interests (ii)	(4,416)
Total	6,607

- (i) Acquired amortizable intangible assets had estimated amortization periods not exceeding three years and a weighted-average amortization period of 2.5 years.
- (ii) Fair value of the noncontrolling interests was estimated with reference to the purchase price per share as of the acquisition date. The noncontrolling interests is classified as mezzanine equity due to certain put and call arrangements with other Lazada shareholders.

Lazada offers merchants and brands a one-stop marketplace solution to access consumers in the six countries. Lazada also sells products on its platforms directly via its own retail operations. In addition, it has an in-house logistics operation, which is supported by the highly scalable warehouse management system, to ensure quick and reliable order fulfillment. The Company believed that Lazada will be the vehicle for expansion into the Southeast Asia consumer market, including potential cross-border opportunities to introduce Chinese merchants and international brands to Southeast Asian consumers. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Lazada and the Company, the assembled workforce and their knowledge and experience in e-commerce in Southeast Asia. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

During the year ended March 31, 2018, the Company purchased additional equity interest in Lazada for a cash consideration of US\$1,016 million (RMB6,877 million), as a result of the partial exercise of the put and call arrangement with minority shareholders. In addition, the Company made capital injections amounting to US\$483 million (RMB3,124 million) and US\$770 million (RMB5,222 million) into Lazada during the years ended March 31, 2018 and 2019, respectively. The Company also acquired additional equity interest held by certain management members and employees of Lazada for a total consideration of US\$87 million (RMB578 million)

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(i) Acquisition of Lazada Group S.A. ("Lazada") (Continued)

and US\$20 million (RMB133 million) for the same periods, respectively. These transactions resulted in a reduction of noncontrolling interests amounting to RMB1,681 million and an addition of RMB400 million during the years ended March 31, 2018 and 2019, respectively. Upon the completion of these transactions, the Company's equity interest in Lazada was approximately 92%.

In April 2019 and June 2019, the Company made additional capital injections amounting to US\$300 million (RMB2,042 million), which resulted in an addition of noncontrolling interests amounting to RMB153 million during the three months ended June 30, 2019. Upon the completion of these transactions, the Company's equity interest in Lazada was approximately 92%.

In September 2019, the Company purchased additional equity interest in Lazada for a cash consideration of approximately US\$330 million from a minority shareholder. Upon the completion of the transaction, the Company's equity interest in Lazada was approximately 98%.

(j) Other acquisitions

Other acquisitions that constitute business combinations are summarized in the following table:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	<i>(Unaudited)</i>				
	<i>(in millions of RMB)</i>				
Net assets (liabilities)	2,315	(58)	2,133	673	(640)
Identifiable intangible assets	2,903	411	2,560	848	406
Deferred tax liabilities	(412)	(60)	(545)	(146)	(43)
	4,806	293	4,148	1,375	(277)
Noncontrolling interests and mezzanine equity	(8,365)	(77)	(2,993)	(689)	(130)
Net identifiable (liabilities) assets	(3,559)	216	1,155	686	(407)
Goodwill	11,797	618	6,465	1,808	1,822
Total purchase consideration	8,238	834	7,620	2,494	1,415
Fair value of previously held equity interests	(1,169)	(133)	(1,778)	(354)	–
Purchase consideration settled	(6,602)	(575)	(5,053)	(1,813)	(1,184)
Contingent/deferred consideration as of period end	467	126	789	327	231

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(j) Other acquisitions (Continued)

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
				<i>(Unaudited)</i>	
				<i>(in millions of RMB)</i>	
Total purchase consideration is comprised of:					
– cash consideration	7,069	701	5,842	2,140	1,415
– fair value of previously held equity interests	1,169	133	1,778	354	–
Total	8,238	834	7,620	2,494	1,415

In relation to the revaluation of previously held equity interests, the Company recognized a gain of RMB252 million, RMB133 million, RMB715 million, RMB177 million and nil in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively, for the other acquisitions that constitute business combinations.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated income statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, either individually or in aggregate.

Equity investments and others

(k) Investment in China TransInfo Technology Co., Ltd. (“China TransInfo”)

China TransInfo, a company that is listed on the Shenzhen Stock Exchange, is a PRC-based smart city infrastructure and service provider, including intelligent transportation operation services. In June 2019, the Company acquired a 15% equity interest in China TransInfo for a cash consideration of RMB3,595 million. The investment is carried at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12).

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(l) Investment in Red Star Macalline Group Corporation Limited (“Red Star”)**

Red Star, a company that is listed on both the HKSE and Shanghai Stock Exchange, is a leading home improvement and furnishings shopping mall operator in the PRC. In May 2019, the Company completed the subscription of exchangeable bonds issued by the controlling shareholder of Red Star for a cash consideration of RMB4,359 million. The exchangeable bonds have a term of five years and are exchangeable into ordinary shares of Red Star at an initial price of RMB12.28 per share. The exchangeable bonds are accounted for under the fair value option and recorded under investment securities (Note 12). In addition, the Company acquired an approximately 2% equity interest in Red Star for a total consideration of HK\$447 million. The equity interest in Red Star is carried at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12). The Offshore Retail Fund (Note 4(p)) is also an investor in this transaction.

(m) Investment in STO Express Co., Ltd. (“STO Express”)

STO Express, a company that is listed on the Shenzhen Stock Exchange, is one of the leading express delivery services companies in the PRC. In March 2019, the Company made a loan to the controlling shareholder of STO Express with a principal amount of RMB5.0 billion for a term of three years. The controlling shareholder of STO Express has pledged a portion of its equity interest in STO Express in relation to the loan. The loan is accounted for at amortized cost and is recorded under investment securities (Note 12) on the consolidated balance sheets.

In July 2019, the Company acquired a 49% equity interest in an investment vehicle which holds a 29.9% equity interest in STO Express (equivalent to an effective equity interest of approximately 14.7% in STO Express) for a cash consideration of RMB4.7 billion. The investment vehicle was established by the controlling shareholder of STO Express, and the Company subsequently entered into an option agreement with this controlling shareholder. Under the terms of the agreement, the Company may elect to acquire an additional effective equity interest of approximately 31.3% in STO Express through a call option to acquire the remaining 51% equity interest in this investment vehicle and another call option to acquire a 16.1% effective equity interest in STO Express for a total consideration of RMB10.0 billion. The Company can exercise the options to acquire equity interests in the investment vehicles or in STO Express at any time during the three-year period beginning on December 28, 2019.

(n) Investment in Focus Media Information Technology Co., Ltd. (“Focus Media”)

Focus Media, a company that is listed on the Shenzhen Stock Exchange, operates a media network for advertisements, including within cinemas, and advertising posters and displays in elevators of office and residential buildings. During the year ended March 31, 2019, the Company acquired a total equity interest of approximately 7% in Focus Media for a cash consideration of approximately RMB10.7 billion. The investment is carried at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12). New Retail Strategic Opportunities Fund, L.P. (the “Offshore Retail Fund”) (Note 4(p)) is also an investor in this transaction.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(n) Investment in Focus Media Information Technology Co., Ltd. ("Focus Media") (Continued)**

The Company has also entered into an agreement with Hangzhou Hanyun Xinling Equity Investment Fund (the "Onshore Retail Fund") (Note 4(p)) under which the Onshore Retail Fund will participate in the gain and loss related to a certain portion of the equity interest in Focus Media held by the Company. The arrangement is carried at fair value with unrealized gains and losses recorded in the consolidated income statements.

In addition, the Company agreed to acquire a 10% equity interest of an entity controlled by the founder and chairman of Focus Media, which holds an approximately 23% equity interest in Focus Media, for a cash consideration of US\$511 million. This transaction has not been completed as of June 30, 2019. Such arrangement is carried at fair value with unrealized gains and losses recorded in the consolidated income statements.

(o) Investment in PT Tokopedia ("Tokopedia")

Tokopedia operates one of the leading e-commerce platforms in Indonesia. During the year ended March 31, 2018, the Company completed a minority investment in existing and newly issued preferred shares of Tokopedia for a total cash consideration of US\$445 million (RMB2,920 million). In connection with the initial investment, the Company also agreed to subscribe for up to US\$500 million in additional preferred shares of Tokopedia at the then fair market value if so elected by Tokopedia during a 24-month period after the completion of the initial investment. Pursuant to the agreement, the Company acquired additional newly issued preferred shares of Tokopedia for a total cash consideration of US\$500 million (RMB3,443 million) in December 2018. Upon the completion of this investment, the Company held an approximately 29% equity interest in Tokopedia on a fully diluted basis. SoftBank is also an existing shareholder of Tokopedia. The preferred shares are not considered in-substance common stock given that the shares contain certain terms such as liquidation preference over ordinary shares. As a result, such investment was accounted for under the cost method (Note 14) for the year ended March 31, 2018. Upon the adoption of ASU 2016-01, the investment is accounted for using the measurement alternative (Note 12).

(p) Investments in Hangzhou Hanyun Xinling Equity Investment Fund Partnership (the "Onshore Retail Fund") and New Retail Strategic Opportunities Fund, L.P. (the "Offshore Retail Fund")

The Onshore Retail Fund and the Offshore Retail Fund were set up to raise capital to invest in retail related businesses in the PRC and internationally, respectively. The Company is able to exercise significant influence over the investment decisions in both funds. In August 2017 and January 2018, the Company made a commitment to invest RMB1.6 billion and US\$200 million in the Onshore Retail Fund and the Offshore Retail Fund, relating to which the Company has funded RMB462 million, RMB922 million and RMB922 million to the Onshore Retail Fund as of March 31, 2018 and 2019 and June 30, 2019, respectively; and US\$77 million, US\$78 million and US\$87 million to the Offshore Retail Fund as of March 31, 2018 and 2019 and

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(p) Investments in Hangzhou Hanyun Xinling Equity Investment Fund Partnership (the “Onshore Retail Fund”) and New Retail Strategic Opportunities Fund, L.P. (the “Offshore Retail Fund”) (Continued)**

June 30, 2019, respectively. As of June 30, 2019, the Company held an approximately 20% equity interest in the Onshore Retail Fund and an approximately 10% equity interest in the Offshore Retail Fund. The investments are accounted for under the equity method (Note 14).

(q) Investment in Huatai Securities Co, Ltd. (“Huatai Securities”)

Huatai Securities, a company that is listed on both the Shanghai Stock Exchange and the HKSE, is a leading integrated securities group in the PRC. In July 2018, the Company acquired an approximately 3% interest in Huatai Securities for a cash consideration of RMB3.5 billion. The investment is carried at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12).

(r) Investment in ZTO Express (Cayman) Inc. (“ZTO Express”)

ZTO Express, a company that is listed on the NYSE, is one of the leading express delivery services companies in the PRC. In June 2018, the Company completed an investment in newly issued ordinary shares of ZTO Express for a cash consideration of US\$1,100 million (RMB7,114 million), representing an approximately 8% equity interest in ZTO Express. The Offshore Retail Fund (Note 4(p)) is also an investor in this transaction. The investment is carried at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12).

(s) Investment in Huitongda Network Co., Ltd. (“Huitongda”)

Huitongda operates a rural online services platform in the PRC. In April 2018, the Company completed an investment in existing and newly issued shares of Huitongda for a cash consideration of RMB4,500 million, representing a 20% equity interest in Huitongda. The equity interest in Huitongda held by the Company is not considered in-substance common stock given that the equity interest contains certain terms such as liquidation preference over ordinary shares. As a result, the investment is accounted for using the measurement alternative (Note 12).

(t) Investment in Shiji Retail Information Technology Co., Ltd. (“Shiji Retail”)

Shiji Retail is engaged in the provision of retail information system solutions. In April 2018, the Company acquired a 38% equity interest in Shiji Retail for a cash consideration of US\$486 million (RMB3,062 million). The equity interest in Shiji Retail held by the Company is not considered in-substance common stock given that the equity interest contains certain terms such as liquidation preference over ordinary shares. As a result, the investment is accounted for using the measurement alternative (Note 12).

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(u) Investment in Wanda Film Holding Co., Ltd. (“Wanda Film”)**

Wanda Film, a company that is listed on the Shenzhen Stock Exchange, is principally engaged in the investment and management of cinemas and film distribution businesses. In March 2018, the Company completed an investment in existing ordinary shares of Wanda Film for a cash consideration of RMB4,676 million, representing an approximately 8% equity interest in Wanda Film. The investment was accounted for under the cost method (Note 14) given that a readily determinable fair value was not available due to the suspension of trading of its shares for an extended period as of March 31, 2018. In November 2018, the trading of the shares of Wanda Film resumed and as a result, the Company began to carry the investment at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12).

(v) Investment in Beijing Easyhome Furnishing Chain Group Co., Ltd. (“Easyhome”)

Easyhome is one of the largest home improvement supplies and furniture chains in the PRC. In March 2018, the Company completed an investment in Easyhome for a cash consideration of RMB3,635 million, representing a 10% equity interest in Easyhome. Yunfeng and the Onshore Retail Fund (Note 4(p)) are also investors in this transaction. Such investment was accounted for under the cost method (Note 14) for the year ended March 31, 2018. Upon the adoption of ASU 2016-01, such investment is accounted for using the measurement alternative (Note 12).

(w) Investment in Sun Art Retail Group Limited (“Sun Art”)

Sun Art, a company that is listed on the HKSE, is a leading hypermarket operator in the PRC. In December 2017, the Company completed investments in existing ordinary shares of Sun Art and existing ordinary shares of A-RT Retail Holdings Limited, a limited liability company incorporated in Hong Kong that holds an approximately 51% equity interest in Sun Art, for an aggregate consideration of HK\$19,303 million (RMB16,264 million). In January 2018, the Company acquired additional ordinary shares of Sun Art from public shareholders through a mandatory general offer as required under Hong Kong regulations, for a cash consideration of HK\$2 million (RMB2 million). After the completion of these transactions, the Company's effective equity interest in Sun Art was approximately 31%, which is comprised of the direct equity interest of 21% and the indirect equity interest through its shareholding in A-RT Retail Holdings Limited. The Offshore Retail Fund (Note 4(p)) is also an investor in this transaction.

The investment in Sun Art is accounted for under the equity method (Note 14). Out of the total cash consideration, RMB2,499 million was allocated to amortizable intangible assets, RMB2,953 million was allocated to goodwill, RMB2,187 million was allocated to deferred tax liabilities and RMB12,999 million was allocated to net assets acquired.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(x) Investment in China United Network Communications Ltd. (“China Unicom”)**

China Unicom, a company that is listed on the Shanghai Stock Exchange, is a major telecommunications company in the PRC. In October 2017, the Company completed an investment in newly issued ordinary shares of China Unicom for a cash consideration of RMB4,325 million, representing an approximately 2% equity interest in China Unicom. The investment was accounted for as an available-for-sale security (Note 12) for the year ended March 31, 2018. Upon the adoption of ASU 2016-01, the investment is carried at fair value with unrealized gains and losses recorded in the consolidated income statements (Note 12).

(y) Investment in BEST Inc. (formerly known as Best Logistics Technologies Limited) (“Best Logistics”)

Best Logistics is a provider of comprehensive supply-chain solutions and services. In September 2017, in connection with the completion of Best Logistics’ initial public offering on the NYSE, all preferred shares of Best Logistics held by the Company were automatically converted into ordinary shares of Best Logistics. Concurrently, the Company acquired additional equity interests in Best Logistics for a cash consideration of US\$100 million (RMB657 million), after which the equity interests in Best Logistics held by the Company increased to approximately 23%. Upon the completion of the share conversion, the original investment with a carrying value of US\$256 million (RMB1,679 million) was reclassified from a cost method investment to an equity method investment (Note 14). Out of the total purchase price, which included the cash consideration and the carrying amount of the previously held interests in Best Logistics, RMB1,072 million was allocated to amortizable intangible assets, RMB443 million was allocated to goodwill, RMB214 million was allocated to deferred tax liabilities and RMB1,035 million was allocated to net assets acquired.

Cainiao Network (Note 4(f)) is also an existing shareholder of Best Logistics with an approximately 5% equity interest. Upon the consolidation of Cainiao Network in October 2017, the Company began to account for Cainiao Network’s investment in Best Logistics under the equity method (Note 14), and the fair value of this investment at the time amounting to US\$215 million (RMB1,420 million) was recognized as the new investment cost. Out of this amount, RMB652 million was allocated to amortizable intangible assets, RMB270 million was allocated to goodwill, RMB131 million was allocated to deferred tax liabilities and RMB629 million was allocated to net assets acquired.

After the completion of these transactions, the Company’s equity interest in Best Logistics was approximately 28%.

In September 2019, the Company subscribed for convertible senior notes issued by Best Logistics for a cash consideration of US\$100 million. These convertible senior notes bear interest at a rate of 1.75% and will mature in October 2024.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)**(z) Investment in Xiaoju Kuaizhi Inc. (“Didi Chuxing”)**

Didi Chuxing is a leading transportation network company that provides vehicles and taxis for hire in the PRC via smartphone applications. During the years ended March 31, 2017 and 2018, the Company completed additional investments in preferred shares of Didi Chuxing for a total cash consideration of US\$400 million (RMB2,652 million). In September 2017, the Company completed a partial disposal of its investment in Didi Chuxing to SoftBank for a cash consideration of US\$639 million (RMB4,198 million), and a disposal gain of RMB2,096 million was recognized in interest and investment income, net in the consolidated income statement for the year ended March 31, 2018. Upon the completion of the partial disposal and subsequent additional investments by SoftBank and other investors, the Company's equity interest in Didi Chuxing was approximately 5% on a fully diluted basis. The investment was accounted for under the cost method (Note 14) for the year ended March 31, 2018. Upon the adoption of ASU 2016-01, the investment is accounted for using the measurement alternative (Note 12).

(aa) Investment in Suning.com Co., Ltd. (formerly known as Suning Commerce Group Co., Ltd.) (“Suning”)

Suning, a company that is listed on the Shenzhen Stock Exchange, is one of the largest consumer electronics retail chains in the PRC. In May 2016, the Company completed the subscription for newly issued ordinary shares for a cash consideration of RMB28.2 billion, representing a 19.99% equity interest in Suning. The investment is accounted for under the equity method (Note 14).

Concurrent with the Company's investment in Suning, Suning subscribed for approximately 26.3 million newly issued ordinary shares (before the Share Subdivision as detailed in Note 2(a)) of the Company which represent an approximately 1.1% equity interest in the Company for a cash consideration of US\$81.51 per ordinary share (before the Share Subdivision as detailed in Note 2(a)). The Company's share of Suning's investment in the Company amounting to US\$429 million (RMB2,823 million) was deducted from the investment cost of Suning and recognized as an issuance of treasury shares during the year ended March 31, 2017.

Out of the total purchase consideration, net of the amount related to the treasury shares described above, RMB5,100 million was allocated to amortizable intangible assets, RMB9,113 million was allocated to goodwill, RMB1,582 million was allocated to deferred tax liabilities and RMB12,778 million was allocated to net assets acquired.

During the years ended March 31, 2018 and March 31, 2019, Suning completed disposal of its equity interest in the Company. Accordingly, RMB590 million and RMB2,233 million was added back to the investment cost of Suning during the years ended March 31, 2018 and 2019, respectively, and the recognition of the corresponding treasury shares was reversed.

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

Transactions that were not completed as of June 30, 2019

(ab) Investment in Meinian Onehealth Healthcare Holdings Co Ltd (“Meinian”)

Meinian, a company that is listed on the Shenzhen Stock Exchange, offers health examination, health evaluation, health consulting, and other services. In October 2019, the Company, together with Ant Financial, agreed to acquire new and existing shares of Meinian, representing a minority stake in Meinian for a total consideration of RMB6,700 million. The completion of the transaction is subject to customary closing conditions including receipt of the required regulatory approval. Yunfeng is also an investor in this transaction.

(ac) Investment in AliExpress Russia Holding Pte. Ltd. (“AliExpress Russia Joint Venture”)

AliExpress Russia Joint Venture is a joint venture set up by the Company, Mail.ru Group Limited (“Mail.ru Group”, a leading internet company in Russia), Public Joint Stock Company MegaFon (“MegaFon”, a Russian mobile telecommunications operator) and Joint Stock Company “Managing Company of Russian Direct Investment Fund” (“RDIF”, a Russian sovereign wealth fund). In October 2019, the Company invested US\$100 million into the joint venture and contributed the Company’s AliExpress Russia businesses into the joint venture. The other shareholders of the joint venture also made cash and non-cash contributions to the joint venture pursuant to the transaction documents. As of the issuance date of these consolidated financial statements, the Company holds an approximately 56% equity interest and less-than-majority voting rights in the joint venture. As part of the transaction, the Company has also taken a minority stake in Mail.ru Group.

(ad) Acquisition of HQG, Inc. (“Kaola”)

Kaola is an import e-commerce platform in the PRC. In September 2019, the Company acquired a 100% equity interest in Kaola from NetEase, Inc. for an aggregate purchase price of US\$1,825 million (RMB12,958 million), comprising cash and approximately 14.3 million newly-issued ordinary shares (equivalent to approximately 1.8 million ADS) of the Company valued at US\$316 million (RMB2,252 million).

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts (i)
	<i>(in millions of RMB)</i>
Net assets acquired (ii)	2,465
Amortizable intangible assets (iii)	
Trade names, trademarks and domain names	1,587
User base and customer relationships	829
Developed technology and patents	394
Goodwill	8,245
Deferred tax liabilities	(562)
	<hr/>
Total	12,958
	<hr/> <hr/>

4. Significant restructuring transaction, mergers and acquisitions and investments (Continued)

(ad) Acquisition of HQG, Inc. ("Kaola") (Continued)

	<u>Amounts</u> <i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	10,006
– share consideration	2,252
– contingent cash consideration (iv)	<u>700</u>
Total	<u><u>12,958</u></u>

- (i) These assets and liabilities are not recognized on the consolidated balance sheet as of June 30, 2019 as the acquisition was completed in September 2019.
- (ii) Net assets acquired primarily included inventories with a provisional balance of RMB2,599 million as of the date of acquisition.
- (iii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 13 years and a weighted-average amortization period of 9.2 years.
- (iv) The contingent cash consideration is payable upon the satisfaction of certain non-compete provisions by the selling equity holders, and will not exceed RMB700 million.

Upon the issuance of these consolidated financial statements, the accounting of this business combination, including the determination and allocation of purchase price, has not been finalized because the purchase price is subject to post-closing purchase price adjustments as set out in the definitive agreements for the transaction, and the Company is currently in the process of finalizing the valuation of certain assets acquired and liabilities assumed as part of the acquisition.

The Company expected that the acquisition will further elevate the Company's import service and experience for consumers in the PRC through synergies across the Company's digital economy. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Kaola and the Company, the assembled workforce and their knowledge and experience in the import e-commerce sector in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

5. Revenue

Revenue by segment is as follows:

	Year ended March 31,			Three months ended June 30,	
	2017 (i)	2018 (i)	2019	2018	2019
	(Unaudited)				
	(in millions of RMB)				
Core commerce:					
China commerce retail (ii)					
– Customer management	77,530	114,285	145,684	33,053	41,954
– Commission	34,066	46,525	61,847	13,756	16,902
– Others (iii)	2,513	15,749	40,084	7,159	16,745
	114,109	176,559	247,615	53,968	75,601
China commerce wholesale (iv)	5,679	7,164	9,988	2,250	2,992
International commerce retail (v)	7,336	14,216	19,558	4,316	5,567
International commerce wholesale (vi)	6,001	6,625	8,167	1,837	2,245
Cainiao logistics services (vii)	–	6,759	14,885	3,327	5,005
Local consumer services (viii)	–	–	18,058	2,612	6,180
Others	755	2,697	5,129	878	1,954
Total core commerce	133,880	214,020	323,400	69,188	99,544
Cloud computing (ix)	6,663	13,390	24,702	4,698	7,787
Digital media and entertainment (x)	14,733	19,564	24,077	5,975	6,312
Innovation initiatives and others (xi)	2,997	3,292	4,665	1,059	1,281
Total	158,273	250,266	376,844	80,920	114,924

- (i) Prior period amounts have not been adjusted due to the adoption of ASC 606 under the modified retrospective method (Note 2(g)).
- (ii) Revenue from China commerce retail is primarily generated from the Company's China retail marketplaces and includes revenue from customer management, commissions and sales of goods.
- (iii) "Others" revenue under China commerce retail is primarily generated by the Company's New Retail and direct sales businesses, mainly Freshippo, Tmall Supermarket, Tmall Direct Import and Intime.
- (iv) Revenue from China commerce wholesale is primarily generated from 1688.com and includes revenue from membership fees and customer management.
- (v) Revenue from international commerce retail is primarily generated from Lazada (Note 4(i)) and AliExpress and includes revenue from sales of goods, commissions, logistics services and customer management.
- (vi) Revenue from international commerce wholesale is primarily generated from Alibaba.com and includes membership fees and revenue from customer management.
- (vii) Revenue from Cainiao logistics services represents revenue from the domestic and cross-border fulfillment services provided by Cainiao Network (Note 4(f)).
- (viii) Revenue from local consumer services primarily represents revenue from the provision of delivery services and other services provided by Ele.me (Note 4(c)).

5. Revenue (Continued)

- (ix) Revenue from cloud computing is primarily generated from the provision of services, such as elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and IoT services.
- (x) Revenue from digital media and entertainment is primarily generated from UCWeb and Youku (Note 4(h)) and includes revenue from customer management and membership fees.
- (xi) Revenue from innovation initiatives and others is primarily generated from businesses such as Amap, Tmall Genie and other innovation initiatives. Other revenue also includes the SME Annual Fee received from Ant Financial and its affiliates (Note 4(a)).

Revenue by type is as follows:

	Year ended March 31,			Three months ended June 30,	
	2017 (i)	2018 (i)	2019	2018	2019
	<i>(Unaudited)</i>				
	<i>(in millions of RMB)</i>				
Customer management services					
P4P and display marketing	83,581	119,822	151,654	35,020	43,392
Other customer management services	5,706	9,076	13,962	2,517	3,926
Total customer management services	89,287	128,898	165,616	37,537	47,318
Commission	37,848	52,411	81,086	16,916	23,879
Membership fees	10,638	13,823	19,139	4,313	5,246
Logistics services	–	6,759	23,397	5,127	7,478
Cloud computing services	6,663	13,390	24,702	4,698	7,787
Sales of goods	3,889	18,719	46,942	8,429	18,517
Other revenue (ii)	9,948	16,266	15,962	3,900	4,699
Total	158,273	250,266	376,844	80,920	114,924

- (i) Prior period amounts have not been adjusted due to the adoption of ASC 606 under the modified retrospective method (Note 2(g)).
- (ii) Other revenue includes other value-added services provided through various platforms and the SME Annual Fee received from Ant Financial and its affiliates (Note 4(a)).

The amount of revenue recognized for performance obligations satisfied (or partially satisfied) in prior periods for contracts with expected duration of more than one year during the year ended March 31, 2019 and the three months ended June 30, 2018 and 2019 was not material. As permitted under the transitional provision in ASC 606, the amount of revenue recognized for performance obligations satisfied (or partially satisfied) as of March 31, 2018 is not disclosed.

6. Other income (loss), net

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
				<i>(Unaudited)</i>	
				<i>(in millions of RMB)</i>	
Profit Share Payments <i>(Note 4(a))</i>	2,086	3,444	517	910	1,627
Government grants (i)	451	555	666	86	326
Amortization of restructuring reserve <i>(Note 4(a))</i>	(264)	(264)	(264)	(66)	(66)
Exchange differences	2,328	(1,679)	(1,950)	(1,484)	(582)
Others	1,485	2,104	1,252	471	796
Total	<u>6,086</u>	<u>4,160</u>	<u>221</u>	<u>(83)</u>	<u>2,101</u>

- (i) Government grants mainly represent amounts received from central and local governments in connection with the Company's investments in local business districts and contributions to technology development.

7. Leases

The Company entered into operating lease agreements primarily for shops and malls, offices, warehouses and land. Certain lease agreements contain an option for the Company to renew a lease for a term of up to five years or an option to terminate a lease early. The Company considers these options in determining the classification and measurement of the leases.

The leases may include variable payments based on measures such as the level of sales at a physical store, which are expensed as incurred.

Components of operating lease cost were as follows:

	Three months ended June 30, 2019
	<i>(in millions of RMB)</i>
Operating lease cost	1,040
Variable lease cost	<u>21</u>
Total operating lease cost	<u>1,061</u>

Prior to the adoption of ASC 842, the Company incurred rental expenses under operating leases of RMB1,204 million for the three months ended June 30, 2018.

7. Leases (Continued)

For the three months ended June 30, 2019, cash payments for operating leases and the operating lease assets obtained in exchange for operating lease liabilities amounted to RMB1,007 million and RMB1,550 million, respectively.

As of June 30, 2019, the Company's operating leases had a weighted average remaining lease term of 10.5 years and a weighted average discount rate of 5.4%. Future lease payments under operating leases as of June 30, 2019 were as follows:

	Operating Leases
	<i>(in millions of RMB)</i>
Nine months ending March 31, 2020	2,602
Year ending March 31, 2021	3,090
Year ending March 31, 2022	2,550
Year ending March 31, 2023	2,192
Year ending March 31, 2024	2,026
Thereafter	13,420
	25,880
Less: imputed interest	(6,713)
Total operating lease cost	19,167

8. Income tax expenses*Composition of income tax expenses*

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
				(Unaudited)	
	(in millions of RMB)				
Current income tax expense	13,495	17,223	18,750	6,071	7,561
Deferred taxation	281	976	(2,197)	(406)	(849)
	13,776	18,199	16,553	5,665	6,712

8. Income tax expenses (Continued)

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed. The Company's subsidiaries incorporated in Hong Kong were subject to the Hong Kong profits tax rate at 16.5% for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2018 and 2019. The Company's subsidiaries incorporated in other jurisdictions were subject to income tax charges calculated according to the tax laws enacted or substantially enacted in the countries where they operate and generate income.

Current income tax expense primarily includes the provision for PRC Enterprise Income Tax ("EIT") for subsidiaries operating in the PRC and withholding tax on earnings that have been declared for distribution by PRC subsidiaries to offshore holding companies. Substantially all of the Company's income before income tax and share of results of equity investees are generated by these PRC subsidiaries. These subsidiaries are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws, rules and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the EIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises. Further, certain subsidiaries were recognized as Software Enterprises and thereby entitled to full exemption from EIT for two years beginning from their first profitable calendar year and a 50% reduction for the subsequent three calendar years. In addition, a duly recognized Key Software Enterprise within China's national plan can enjoy a preferential EIT rate of 10%. The Key Software Enterprise status is subject to review by the relevant authorities every year. The timing of the annual review and notification by the relevant authorities may vary from year to year, and the related tax adjustments in relation to the change in applicable EIT rate as a result of notification of qualification are accounted for in the period in which the Key Software Enterprise status is recognized and notified.

The tax status of the subsidiaries of the Company with major taxable profits is described below:

- Alibaba (China) Technology Co., Ltd. ("Alibaba China") and Taobao (China) Software Co., Ltd. ("Taobao China"), entities primarily engaged in the operations of the Company's wholesale marketplaces and Taobao Marketplace, respectively, obtained the annual review and notification relating to the renewal of the Key Software Enterprises status for the taxation years of 2015, 2016 and 2017 in the quarters ended September 30, 2016, 2017 and 2018, respectively. Accordingly, Alibaba China and Taobao China, which had qualified as High and New Technology Enterprises and applied an EIT rate of 15% for the taxation years of 2015, 2016 and 2017, reflected the reduction in tax rate to 10% for the taxation years of 2015, 2016 and 2017 in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019.

8. Income tax expenses (Continued)

- Zhejiang Tmall Technology Co., Ltd. (“Tmall China”), an entity primarily engaged in the operations of Tmall, was recognized as a High and New Technology Enterprise and also granted the Software Enterprise status and was thereby entitled to an income tax exemption for two years beginning from its first profitable taxation year of 2012, and a 50% reduction for the subsequent three years starting from the taxation year of 2014. Accordingly, Tmall China was entitled to an EIT rate of 12.5% during the taxation years of 2015 and 2016. Tmall China obtained notification of recognition as a Key Software Enterprise for the taxation years of 2016 and 2017 in the quarters ended September 30, 2017 and 2018. Accordingly, Tmall China, which had applied an EIT rate of 12.5% and 15% for the taxation years of 2016 and 2017, respectively, reflected the reduction in tax rate to 10% for the taxation years of 2016 and 2017 in the consolidated income statement for the years ended March 31, 2018 and 2019.

The total tax adjustments for Alibaba China, Taobao China, Tmall China and certain other PRC subsidiaries of the Company, amounting to RMB720 million, RMB2,295 million and RMB4,656 million, were recorded in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019, respectively.

The notification relating to the renewal of the Key Software Enterprises status for the taxation year of 2018 has been subsequently obtained by Alibaba China, Taobao China and Tmall China in the quarter ended September 30, 2019. The annual review and notification relating to the renewal of the Key Software Enterprises status for the taxation year of 2019 has not yet been obtained. Accordingly, Alibaba China, Taobao China and Tmall China continued to apply an EIT rate of 15% for the taxation year of 2019 as High and New Technology Enterprises.

Most of the remaining PRC entities of the Company are subject to EIT rate of 25% for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared by PRC companies 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 company are incorporated in Hong Kong and meet the relevant requirements pursuant to the tax arrangement between the PRC and Hong Kong. Since the equity holders of the major PRC subsidiaries of the Company are Hong Kong incorporated companies and meet the relevant requirements pursuant to the tax arrangement between the PRC and Hong Kong, the Company has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed. As of June 30, 2019, the Company had accrued the withholding tax on substantially all of the distributable earnings of the PRC subsidiaries except for those undistributed earnings that the Company intends to invest indefinitely in the PRC which amounted to RMB88.0 billion.

8. Income tax expenses (Continued)

Composition of deferred tax assets and liabilities

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	(in millions of RMB)			
<i>Deferred tax assets</i>				
Licensed copyrights	574	1,191	2,475	2,536
Tax losses carried forward and others (i)	5,969	9,467	21,896	22,933
	6,543	10,658	24,371	25,469
Valuation allowance	(5,505)	(8,476)	(21,838)	(22,835)
Total deferred tax assets	1,038	2,182	2,533	2,634
<i>Deferred tax liabilities</i>				
Identifiable intangible assets	(2,358)	(9,181)	(12,659)	(12,616)
Withholding tax on undistributed earnings (ii)	(6,377)	(8,375)	(7,901)	(7,151)
Investment securities and others	(1,626)	(1,756)	(1,957)	(2,107)
Total deferred tax liabilities	(10,361)	(19,312)	(22,517)	(21,874)
Net deferred tax liabilities	(9,323)	(17,130)	(19,984)	(19,240)

- (i) Others is primarily comprised of property and equipment, deferred revenue and customer advances, as well as accrued expenses which are not deductible until paid under PRC tax laws.
- (ii) The related deferred tax liabilities as of March 31, 2017, 2018 and 2019 and June 30, 2019 were provided on the assumption that substantially all of the distributable earnings of PRC subsidiaries will be distributed as dividends, except for those undistributed earnings that the Company intends to invest indefinitely in the PRC which amounted to RMB28.2 billion, RMB28.6 billion, RMB49.7 billion and RMB88.0 billion, respectively.

Valuation allowances provided on the deferred tax assets mainly related to the tax losses carried forward due to the uncertainty surrounding their realization. If events occur in the future that improve the certainty of realization, an adjustment to the valuation allowances will be made and consequently income tax expenses will be reduced.

As of June 30, 2019, the accumulated tax losses of subsidiaries incorporated in the Indonesia, the United States and Singapore, subject to the agreement of the relevant tax authorities, of RMB4,121 million, RMB3,417 million and RMB3,162 million, respectively, are allowed to be carried forward to offset against future taxable profits. The carry forward of tax losses in the United States and Singapore generally has no time limit, while the tax losses in Indonesia will expire, if unused, in the years ending

8. Income tax expenses (Continued)

March 31, 2020 through 2024. The accumulated tax losses of subsidiaries incorporated in the PRC, subject to the agreement of the PRC tax authorities, of RMB78,468 million as of June 30, 2019 will expire, if unused, in the years ending March 31, 2020 through 2024.

Reconciliation of the differences between the statutory EIT rate applicable to profits of the consolidated entities and the income tax expenses of the Company:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	<i>(Unaudited)</i>				
	<i>(in millions of RMB, except per share data)</i>				
Income before income tax and share of result of equity investees	60,029	100,403	96,221	13,970	25,317
Income tax computed at statutory EIT rate (25%)	15,007	25,101	24,055	3,493	6,329
Effect of different tax rates available to different jurisdictions	(772)	392	(1,568)	(131)	(6)
Effect of tax holiday and preferential tax benefit on assessable profits of subsidiaries incorporated in the PRC	(10,507)	(14,782)	(17,687)	(3,900)	(3,852)
Non-deductible expenses and non-taxable income, net (i)	6,090	1,780	8,168	4,882	3,937
Tax savings from additional deductions on certain research and development expenses available for subsidiaries incorporated in the PRC (ii)	(1,694)	(2,330)	(5,774)	(795)	(1,749)
Withholding tax on the earnings distributed and anticipated to be remitted	3,009	4,393	3,954	1,022	360
Change in valuation allowance, deduction of certain share-based compensation expense and others (iii)	2,643	3,645	5,405	1,094	1,693
Income tax expenses	<u>13,776</u>	<u>18,199</u>	<u>16,553</u>	<u>5,665</u>	<u>6,712</u>
Effect of tax holidays inside the PRC on basic earnings per share (RMB)	<u>0.53</u>	<u>0.72</u>	<u>0.86</u>	<u>0.19</u>	<u>0.19</u>
Effect of tax holidays inside the PRC on basic earnings per ADS (RMB)	<u>4.21</u>	<u>5.79</u>	<u>6.86</u>	<u>1.51</u>	<u>1.48</u>

8. Income tax expenses (Continued)

- (i) Expenses not deductible for tax purposes and non-taxable income primarily represent investment income (loss), share-based compensation expense, interest expense and exchange differences. Investment income (loss) during the year ended March 31, 2017 includes gains from the revaluation of previously held equity interest relating to the acquisition of Youku (Note 4(h)). Investment income (loss) during the year ended March 31, 2018 includes gains from the revaluation of previously held equity interests relating to the acquisitions of Cainiao Network (Note 4(f)) and Intime (Note 4(g)). Investment income (loss) during the year ended March 31, 2019 includes gains from the revaluation of previously held equity interest relating to the acquisitions of Koubei (Note 4(c)) and Alibaba Pictures (Note 4(b)).
- (ii) This amount represents tax incentives relating to the research and development expenses of certain major operating subsidiaries in the PRC.
- (iii) This amount primarily represents valuation allowance against the deferred tax assets associated with operating losses, amortization of licensed copyrights and other timing differences which may not be realized as a tax benefit.

9. Share-based awards

Share-based awards such as RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, share appreciation rights and share payments may be granted to any directors, employees and consultants of the Company or affiliated companies under the equity incentive plan adopted in 2011, which govern the terms of the awards. In September 2014, the Company adopted a post-IPO equity incentive plan (the "2014 Plan") which has a ten-year term. Share-based awards are only available for issuance under the 2014 Plan. If an award under the previous plan terminates, expires or lapses, or is canceled for any reason, ordinary shares subject to the award become available for the grant of a new award under the 2014 Plan. Starting from April 1, 2015 and on each anniversary thereof, an additional amount equal to the lesser of (A) 200,000,000 ordinary shares (previously 25,000,000 ordinary shares before the Share Subdivision as detailed in Note 2(a)), and (B) such lesser number of ordinary shares as determined by the board of directors will become available for the grant of a new award under the 2014 Plan. All share-based awards granted under the 2014 Plan are subject to dilution protection should the capital structure of the Company be affected by a share split, reverse share split, share dividend or other dilutive action. The 2014 Plan has substantially similar terms as the plan adopted in 2011 except that (i) the 2014 Plan is administered by the compensation committee of the board (or a subcommittee thereof), or such other committee of the board to which the board has delegated power to act, or the board in the absence of any such committee, and (ii) certain terms are adjusted for the purposes of compliance with the Sarbanes-Oxley Act of 2002, U.S. Securities Act of 1933 and the regulations thereunder, as amended from time to time and U.S. Securities Exchange Act of 1934 and the regulations thereunder, as amended from time to time, among others. As of June 30, 2019, the number of shares authorized but unissued was 338,560,992 ordinary shares (previously 42,320,124 ordinary shares before the Share Subdivision as detailed in Note 2(a)).

9. Share-based awards (Continued)

RSUs and share options granted are generally subject to a four-year vesting schedule as determined by the administrator of the plans. Depending on the nature and the purpose of the grant, RSUs and share options generally vest 25% or 50% upon the first or second anniversary of the vesting commencement date, respectively, as provided in the grant agreement, and 25% every year thereafter. No outstanding RSUs or share options will be subject to vesting or exercisable after the expiry of a maximum of six years from the date of grant. Certain RSUs and share options granted to the senior management members of the Company are subject to a six-year vesting schedule. No outstanding RSUs or share options will be subject to vesting or exercisable after the expiry of a maximum of eight years from the date of grant.

Following the Share Subdivision and the ADS Ratio Change that became effective on July 30, 2019 as detailed in Note 2(a), each ordinary share was subdivided into eight ordinary shares and each ADS represents eight ordinary shares. Pro-rata adjustments have been made to the number of ordinary shares underlying each RSU and share option granted, so as to give the participants the same proportion of the equity that they would have been entitled to prior to the Share Subdivision. Prior to July 30, 2019, one ordinary share was issuable upon the vesting of one outstanding RSU or the exercise of one outstanding share option, respectively. Subsequent to the Share Subdivision, eight ordinary shares are issuable upon the vesting of one outstanding RSU or the exercise of one outstanding share option, respectively. The Share Subdivision has no impact on the number of RSUs, the number of share options, the weighted average grant date fair value per RSU and the weighted average exercise price per share option as stated below.

9. Share-based awards (Continued)**(a) RSUs relating to ordinary shares of the Company**

A summary of the changes in the RSUs relating to ordinary shares granted by the Company during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2019 is as follows:

	Number of RSUs	Weighted- average grant date fair value per RSU <i>US\$</i>
Awarded and unvested as of April 1, 2016	71,836,365	59.75
Granted	25,796,789	82.41
Vested	(21,945,063)	54.74
Canceled/forfeited	(6,092,372)	66.06
Awarded and unvested as of March 31, 2017	69,595,719	69.18
Granted	29,544,661	142.05
Vested	(26,025,540)	63.62
Canceled/forfeited	(4,689,982)	95.89
Awarded and unvested as of March 31, 2018	68,424,858	100.93
Granted	24,863,988	181.74
Vested	(24,337,392)	84.31
Canceled/forfeited	(4,604,961)	135.06
Awarded and unvested as of March 31, 2019	64,346,493	136.00
Granted	18,439,437	174.41
Vested	(16,543,265)	109.45
Canceled/forfeited	(1,586,512)	148.77
Awarded and unvested as of June 30, 2019	64,656,153	153.44
Expected to vest as of June 30, 2019 (i)	53,269,054	151.79

(i) RSUs expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding RSUs.

As of March 31, 2017, 2018 and 2019 and June 30, 2019, 4,594,874, 1,983,785, 1,878,835 and 1,479,688 outstanding RSUs were held by non-employees, respectively. During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018, these RSUs were subject to re-measurement through each vesting date to determine the appropriate amount of the expense. Upon the adoption of ASU 2018-07 beginning on April 1, 2019, the Company no longer re-measures equity-classified share-based awards granted to non-employees (Note 2(k)).

As of June 30, 2019, there were RMB35,917 million of unamortized compensation costs related to these outstanding RSUs, net of expected forfeitures and after re-measurement applicable to the awards granted to non-employees before the adoption of ASU 2018-07 beginning on April 1, 2019. These amounts are expected to be recognized over a weighted average period of 2.0 years.

9. Share-based awards (Continued)**(a) RSUs relating to ordinary shares of the Company (Continued)**

During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the Company recognized share-based compensation expense of RMB12,322 million, RMB16,165 million, RMB22,137 million, RMB4,426 million and RMB5,798 million, respectively, in connection with the above RSUs, net of cash reimbursement from related companies, including Ant Financial (Note 22).

(b) Share options relating to ordinary shares of the Company

A summary of the changes in the share options relating to ordinary shares granted by the Company during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2019 is as follows:

	Number of share options	Weighted average exercise price per share option <i>US\$</i>	Weighted average remaining contractual life <i>(in years)</i>
Outstanding as of April 1, 2016	17,707,328	54.37	5.6
Granted	275,000	78.71	
Exercised	(5,262,533)	41.04	
Canceled/forfeited/expired	(1,006,792)	42.68	
Outstanding as of March 31, 2017 (i)	11,713,003	61.94	5.0
Exercised	(3,628,263)	43.51	
Canceled/forfeited/expired	(146,725)	76.16	
Outstanding as of March 31, 2018	7,938,015	70.10	4.5
Exercised	(795,809)	45.02	
Canceled/forfeited/expired	(25,000)	76.81	
Outstanding as of March 31, 2019	<u>7,117,206</u>	<u>72.88</u>	3.7
Exercised	(733,682)	78.08	
Canceled/forfeited/expired	(17,500)	35.78	
Outstanding as of June 30, 2019	<u>6,366,024</u>	<u>72.38</u>	3.4
Vested and exercisable as of June 30, 2019	3,779,556	71.48	3.3
Vested and expected to vest as of June 30, 2019 (ii)	6,270,068	72.27	3.4

9. Share-based awards (Continued)**(b) Share options relating to ordinary shares of the Company (Continued)**

- (i) Outstanding options as of March 31, 2017 include 1,141,875 unvested options early exercised.
- (ii) Share options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding share options.

As of March 31, 2017, 2018 and 2019 and June 30, 2019, 347,513, 141,000, 76,550 and 78,900 outstanding share options were held by non-employees, respectively. During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018, these share options were subject to re-measurement through each vesting date to determine the appropriate amount of the expense. Upon the adoption of ASU 2018-07 beginning on April 1, 2019, the Company no longer re-measures equity-classified share-based awards granted to non-employees (Note 2(k)).

As of June 30, 2019, the aggregate intrinsic value of all outstanding options was RMB4,248 million. As of the same date, the aggregate intrinsic value of options that were vested and exercisable and options that were vested and expected to vest is RMB2,545 million and RMB4,188 million, respectively.

During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the weighted average grant date fair value of share options granted was US\$22.89, nil, nil, nil and nil, respectively, and the total grant date fair value of options vested during the same years was RMB348 million, RMB452 million, RMB311 million, RMB207 million and RMB216 million, respectively. During the same periods, the aggregate intrinsic value of share options exercised was RMB1,799 million, RMB1,980 million, RMB708 million, RMB492 million and RMB370 million, respectively.

Cash received from option exercises under the share option plans for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019 was RMB287 million, RMB174 million, RMB220 million, RMB174 million and RMB385 million, respectively.

No share options were granted during the years ended March 31, 2018 and 2019 and the three months ended June 30, 2018 and 2019. The fair value of each option grant is estimated on the date of grant using the Black-Scholes model by applying the assumptions below:

	Year ended March 31, 2017
Risk-free interest rate (i)	1.23% – 1.30%
Expected dividend yield (ii)	0%
Expected life (years) (iii)	4.38
Expected volatility (iv)	31.7% – 33.2%

- (i) Risk-free interest rate is based on the yields of United States Treasury securities with maturities similar to the expected life of the share options in effect at the time of grant.
- (ii) Expected dividend yield is assumed to be nil as the Company has no history or expectation of paying a dividend on its ordinary shares.

9. Share-based awards (Continued)**(b) Share options relating to ordinary shares of the Company (Continued)**

- (iii) Expected life of share options is based on the average between the vesting period and the contractual term for each grant.
- (iv) Expected volatility is assumed based on the historical volatility of the Company's comparable companies in the period equal to the expected life of each grant.

As of June 30, 2019, there were RMB88 million of unamortized compensation costs related to these outstanding share options, net of expected forfeitures and after re-measurement applicable to the awards granted to non-employees before the adoption of ASU 2018-07 beginning on April 1, 2019. These amounts are expected to be recognized over a weighted average period of 1.4 years.

During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the Company recognized share-based compensation expense of RMB524 million, RMB270 million, RMB181 million, RMB44 million and RMB20 million, respectively, in connection with the above share options, net of cash reimbursement from related companies, including Ant Financial (Note 22).

(c) Partner Capital Investment Plan relating to ordinary shares of the Company

Beginning in 2013, the Company offered selected members of the Alibaba Partnership rights to acquire restricted shares of the Company. For the rights offered before 2016, these rights and the underlying restricted shares were subject to a non-compete provision, and each right entitles the holder to purchase eight restricted shares at an aggregate price of US\$14.50, after the Share Subdivision as detailed in Note 2(a), during a four-year period. Upon the exercise of the rights, the underlying ordinary shares may not be transferred for a period of eight years from the date of subscription of the relevant rights. For the rights offered since 2016, the rights and the underlying restricted shares were subject to certain service provisions that were not related to employment, and each right entitles the holder to purchase eight restricted shares at an aggregate price between US\$23.00 and US\$26.00, after the Share Subdivision as detailed in Note 2(a), over a period of ten years from the vesting commencement date.

The number of ordinary shares underlying these rights is 144,000,000 shares (previously 18,000,000 shares before the Share Subdivision as detailed in Note 2(a)), of which the rights to subscribe for 140,000,000 shares (previously 17,500,000 shares before the Share Subdivision as detailed in Note 2(a)) had been offered and subscribed up to June 30, 2019. The rights offered before 2016 were accounted for as noncontrolling interests of the Company as these rights were issued by the Company's subsidiaries and classified as equity at the subsidiary level. The rights offered in the subsequent periods were accounted for as share options issued by the Company.

As of June 30, 2019, there were RMB882 million of unamortized compensation costs related to these rights, net of expected forfeitures and after re-measurement applicable to the awards granted to non-employees before the adoption of ASU 2018-07 beginning on April 1, 2019. These amounts are expected to be recognized over a weighted average period of 4.4 years. Share-based compensation expense of RMB241 million, RMB435 million, RMB409 million, RMB114 million and RMB80 million was recognized in connection with these rights for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

9. Share-based awards (Continued)**(c) Partner Capital Investment Plan relating to ordinary shares of the Company (Continued)**

No rights were offered for the three months ended June 30, 2019. The fair value of each right offered for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 to acquire restricted shares is estimated on the subscription date using the Black-Scholes model by applying the assumptions below:

	Year ended March 31,			Three months ended June 30,
	2017	2018	2019	2018
Risk-free interest rate (i)	1.86%	2.07%	2.94%	2.94%
Expected dividend yield (ii)	0%	0%	0%	0%
Expected life (years) (iii)	8.25	8.25	8.25	8.25
Expected volatility (iv)	39.0%	34.2%	33.0%	33.0%

- (i) Risk-free interest rate is based on the yields of United States Treasury securities with maturities similar to the expected life of the share-based awards in effect at the time of grant.
- (ii) Expected dividend yield is assumed to be nil as the Company has no history or expectation of paying a dividend on its ordinary shares.
- (iii) Expected life of the rights is based on management's estimate on timing of redemption for ordinary shares by the participants.
- (iv) Expected volatility is assumed based on the historical volatility of the Company's comparable companies in the period equal to expected life of each right.

(d) Share-based awards relating to Ant Financial

Since March 2014, Junhan, the general partner of which is a company wholly-owned by the Company's director and former executive chairman and a major equity holder of Ant Financial, has made grants of share economic rights similar to share appreciation awards linked to the valuation of Ant Financial (the "SERs") to certain employees of the Company. In addition, Ant Financial, through its subsidiary, has granted certain RSUs to certain employees of the Company since April 2018. The SERs will be settled in cash by Junhan upon disposal of these awards by the holders. The RSUs may be settled in cash or equity by the Ant Financial subsidiary upon the vesting of these awards. Junhan and the Ant Financial subsidiary have the right to repurchase the vested awards (or any underlying equity for the settlement of the vested awards) granted by them, as applicable, from the holders upon an initial public offering of Ant Financial or the termination of the holders' employment with the Company at a price to be determined based on the then fair market value of Ant Financial. These awards are generally subject to a four-year vesting schedule as determined by the administrator of the plan. Depending on the nature and the purpose of the grant, these awards generally vest 25% or 50% upon the first or second anniversary of the vesting commencement date, respectively, as provided in the grant agreement, and 25% every year thereafter. Certain awards granted to the senior management members of the Company are subject to a six-year vesting schedule. The Company has no obligation to reimburse Junhan, Ant Financial or its subsidiaries for the cost associated with these awards.

9. Share-based awards (Continued)**(d) Share-based awards relating to Ant Financial (Continued)**

For accounting purposes, these awards meet the definition of a financial derivative. The cost relating to these awards is recognized by the Company and the related expense is recognized over the requisite service period in the consolidated income statements with a corresponding credit to additional paid-in capital. Subsequent changes in the fair value of these awards are recorded in the consolidated income statements. The expenses relating to the SERs are re-measured at the fair value on each reporting date until their settlement dates. The expenses relating to the RSUs granted by the Ant Financial subsidiary are re-measured at the fair value on each reporting date until their vesting dates.

During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the Company recognized expenses of RMB2,188 million, RMB2,278 million, RMB12,855 million, RMB11,477 million and RMB352 million in respect of the share-based awards relating to Ant Financial, respectively.

(e) Share-based compensation expense by function

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
				(Unaudited)	
	(in millions of RMB)				
Cost of revenue	3,893	5,505	8,915	3,816	1,747
Product development expenses	5,712	7,374	15,378	6,512	3,009
Sales and marketing expenses	1,772	2,037	4,411	2,063	862
General and administrative expenses	4,618	5,159	8,787	3,987	1,497
Total	15,995	20,075	37,491	16,378	7,115

10. Earnings per share/ADS

Following the Share Subdivision and the ADS Ratio Change as detailed in Note 2(a), each ordinary share was subdivided into eight ordinary shares and each ADS represents eight ordinary shares. The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share/ADS for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019 have been retrospectively adjusted.

Basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of outstanding ordinary shares, adjusted for treasury shares. Basic earnings per ADS is derived from the basic earnings per share after adjustment to the Company's ordinary share-to-ADS ratio.

10. Earnings per share/ADS (Continued)

For the calculation of diluted earnings per share, net income attributable to ordinary shareholders for basic earnings per share is adjusted by the effect of dilutive securities, including share-based awards, under the treasury stock method. Potentially dilutive securities, of which the amounts are insignificant, have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Diluted earnings per ADS is derived from the diluted earnings per share after adjustment to the Company's ordinary share-to-ADS ratio.

The following table sets forth the computation of basic and diluted net income per share/ADS for the following periods:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	<i>(Unaudited)</i>				
	<i>(in millions of RMB, except share data and per share data)</i>				
Earnings per share					
<u>Numerator:</u>					
Net income attributable to ordinary shareholders for computing net income per ordinary share – basic	43,675	63,985	87,600	8,685	21,252
Dilution effect arising from share-based awards issued by a subsidiary and equity investees	(11)	(21)	(42)	(3)	(11)
Net income attributable to ordinary shareholders for computing net income per ordinary share – diluted	43,664	63,964	87,558	8,682	21,241
<u>Shares (denominator):</u>					
Weighted average number of shares used in calculating net income per ordinary share – basic (million shares) <i>(Note)</i>	19,941	20,425	20,640	20,648	20,776
Adjustments for dilutive RSUs and share options (million shares) <i>(Note)</i>	638	456	348	366	299
Weighted average number of shares used in calculating net income per ordinary share – diluted (million shares) <i>(Note)</i>	20,579	20,881	20,988	21,014	21,075
Net income per ordinary share – basic (RMB) <i>(Note)</i>	2.19	3.13	4.24	0.42	1.02

10. Earnings per share/ADS (Continued)

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	(Unaudited)				
	(in millions of RMB, except share data and per share data)				
Net income per ordinary share – diluted (RMB) (Note)	2.12	3.06	4.17	0.41	1.01
Earnings per ADS					
Net income per ADS – basic (RMB)	17.52	25.06	33.95	3.36	8.18
Net income per ADS – diluted (RMB)	16.97	24.51	33.38	3.30	8.06

Note: Basic and diluted net income per ordinary share, weighted average number of shares and the adjustments for dilutive RSUs and share options have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a).

11. Restricted cash and escrow receivables

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	(in millions of RMB)			
Money received or receivable on escrow services offered by AliExpress (i)	2,528	3,171	8,354	7,110
Others	127	246	164	191
	2,655	3,417	8,518	7,301

(i) The amount represents customer funds held by external payment networks outside the PRC relating to AliExpress with a corresponding liability recorded under escrow money payable.

12. Investment securities and fair value disclosure

As of March 31, 2017					
	Original cost	Gross unrealized gains	Gross unrealized losses	Provision for decline in value	Carrying value
	(in millions of RMB)				
Equity securities:					
Listed equity securities	15,325	9,792	(836)	(1,019)	23,262
Equity securities accounted for under the fair value option	183	—	—	—	183
Debt investments (i)	12,241	—	—	(180)	12,061
	<u>27,749</u>	<u>9,792</u>	<u>(836)</u>	<u>(1,199)</u>	<u>35,506</u>
As of March 31, 2018					
	Original cost	Gross unrealized gains	Gross unrealized losses	Provision for decline in value	Carrying value
	(in millions of RMB)				
Equity securities:					
Listed equity securities	20,303	10,990	(1,587)	(983)	28,723
Equity securities accounted for under the fair value option	498	67	—	—	565
Debt investments (i)	13,898	—	—	(179)	13,719
	<u>34,699</u>	<u>11,057</u>	<u>(1,587)</u>	<u>(1,162)</u>	<u>43,007</u>

12. Investment securities and fair value disclosure (Continued)

As of March 31, 2019					
	Original cost	Gross unrealized gains	Gross unrealized losses	Provision for decline in value	Carrying value
(in millions of RMB)					
Equity securities:					
Listed equity securities	57,121	15,968	(11,887)	–	61,202
Investments in privately held companies (ii)	81,894	14,107	(78)	(13,250)	82,673
Debt investments (i)	23,843	44	(20)	(725)	23,142
	<u>162,858</u>	<u>30,119</u>	<u>(11,985)</u>	<u>(13,975)</u>	<u>167,017</u>
As of June 30, 2019					
	Original cost	Gross unrealized gains	Gross unrealized losses	Provision for decline in value	Carrying value
(in millions of RMB)					
Equity securities:					
Listed equity securities	62,722	15,921	(15,170)	–	63,473
Investments in privately held companies	86,628	15,894	(74)	(13,770)	88,678
Debt investments (i)	25,923	184	(233)	(885)	24,989
	<u>175,273</u>	<u>31,999</u>	<u>(15,477)</u>	<u>(14,655)</u>	<u>177,140</u>

- (i) Debt investments include convertible and exchangeable bonds accounted for under the fair value option, for which the fair value as of March 31, 2017, 2018 and 2019 and June 30, 2019 were nil, RMB1,256 million, RMB2,742 million and RMB5,685 million, respectively. Unrealized gains recorded on these convertible and exchangeable bonds in the consolidated income statements were nil, nil, RMB44 million and nil during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and unrealized loss of RMB124 million during the three months ended June 30, 2019, respectively. Debt investments also include investments in certain wealth management products amounting to RMB6.9 billion as of March 31, 2017, 2018 and 2019 and June 30, 2019. These investments were pledged to a financial institution in the PRC to secure a financing provided by this financial institution amounting to RMB6.9 billion to one of the Company's founders and an equity holder in certain of the Company's variable interest entities, to support his minority investment through a PRC limited partnership in Wasu Media Holding Co., Ltd., a company listed on the Shenzhen Stock Exchange.
- (ii) Upon the adoption of ASU 2016-01, certain investments in privately held companies that were previously accounted for under the cost method with a carrying value of RMB59,942 million as of March 31, 2018 were reclassified into investment securities as of April 1, 2018.

12. Investment securities and fair value disclosure (Continued)

Details of the significant additions during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019 are set out in Note 4.

For equity securities, a summary of gains and losses, including impairment losses, recognized in interest and investment income, net is as follows:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	(Unaudited)				
	(in millions of RMB)				
Net unrealized gains (losses) recognized during the period for equity securities still held as of the end of the period	–	11	598	3,571	(2,005)
Net gains (losses) recognized during the period from disposals of equity securities during the period	5,601	1	5,120	93	(3)
Net gains (losses) recognized during the period on equity securities	5,601	12	5,718	3,664	(2,008)

As of March 31, 2017 and 2018, net unrealized gains of RMB8,956 million and RMB9,403 million on listed equity securities previously classified as available-for-sale were recorded in accumulated other comprehensive income. Upon the adoption of ASU 2016-01, the Company carried these equity securities at fair value with unrealized gains and losses recorded in the consolidated income statements. Unrealized gains and losses recorded in accumulated other comprehensive income as of March 31, 2018 related to those equity securities previously classified as available-for-sale, in the amount of RMB8,196 million, net of tax, were reclassified into retained earnings as of April 1, 2018 (Note 2(t)). For listed equity securities previously classified as available-for-sale with unrealized losses, their related aggregate fair values amounted to RMB7,636 million as of March 31, 2018. The carrying amounts of listed equity securities previously classified as available-for-sale that were in a loss position over twelve months were insignificant as of the same date.

In addition, upon the adoption of ASU 2016-01, the Company no longer accounts for certain other equity investments in privately held companies over which the Company neither has control nor significant influence through investment in common stock or in-substance common stock using the cost method. Beginning on April 1, 2018, the Company elected to record a majority of equity investments in privately held companies using the measurement alternative (Note 2(t)). These equity securities, which amounted to RMB59,942 million as of March 31, 2018, were previously

12. Investment securities and fair value disclosure (Continued)

classified under investments in equity investees and were reclassified into investment securities on the consolidated balance sheets as of April 1, 2018 (Note 14). During the year ended March 31, 2019 and the three months ended June 30, 2018 and 2019, upward adjustments of RMB15,474 million, RMB3,863 million and RMB1,482 million, and impairments and downward adjustments of RMB10,404 million, RMB9 million and RMB91 million, were recorded in interest and investment income, net, in the consolidated income statements, respectively. The Company's impairment analysis considers both qualitative and quantitative factors that may have a significant effect on the fair value of these equity securities. As of March 31, 2019 and June 30, 2019, the amount of investments in privately held companies for which the Company elected to record using the measurement alternative amounted to RMB81,514 million and RMB87,324 million, respectively.

During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, no realized gains or losses were recognized for the disposal of debt investments. During the same periods, impairment losses on debt investments of RMB173 million, RMB6 million, RMB546 million, nil and RMB160 million were recorded in interest and investment income, net in the consolidated income statements, respectively.

The carrying amount of debt investments approximates their fair value due to the fact that the related effective interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable maturities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets and liabilities in active markets.
- Level 2 – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Valuations based on unobservable inputs reflecting assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Fair value of short-term investments and listed equity securities are based on quoted prices in active markets for identical assets or liabilities. Other financial instruments, such as interest rate swap contracts, are valued based on inputs derived from or corroborated by observable market data. Valuations of convertible and exchangeable bonds that do not have a quoted price are performed using valuation models such as the binomial model with unobservable inputs including risk-free interest rate and expected volatility. The valuation of contingent consideration is performed using an expected cash flow method with unobservable inputs including the probability to achieve the contingencies, which is assessed by the Company, in connection with the contingent consideration arrangements. Investments in privately held companies for

12. Investment securities and fair value disclosure (Continued)

which the Company elected to record using the measurement alternative were re-measured on a non-recurring basis, and are categorized within Level 3 under the fair value hierarchy. The values were estimated based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs including volatility, as well as rights and obligations of the securities that the Company holds.

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized under the fair value hierarchy:

	As of March 31, 2017			Total
	Level 1	Level 2	Level 3	
	<i>(in millions of RMB)</i>			
Assets				
Short-term investments	3,011	–	–	3,011
Restricted cash and escrow receivables	2,655	–	–	2,655
Listed equity securities	23,262	–	–	23,262
Equity securities accounted for under the fair value option	–	–	183	183
Interest rate swap contracts	–	436	–	436
	<u>28,928</u>	<u>436</u>	<u>183</u>	<u>29,547</u>
Liabilities				
Forward exchange contracts	–	78	–	78
Contingent consideration in relation to investments and acquisitions	–	–	921	921
	<u>–</u>	<u>78</u>	<u>921</u>	<u>999</u>
	As of March 31, 2018			Total
	Level 1	Level 2	Level 3	
	<i>(in millions of RMB)</i>			
Assets				
Short-term investments	6,086	–	–	6,086
Restricted cash and escrow receivables	3,417	–	–	3,417
Listed equity securities	28,723	–	–	28,723
Equity securities accounted for under the fair value option	–	–	565	565
Convertible bonds accounted for under the fair value option	–	–	1,256	1,256
Interest rate swap contracts	–	542	–	542
	<u>38,226</u>	<u>542</u>	<u>1,821</u>	<u>40,589</u>

	As of March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in millions of RMB)			
Liabilities				
Contingent consideration in relation to investments and acquisitions	—	—	120	120
	<u>—</u>	<u>—</u>	<u>120</u>	<u>120</u>
	<u>—</u>	<u>—</u>	<u>120</u>	<u>120</u>
	As of March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in millions of RMB)			
Assets				
Short-term investments	3,262	—	—	3,262
Restricted cash and escrow receivables	8,518	—	—	8,518
Listed equity securities	61,202	—	—	61,202
Convertible bonds accounted for under the fair value option	244	—	2,498	2,742
Interest rate swap contracts	—	331	—	331
Others	604	1,444	1,159	3,207
	<u>73,830</u>	<u>1,775</u>	<u>3,657</u>	<u>79,262</u>
Liabilities				
Contingent consideration in relation to investments and acquisitions	—	—	5,122	5,122
	<u>—</u>	<u>—</u>	<u>5,122</u>	<u>5,122</u>

12. Investment securities and fair value disclosure (Continued)

	As of June 30, 2019			Total
	Level 1	Level 2	Level 3	
	<i>(in millions of RMB)</i>			
Assets				
Short term investments	1,650	–	–	1,650
Restricted cash and escrow receivables	7,301	–	–	7,301
Listed equity securities	63,473	–	–	63,473
Convertible and exchangeable bonds accounted for under the fair value option	232	–	5,453	5,685
Interest rate swap contracts	–	168	–	168
Others	462	1,880	1,354	3,696
	<u>73,118</u>	<u>2,048</u>	<u>6,807</u>	<u>81,973</u>
Liabilities				
Contingent consideration in relation to investments and acquisitions	–	–	5,238	5,238
	<u>–</u>	<u>–</u>	<u>5,238</u>	<u>5,238</u>

Convertible and exchangeable bonds categorized within Level 3 under the fair value hierarchy:

	Amounts
	<i>(in millions of RMB)</i>
Balance as of April 1, 2016	4,622
Decrease in fair value	(113)
Conversion or exchange (i)	(4,678)
Foreign currency translation adjustments	169
Balance as of March 31, 2017	–
Additions	1,264
Foreign currency translation adjustments	(8)
Balance as of March 31, 2018	1,256
Additions	1,153
Foreign currency translation adjustments	89
Balance as of March 31, 2019	<u>2,498</u>
Additions	5,508
Net decrease in fair value	(112)
Conversion or expiration	(2,468)
Foreign currency translation adjustments	27
Balance as of June 30, 2019	<u>5,453</u>

12. Investment securities and fair value disclosure (Continued)

Contingent consideration in relation to investments and acquisitions categorized within Level 3 under the fair value hierarchy:

	Amounts
	<i>(in millions of RMB)</i>
Balance as of April 1, 2016	1,264
Additions	293
Net decrease in fair value	(642)
Foreign currency translation adjustments	6
	<hr/>
Balance as of March 31, 2017	921
Payment	(770)
Net decrease in fair value	(17)
Foreign currency translation adjustments	(14)
	<hr/>
Balance as of March 31, 2018	120
Additions (ii)	4,790
Net decrease in fair value	(45)
Foreign currency translation adjustments	257
	<hr/>
Balance as of March 31, 2019	5,122
	<hr/> <hr/>
Net increase in fair value	1
Foreign currency translation adjustments	115
	<hr/>
Balance as of June 30, 2019	5,238
	<hr/> <hr/>

- (i) Conversion or exchange during the year ended March 31, 2017 were primarily related to Intime (Note 4(g)).
- (ii) Additions during the year ended March 31, 2019 were related to the acquisition of Ele.me (Note 4(c)).

13. Prepayments, receivables and other assets

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	<i>(in millions of RMB)</i>			
Current:				
Accounts receivable, net of allowance	4,388	7,284	13,771	14,837
Inventories	957	4,535	8,534	9,440
Amounts due from related companies (i)	4,131	8,080	7,445	8,719
VAT receivables, net of allowance (ii)	8,810	8,915	7,347	8,359
Prepaid cost of revenue, sales and marketing and other expenses	2,431	4,283	7,049	5,185
Advances to/receivables from customers, merchants and others	897	3,700	4,689	4,926
Deferred direct selling costs (iii)	1,283	1,643	1,990	2,079
Interest receivables	447	672	867	1,034
Licensed copyrights (Note 2(y))	327	964	1,126	932
Loan receivables, net	812	419	490	516
Receivable for proceeds from disposal of investments	2,786	—	—	—
Others	1,139	2,733	5,282	6,684
	<u>28,408</u>	<u>43,228</u>	<u>58,590</u>	<u>62,711</u>
Non-current:				
Operating lease right-of-use assets (iv)	—	—	—	25,995
Film costs and prepayment for licensed copyrights and others	1,639	5,614	7,205	7,565
Prepayment for acquisition of property and equipment	4,018	5,933	7,643	6,366
Deferred tax assets (Note 8)	1,038	2,182	2,533	2,634
Deferred direct selling costs (iii)	114	188	281	176
Fair value of interest rate swap contracts	436	542	331	168
Land use rights, net (iv)(v)	4,691	9,377	6,419	—
Others	1,458	2,438	3,606	3,916
	<u>13,394</u>	<u>26,274</u>	<u>28,018</u>	<u>46,820</u>

13. Prepayments, receivables and other assets (Continued)

- (i) Amounts due from related companies primarily represent balances arising from transactions with Ant Financial and its subsidiaries (Notes 4(a) and 22). The balances are unsecured, interest free and repayable within the next twelve months.
- (ii) VAT receivables mainly represent VAT receivable from relevant PRC tax authorities arising from the Company's VAT refund service. The Company provides advance settlement of relevant VAT refund amounts to its customers prior to receiving the VAT refund from tax authorities. To provide this service, the Company relies on short-term banking facilities and takes on credit risk if the Company fails to recover the prepaid VAT amount.
- (iii) The Company is obligated to pay certain costs upon the receipt of membership fees from merchants or other customers, which primarily consist of sales commissions. The membership fees are initially deferred and recognized as revenue in the consolidated income statements in the period in which the services are rendered. As such, the related costs are also initially deferred and recognized in the consolidated income statements in the same period as the related service fees are recognized.
- (iv) Upon the initial application of ASC 842 on April 1, 2019, land use rights, net amounting to RMB6,419 million were identified as operating lease right-of-use assets. Such amount was included in the opening balance of operating lease right-of-use assets as of April 1, 2019 with no adjustments made to the comparative periods.
- (v) As of March 31, 2019, the Company revised the presentation to report land use rights, net under prepayments, receivables and other assets on the consolidated balance sheet. Accordingly, land use rights, net as of March 31, 2017 and 2018 in the amount of RMB4,691 million and RMB9,377 million were reclassified into prepayments, receivables and other assets, respectively, to conform with the presentation as of March 31, 2019.

14. Investments in equity investees

	Cost method	Equity method	Total
	<i>(in millions of RMB)</i>		
Balance as of April 1, 2016	33,264	58,197	91,461
Additions (i)	8,860	35,154	44,014
Share of results, other comprehensive income and other reserves (ii)	–	(2,074)	(2,074)
Disposals	(2,512)	(324)	(2,836)
Transfers (iii)	(3,763)	(5,891)	(9,654)
Impairment loss (iv)	(2,125)	(245)	(2,370)
Foreign currency translation adjustments	1,680	147	1,827
Balance as of March 31, 2017	35,404	84,964	120,368
Additions (i)	34,121	26,391	60,512
Share of results, other comprehensive income and other reserves (ii)	–	(3,660)	(3,660)
Disposals	(3,051)	(474)	(3,525)
Transfers (iii)	(1,725)	(9,011)	(10,736)
Impairment loss (iv)	(1,753)	(18,153)	(19,906)
Foreign currency translation adjustments	(3,054)	(299)	(3,353)

14. Investments in equity investees (Continued)

	Cost method	Equity method	Total
	<i>(in millions of RMB)</i>		
Balance as of March 31, 2018	59,942	79,758	139,700
Transfer of cost method investments (v)	(59,942)	–	(59,942)
Balance as of April 1, 2018	–	79,758	79,758
Additions (i)	–	14,360	14,360
Share of results, other comprehensive income and other reserves (ii)	–	1,905	1,905
Disposals	–	(1,160)	(1,160)
Transfers (iii)	–	(10,153)	(10,153)
Impairment loss (iv)	–	(493)	(493)
Foreign currency translation adjustments	–	237	237
Balance as of March 31, 2019	–	84,454	84,454
Additions	–	1,170	1,170
Share of results, other comprehensive income and other reserves (ii)	–	419	419
Disposals	–	(653)	(653)
Transfers	–	22	22
Foreign currency translation adjustments	–	184	184
Balance as of June 30, 2019	–	85,596	85,596

- (i) Details of the significant additions of the investments in equity investees are set out in Note 4.
- (ii) Share of results, other comprehensive income and other reserves include the share of results of the equity investees, the gain or loss arising from the deemed disposal of the equity investees and the amortization of basis differences. The amount excludes the expenses relating to the share-based awards underlying the equity of the Company and Ant Financial granted to employees of certain equity investees (Note 9(d)).
- (iii) During the year ended March 31, 2017, transfers under the cost method were primarily related to the completion of the listing and the step acquisition of certain equity investees. Transfers under the equity method were primarily related to the step acquisition of Youku (Note 4(h)).

During the year ended March 31, 2018, transfers under the equity method were primarily related to the consolidation of Cainiao Network (Note 4(f)) and Intime (Note 4(g)) upon the acquisition of control by the Company.

During the year ended March 31, 2019, transfers under the equity method were primarily related to the consolidation of Alibaba Pictures (Note 4(b)).

14. Investments in equity investees (Continued)

- (iv) Impairment charges in connection with the equity method investments of RMB245 million, RMB18,153 million and RMB493 million were recorded in share of results of equity investees in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019, respectively.

Impairment charges in connection with the cost method investments of RMB2,125 million and RMB1,753 million were recorded in interest and investment income, net in the consolidated income statements for the years ended March 31, 2017 and 2018, respectively.

Out of the impairment charges relating to the equity method investments for the year ended March 31, 2018, RMB18,116 million was related to the Company's investment in Alibaba Pictures (Note 4(b)). The fair value measurements with respect to the impairments of other equity investees were individually insignificant and utilized a number of different unobservable inputs not subject to meaningful aggregation.

- (v) Upon the adoption of ASU 2016-01, the Company no longer accounts for certain other equity investments in privately held companies over which the Company neither has control nor significant influence through investment in common stock or in-substance common stock using the cost method, and RMB59,942 million were reclassified into investment securities (Note 12) as of April 1, 2018.

As of March 31, 2017 and 2018, cost method investments with an aggregate carrying amount of RMB17,273 million and RMB30,318 million have appreciated in value and the Company estimated the fair value to be approximately RMB46,351 million and RMB61,936 million, respectively. As of the same dates, for certain other cost method investments with an aggregate carrying amount of RMB18,131 million and RMB29,624 million, the Company identified no events or changes in circumstances that may have a significant adverse effect on the fair value of the investments and determined that it is not practicable to estimate their fair values.

As of June 30, 2019, equity method investments with an aggregate carrying amount of RMB56,256 million that are publicly traded have increased in value and the total market value of these investments amounted to RMB62,656 million.

For the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, equity method investments held by the Company in aggregate have met the significance criteria as defined under Rule 4-08 (g) of Regulation S-X. As such, the Company is required to present summarized financial information for all of its equity method investments as a group as follows:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
				(Unaudited)	
	(in millions of RMB)				
Operating data:					
Revenue	125,701	284,706	488,775	113,508	125,055
Cost of revenue	(109,790)	(242,068)	(405,074)	(93,533)	(103,998)
(Loss) Income from operations	(9,071)	(7,072)	3,840	(39)	(723)
Net (loss) income	(6,743)	195	2,923	3,632	4,347

14. Investments in equity investees (Continued)

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	<i>(in millions of RMB)</i>			
Balance sheet data:				
Current assets	137,900	200,742	257,502	253,094
Non-current assets	122,844	184,310	222,484	256,665
Current liabilities	93,354	162,340	205,272	206,491
Non-current liabilities	12,375	26,107	34,191	47,793
Noncontrolling interests and mezzanine equity	7,443	16,586	10,151	10,309

15. Property and equipment, net

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	<i>(in millions of RMB)</i>			
Buildings and property improvements	10,529	45,909	61,940	62,565
Computer equipment and software	18,427	33,852	53,187	57,126
Construction in progress	2,627	5,110	6,959	7,650
Furniture, office and transportation equipment	884	2,057	3,889	4,739
	32,467	86,928	125,975	132,080
Less: accumulated depreciation and amortization	(12,261)	(20,439)	(33,945)	(37,896)
Net book value	20,206	66,489	92,030	94,184

Depreciation and amortization expenses recognized for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019 were RMB5,177 million, RMB8,654 million, RMB14,818 million, RMB2,826 million and RMB4,640 million, respectively.

16. Intangible assets, net

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	<i>(in millions of RMB)</i>			
User base and customer relationships	4,169	13,510	47,913	48,098
Trade names, trademarks and domain names	8,100	14,198	22,592	23,608
Non-compete agreements (i)	5,915	7,820	12,528	12,702
Developed technology and patents	4,793	5,463	9,510	9,729
Licensed copyrights (Note 2(y))	6,087	9,182	9,225	9,722
Others	32	225	1,358	508
	29,096	50,398	103,126	104,367
Less: accumulated amortization and impairment	(14,988)	(22,933)	(34,850)	(38,348)
Net book value	<u>14,108</u>	<u>27,465</u>	<u>68,276</u>	<u>66,019</u>

- (i) In April 2017, the Company entered into a non-compete agreement with a former management member of Youku (Note 4(h)), with a fair value of RMB2,528 million. As of June 30, 2019, the remaining amortization period of the non-compete agreement is less than one year.

As of June 30, 2019, the estimated future aggregate amortization expenses were as follows:

	Amounts
	<i>(in millions of RMB)</i>
Nine months ending March 31, 2020	11,358
Year ending March 31, 2021	11,572
Year ending March 31, 2022	8,641
Year ending March 31, 2023	7,781
Year ending March 31, 2024	7,362
Thereafter	<u>19,305</u>
	<u>66,019</u>

17. Goodwill

Changes in the carrying amount of goodwill by segment for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2019 were as follows:

	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total
	<i>(in millions of RMB)</i>				
Balance as of April 1, 2016	66,223	368	10,378	4,676	81,645
Additions (i)	13,298	–	30,110	–	43,408
Foreign currency translation adjustments	334	–	33	–	367
Balance as of March 31, 2017	79,855	368	40,521	4,676	125,420
Additions (i)	37,458	–	335	–	37,793
Impairment	–	–	(494)	–	(494)
Foreign currency translation adjustments	(515)	–	(55)	–	(570)
Balance as of March 31, 2018	116,798	368	40,307	4,676	162,149
Additions (i)	80,760	1,118	20,165	575	102,618
Foreign currency translation adjustments	157	(25)	36	–	168
Balance as of March 31, 2019	197,715	1,461	60,508	5,251	264,935
Additions	845	–	162	815	1,822
Foreign currency translation adjustments	100	22	15	–	137
Balance as of June 30, 2019	198,660	1,483	60,685	6,066	266,894

- (i) During the year ended March 31, 2017, additions under the digital media and entertainment segment were primarily related to the acquisition of Youku (Note 4(h)).

During the year ended March 31, 2018, additions under the core commerce segment were primarily related to the acquisition of Cainiao Network (Note 4(f)).

During the year ended March 31, 2019, additions under the core commerce segment and the digital media and entertainment segment were primarily related to the acquisitions of Koubei and Ele.me (Note 4(c)) and the acquisition of Alibaba Pictures (Note 4(b)), respectively.

17. Goodwill (Continued)

Gross goodwill balances were RMB128,870 million, RMB166,093 million, RMB268,879 million and RMB270,838 million as of March 31, 2017, 2018 and 2019 and June 30, 2019, respectively. Accumulated impairment losses were RMB3,450 million, RMB3,944 million, RMB3,944 million and RMB3,944 million as of March 31, 2017, 2018 and 2019 and June 30, 2019, respectively.

In the annual goodwill impairment assessment, the Company concluded that the carrying amounts of certain reporting units exceeded their respective fair values and recorded impairment losses of nil, RMB494 million and nil during the years ended March 31, 2017, 2018 and 2019, respectively. The impairment losses were resulted from a revision of long-term financial outlook and the change in business model of those reporting units. The impairment loss was determined by comparing the carrying amounts of goodwill associated with the reporting units with their respective implied fair values of the goodwill. The goodwill impairment is presented as an unallocated item in the segment information (Note 26) because the CODM of the Company does not consider this as part of the segment operating performance measure.

18. Deferred revenue and customer advances

Deferred revenue and customer advances primarily represent service fees prepaid by merchants or customers for which the relevant services have not been provided. The respective balances are as follows:

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	<i>(in millions of RMB)</i>			
Deferred revenue	9,643	13,350	18,448	19,403
Customer advances	6,050	9,940	13,814	14,171
	15,693	23,290	32,262	33,574
Less: current portion	(15,052)	(22,297)	(30,795)	(31,917)
Non-current portion	641	993	1,467	1,657

All service fees received in advance are initially recorded as customer advances. These amounts are transferred to deferred revenue upon commencement of the provision of services by the Company and are recognized in the consolidated income statements in the period in which the services are provided. In general, service fees received in advance are non-refundable after the amounts are transferred to deferred revenue. Substantially all of the balances of deferred revenue and customer advances are generally recognized as revenue within one year. The amounts of revenue recognized during the year ended March 31, 2019 and the three months ended June 30, 2018 and 2019 from performance obligations satisfied (or partially satisfied) in previous periods were not material.

19. Accrued expenses, accounts payable and other liabilities

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	(in millions of RMB)			
Current:				
Payables and accruals for cost of revenue and sales and marketing expenses	20,165	40,363	51,958	55,319
Payable to merchants and third party marketing affiliates	3,177	6,584	12,554	13,199
Accrued bonus and staff costs, including sales commission	8,249	11,212	14,034	11,110
Other deposits and advances received	2,314	6,271	10,447	10,711
Payables and accruals for purchases of property and equipment	2,554	6,095	5,548	6,084
Amounts due to related companies (i)	2,167	1,996	4,570	4,598
Other taxes payable (ii)	1,549	2,382	3,448	4,249
Contingent and deferred consideration in relation to investments and acquisitions	2,311	807	3,301	3,313
Operating lease liabilities (Note 7)	–	–	–	2,431
Accrued professional services and administrative expenses	1,002	1,371	2,361	1,980
Accrued donations	880	1,215	1,738	1,976
Accrual for interest expense	445	885	924	124
Others (iii)	2,166	1,984	6,828	4,871
	<u>46,979</u>	<u>81,165</u>	<u>117,711</u>	<u>119,965</u>
Non-current:				
Operating lease liabilities (Note 7)	–	–	–	16,736
Contingent and deferred consideration in relation to investments and acquisitions	630	408	3,872	4,105
Others	660	1,637	2,315	2,355
	<u>1,290</u>	<u>2,045</u>	<u>6,187</u>	<u>23,196</u>

- (i) Amounts due to related companies primarily represent balances arising from the transactions with Ant Financial and its subsidiaries (Note 22). The balances are unsecured, interest free and repayable within the next twelve months.
- (ii) Other taxes payable represent VAT, business tax and related surcharges and PRC individual income tax of employees withheld by the Company.
- (iii) Other current liabilities as of March 31, 2019 include a settlement provision of US\$250 million (RMB1,679 million) for a U.S. federal class action lawsuit that has been pending since January 2015 (Note 25(g)). The amount has been paid as of June 30, 2019.

20. Bank borrowings

Bank borrowings are analyzed as follows:

	As of March 31,			As of June 30,
	2017	2018	2019	2019
	<i>(in millions of RMB)</i>			
Current portion:				
Short-term other borrowings (i)	<u>5,948</u>	<u>6,028</u>	<u>7,356</u>	<u>7,564</u>
Non-current portion:				
US\$4.0 billion syndicated loan				
denominated in US\$ (ii)	<u>27,346</u>	<u>24,957</u>	<u>26,780</u>	<u>27,332</u>
Long-term other borrowings (iii)	<u>3,613</u>	<u>9,196</u>	<u>8,647</u>	<u>10,905</u>
	<u>30,959</u>	<u>34,153</u>	<u>35,427</u>	<u>38,237</u>

- (i) As of March 31, 2017, 2018 and 2019 and June 30, 2019, the Company had short-term borrowings from banks which were repayable within one year or on demand and charged interest rates ranging from 1.7% to 4.8%, 2.2% to 6.1%, 2.9% to 19.0% and 2.9% to 19.0% per annum, respectively. As of March 31, 2019 and June 30, 2019, the weighted average interest rate of these borrowings was 4.1% and 3.9% per annum, respectively. The borrowings are primarily denominated in RMB or US\$.
- (ii) As of March 31, 2017, 2018 and 2019 and June 30, 2019, the Company had a five-year US\$4.0 billion syndicated loan, which was entered into with a group of eight lead arrangers. The loan has a five-year bullet maturity and was priced at 110 basis points over LIBOR. The related floating interest payments are hedged by certain interest rate swap contracts entered into by the Company. The proceeds of the loan were used for general corporate and working capital purposes (including acquisitions). In May 2019, the loan terms were modified such that the interest rate of the loan was reduced to 85 basis points over LIBOR and the maturity of the loan was extended to May 2024.
- (iii) As of March 31, 2017, 2018 and 2019 and June 30, 2019, the Company had long-term borrowings from banks with weighted average interest rates of approximately 4.6%, 4.5%, 4.6% and 4.6% per annum, respectively. The borrowings are primarily denominated in RMB.

Certain other bank borrowings are collateralized by a pledge of certain bank deposits, buildings and property improvements, construction in progress and land use rights in the PRC with carrying values of RMB6,715 million, RMB20,927 million, RMB18,314 million and RMB20,784 million, as of March 31, 2017, 2018 and 2019 and June 30, 2019, respectively. As of June 30, 2019, the Company is in compliance with all covenants in relation to bank borrowings.

20. Bank borrowings (Continued)

In April 2017, the Company obtained a new revolving credit facility provided by certain financial institutions for an amount of US\$5.15 billion, which has not yet been drawn down. The interest rate on any outstanding utilized amount under this new credit facility is calculated based on LIBOR plus 95 basis points. This facility is reserved for general corporate and working capital purposes (including acquisitions).

As of June 30, 2019, the borrowings will be due according to the following schedule:

	Principal amounts
	<i>(in millions of RMB)</i>
Within 1 year	7,564
Between 1 to 2 years	1,200
Between 2 to 3 years	643
Between 3 to 4 years	680
Between 4 to 5 years	28,309
Beyond 5 years	7,569
	<hr/>
	45,965
	<hr/> <hr/>

21. Unsecured senior notes

In November 2014, the Company issued unsecured senior notes including floating rate and fixed rate notes with varying maturities for an aggregate principal amount of US\$8.0 billion (the “2014 Senior Notes”), of which US\$1.3 billion was repaid in November 2017. The 2014 Senior Notes are senior unsecured obligations that are listed on the HKSE, and interest is payable in arrears, quarterly for the floating rate notes and semiannually for the fixed-rate notes.

In December 2017, the Company issued another series of unsecured fixed rate senior notes with varying maturities for an aggregate principal amount of US\$7.0 billion (the “2017 Senior Notes”). The 2017 Senior Notes are senior unsecured obligations that are listed on the Singapore Stock Exchange, and interest is payable in arrears semiannually.

21. Unsecured senior notes (Continued)

The following table provides a summary of the Company's unsecured senior notes as of March 31, 2017, 2018 and 2019 and June 30, 2019:

	As of March 31,			As of June 30,	Effective interest rate
	2017	2018	2019	2019	
	<i>(in millions of RMB)</i>				
US\$300 million floating rate notes due 2017	2,066	–	–	–	1.69%
US\$1,000 million 1.625% notes due 2017	6,883	–	–	–	1.77%
US\$2,250 million 2.500% notes due 2019	15,434	14,083	15,110	15,455	2.67%
US\$1,500 million 3.125% notes due 2021	10,268	9,365	10,044	10,272	3.26%
US\$700 million 2.800% notes due 2023	–	4,372	4,687	4,793	2.90%
US\$2,250 million 3.600% notes due 2024	15,414	14,050	15,061	15,401	3.68%
US\$2,550 million 3.400% notes due 2027	–	15,848	16,989	17,374	3.52%
US\$700 million 4.500% notes due 2034	4,760	4,339	4,650	4,755	4.60%
US\$1,000 million 4.000% notes due 2037	–	6,219	6,663	6,813	4.06%
US\$1,750 million 4.200% notes due 2047	–	10,880	11,655	11,917	4.25%
US\$1,000 million 4.400% notes due 2057	–	6,216	6,658	6,808	4.44%
Carrying value	54,825	85,372	91,517	93,588	
Unamortized discount and debt issuance costs	298	624	589	582	
Total principal amounts of unsecured senior notes	55,123	85,996	92,106	94,170	
Less: current portion of principal amounts of unsecured senior notes	(8,957)	–	(15,127)	(15,466)	
Non-current portion of principal amounts of unsecured senior notes	<u>46,166</u>	<u>85,996</u>	<u>76,979</u>	<u>78,704</u>	

21. Unsecured senior notes (Continued)

The 2014 Senior Notes and the 2017 Senior Notes were issued at a discount with a total amount of US\$47 million (RMB297 million). The debt issuance costs of US\$82 million (RMB517 million) were presented as a direct deduction from the principal amount of the unsecured senior notes on the consolidated balance sheets. The effective interest rates for the unsecured senior notes include the interest charged on the notes as well as amortization of the debt discounts and debt issuance costs.

The 2014 Senior Notes and the 2017 Senior Notes contain covenants including, among others, limitation on liens, consolidation, merger and sale of the Company's assets. As of June 30, 2019, the Company is in compliance with all these covenants. In addition, the 2014 Senior Notes and the 2017 Senior Notes rank senior in right of payment to all of the Company's existing and future indebtedness expressly subordinated in right of payment to the notes and rank at least equally in right of payment with all of the Company's existing and future unsecured unsubordinated indebtedness (subject to any priority rights pursuant to applicable law).

The proceeds from issuance of the 2014 Senior Notes were used in full to refinance a previous syndicated loan in the same amount. The proceeds from the issuance of the 2017 Senior Notes were used for general corporate purposes.

As of June 30, 2019, the future principal payments for the Company's unsecured senior notes will be due according to the following schedule:

	Principal amounts
	<i>(in millions of RMB)</i>
Within 1 year	15,466
Between 1 to 2 years	–
Between 2 to 3 years	10,310
Between 3 to 4 years	4,812
Between 4 to 5 years	–
Thereafter	63,582
	<hr/> 94,170 <hr/>

As of March 31, 2017, 2018 and 2019 and June 30, 2019, the fair values of the Company's unsecured senior notes, based on Level 2 inputs, were US\$8,072 million (RMB55,616 million), US\$13,317 million (RMB83,590 million), US\$13,679 million (RMB91,964 million) and US\$14,053 million (RMB96,600 million), respectively.

22. Related party transactions

During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, other than disclosed elsewhere, the Company had the following material related party transactions:

Transactions with Ant Financial and its affiliates

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	<i>(Unaudited)</i>				
	<i>(in millions of RMB)</i>				
Amounts earned by the Company					
Profit Share Payments (i)	2,086	3,444	517	910	1,627
SME Annual Fee (ii)	847	956	954	239	239
Administrative and support services (iii)	531	676	1,017	186	295
Commission on transactions (iii)	409	497	591	122	251
Cloud computing revenue (iii)	264	482	761	145	240
Other amounts earned (iii)	144	529	898	145	392
	<u>4,281</u>	<u>6,584</u>	<u>4,738</u>	<u>1,747</u>	<u>3,044</u>
Amounts incurred by the Company					
Payment processing fee (iv)	5,487	6,295	8,252	1,739	2,281
Other amounts incurred (iii)	952	1,894	1,328	564	703
	<u>6,439</u>	<u>8,189</u>	<u>9,580</u>	<u>2,303</u>	<u>2,984</u>

- (i) In 2014, the Company entered into the 2014 IPLA with Ant Financial. Under the 2014 IPLA, the Company received the Profit Share Payments amounting to the sum of an expense reimbursement plus 37.5% of the consolidated pre-tax income of Ant Financial, subject to certain adjustments (Note 4(a)).

Profit Share Payments were recognized in consolidated income statements, net of the costs incurred for the provision of the software technology services reimbursed by Ant Financial. The amounts reimbursed by Ant Financial to the Company were RMB245 million, RMB37 million, RMB106 million, nil and nil for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

- (ii) The Company entered into software system use and service agreements with Ant Financial in 2014. In calendar years 2016 to 2017, the Company received the SME Annual Fee equal to 2.5% of the average daily balance of the SME loans made by Ant Financial and its affiliates. In calendar years 2018 to 2021, the Company received or will receive the SME Annual Fee equal to the amount paid in calendar year 2017 (Note 4(a)).
- (iii) The Company has other commercial arrangements, treasury management arrangements and cost sharing arrangements with Ant Financial, its subsidiaries and affiliates on various sales and marketing, cloud computing, treasury management, and other administrative and support services.

22. Related party transactions (Continued)

In addition, the Company entered into agreements with Ant Financial and its affiliates under which the Company receives a cash reimbursement for RSUs and options relating to the certain shares granted to employees of Ant Financial, its subsidiaries and affiliates, upon the vesting of the RSUs and options.

- (iv) The Company and Alipay, among others, entered into a commercial agreement in 2011 whereby the Company receives payment processing services in exchange for a payment processing fee, which was recognized in cost of revenue.

As of March 31, 2017, 2018 and 2019 and June 30, 2019, the Company had certain amounts of cash and short-term investments held in accounts managed by Alipay.

Transactions with Cainiao Network

The Company has commercial arrangements with Cainiao Network to receive certain logistics services. Expenses incurred in connection with the logistics services provided by Cainiao Network of RMB4,444 million and RMB3,437 million were recorded in the consolidated income statements for the year ended March 31, 2017 and for the period from April 1, 2017 to the date of consolidation of Cainiao Network in October 2017, respectively.

The Company also has cost sharing and other services arrangements with Cainiao Network and its subsidiaries primarily related to various administrative and support services. In connection with these services provided by the Company, RMB152 million and RMB123 million were recorded in the consolidated income statements for the year ended March 31, 2017 and for the period from April 1, 2017 to the date of consolidation of Cainiao Network in October 2017, respectively.

Transactions with Weibo Corporation (“Weibo”)

The strategic collaboration agreement and the marketing cooperation agreement that were entered into between the Company and Weibo, an equity investee of the Company, expired in January 2016. Expenses incurred in connection with the marketing services provided by Weibo pursuant to these agreements and other commercial arrangements of RMB340 million, RMB615 million, RMB624 million, RMB206 million and RMB156 million were recorded in the cost of revenue and sales and marketing expenses in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

The Company also has other commercial arrangements with Weibo primarily related to cloud computing services. In connection with these services provided by the Company, RMB105 million, RMB223 million, RMB304 million, RMB68 million and RMB71 million were recorded in revenue in the consolidated income statements for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, respectively.

22. Related party transactions (Continued)*Transactions with other investees*

Cainiao Network has commercial arrangements with certain investees of the Company related to logistics services. Revenues recognized in connection with these services of RMB72 million, RMB261 million, RMB24 million and RMB264 million were recorded in the consolidated income statements for the period from the date of consolidation of Cainiao Network in October 2017 to March 31, 2018, the year ended March 31, 2019 and the three months ended June 30, 2018 and 2019, respectively. Expenses incurred in connection with these services of RMB5,608 million, RMB12,933 million, RMB3,709 million and RMB2,226 million were recorded in the consolidated income statements for the same periods, respectively.

The Company has extended loans to certain of the Company's investees for working capital and other uses in conjunction with the Company's investments. As of June 30, 2019, the aggregate outstanding balance of these loans was RMB2,401 million, with durations generally ranging from one month to ten years and interest rates of up to 10% per annum.

Repurchase of ordinary shares from SoftBank

In June 2016, the Company entered into a share purchase agreement with SoftBank, pursuant to which the Company repurchased 27,027,027 ordinary shares from SoftBank at US\$74.00 per share (before the Share Subdivision as detailed in Note 2(a)) for an aggregate consideration of approximately US\$2.0 billion. These ordinary shares were canceled upon the completion of the transaction.

Other transactions

The Company's digital economy offers different platforms on which different enterprises operate and the Company believes that all transactions on the Company's platforms are conducted on terms obtained in arms-length transactions with similar unrelated parties.

Other than the transactions disclosed above or elsewhere in the consolidated financial statements, the Company has commercial arrangements with SoftBank, its investees and other related parties to provide and receive certain marketing, logistics, traffic acquisition, cloud computing and other services and products. The amounts relating to these services provided and received represent less than 1% of the Company's revenue and total costs and expenses, respectively, for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2018 and 2019.

In addition, the Company has made certain acquisitions and equity investments together with related parties from time to time during the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019. The agreements for acquisitions and equity investments were entered into by the parties involved and conducted on fair value basis. The significant acquisitions and equity investments together with related parties are included in Note 4.

23. Restricted net assets

PRC laws and regulations permit payments of dividends by the Company's subsidiaries incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries incorporated in the PRC are required to annually appropriate 10% of their net income to the statutory reserve prior to payment of any dividends, unless the reserve has reached 50% of their respective registered capital. Furthermore, registered share capital and capital reserve accounts are also restricted from distribution. As a result of the restrictions described above and elsewhere under PRC laws and regulations, the Company's subsidiaries incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividends. The restriction amounted to RMB114,247 million as of June 30, 2019. Except for the above or disclosed elsewhere, there is no other restriction on the use of proceeds generated by the Company's subsidiaries to satisfy any obligations of the Company.

24. Commitments**(a) Capital commitments**

Capital expenditures contracted for are analyzed as follows:

	As of March 31,			As of
	2017	2018	2019	June 30,
				2019
	<i>(in millions of RMB)</i>			
Contracted but not provided for:				
Purchase of property and equipment	1,771	3,181	5,656	7,328
Construction of corporate campuses	2,838	2,607	3,576	3,218
	<u>4,609</u>	<u>5,788</u>	<u>9,232</u>	<u>10,546</u>

24. Commitments (Continued)**(b) Operating lease commitments for office facility and transportation equipment**

The Company has leased office premises and transportation equipment under non-cancellable operating lease agreements. These leases have different terms and renewal rights. As of March 31, 2017, 2018 and 2019, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of March 31,		
	2017	2018	2019
	<i>(in millions of RMB)</i>		
No later than 1 year	862	2,760	4,984
Later than 1 year and no later than 5 years	1,593	7,652	10,675
More than 5 years	834	11,940	15,346
Total	<u>3,289</u>	<u>22,352</u>	<u>31,005</u>

For the years ended March 31, 2017, 2018 and 2019, the Company incurred rental expenses under operating leases of RMB747 million, RMB2,279 million and RMB4,699 million, respectively. Upon the adoption of ASC 842 on April 1, 2019, operating lease liabilities are initially recognized based on the present value of future lease payments at lease commencement and the future lease payment under operating lease as of June 30, 2019 is disclosed in Note 7.

(c) Commitments for co-location and bandwidth fees, licensed copyrights and marketing expenses

	As of March 31,			As of
	2017	2018	2019	June 30,
	<i>(in millions of RMB)</i>			2019
No later than 1 year	8,295	19,737	21,768	22,463
Later than 1 year and no later than 5 years	10,593	12,097	22,291	21,969
More than 5 years	3,678	3,672	4,964	4,876
Total	<u>22,566</u>	<u>35,506</u>	<u>49,023</u>	<u>49,308</u>

(d) Investment commitments

The Company was obligated to pay up to RMB17,495 million, RMB15,174 million, RMB23,954 million and RMB23,245 million for business combinations and equity investments under various arrangements as of March 31, 2017, 2018 and 2019 and June 30, 2019, respectively. The commitment balance as of March 31, 2017 primarily included the consideration for the privatization of Intime (Note 4(g)) and the

24. Commitments (Continued)**(d) Investment commitments (Continued)**

investment in Ele.me (Note 4(c)). The commitment balance as of March 31, 2018 primarily includes the consideration for the investment in Shiji Retail (Note 4(t)) and the acquisition of Kaiyuan (Note 4(e)). The commitment balance as of March 31, 2019 and June 30, 2019 primarily includes the consideration for the investment relating to STO Express (Note 4(m)), Focus Media (Note 4(n)) and the remaining committed capital of certain investment funds.

(e) Sponsorship commitment

In January 2017, the Company entered into a framework agreement with the International Olympic Committee (the "IOC") and the United States Olympic Committee for a long-term partnership arrangement through 2028. Joining in The Olympic Partner worldwide sponsorship program, the Company has become the official "E-Commerce Services" Partner and "Cloud Services" Partner of the IOC. In addition, the Company has been granted certain marketing rights, benefits and opportunities relating to future Olympic Games and related initiatives, events and activities. The Company will provide at least US\$815 million worth of cash, cloud infrastructure services and cloud computing services, as well as marketing and media support in connection with various Olympic initiatives, events and activities, including the Olympic Games and the Winter Olympic Games through 2028. As of March 31, 2017, 2018 and 2019 and June 30, 2019, the aggregate amount of cash to be paid and value of services to be provided in the future approximates US\$800 million, US\$770 million, US\$738 million and US\$731 million, respectively.

25. Risks and contingencies

- (a) The Company is incorporated in the Cayman Islands and considered as a foreign entity under PRC laws. Due to legal restrictions on foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of Internet content providers, the Company conducts its Internet businesses and other businesses through various contractual arrangements with VIEs that are held by PRC citizens or by PRC entities owned and/or controlled by PRC citizens. The VIEs hold the licenses and approvals that are essential for their business operations in the PRC and the Company has entered into various agreements with the VIEs and their equity holders such that the Company has the right to benefit from their licenses and approvals and generally has control of the VIEs. In the Company's opinion, the current ownership structure and the contractual arrangements with the VIEs and their equity holders as well as the operations of the VIEs are in substantial compliance with all existing PRC laws, rules and regulations. However, there may be changes and other developments in PRC laws, rules and regulations. Accordingly, the Company gives no assurance that PRC government authorities will not take a view in the future that is contrary to the opinion of the Company. If the current ownership structure of the Company and its contractual arrangements with the VIEs and their equity holders were found to be in violation of any existing or future PRC laws or regulations, the Company's ability to conduct its business could be impacted and the Company may be required to restructure its ownership structure and operations in the PRC to comply with the changes in the PRC laws which may result in deconsolidation of the VIEs.

25. Risks and contingencies (Continued)

- (b) The PRC market in which the Company operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Company to operate or invest in online and mobile commerce or other Internet related businesses, representing the principal services provided by the Company, in the PRC. The information and technology industries are highly regulated. Restrictions are currently in place or are unclear regarding what specific segments of these industries foreign owned enterprises, like the Company, may operate. If new or more extensive restrictions were imposed on the segments in which the Company is permitted to operate, the Company could be required to sell or cease to operate or invest in some or all of its current businesses in the PRC.
- (c) The Company's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of the Company's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Company in the PRC must be processed through the PBOC or other PRC foreign exchange regulatory bodies and require certain supporting documentation in order to effect the remittance. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currencies to satisfy its currency demands, the Company may not be able to pay dividends in foreign currencies and the Company's ability to fund its business activities that are conducted in foreign currencies could be adversely affected.
- (d) Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and cash equivalents, short-term investments, restricted cash and investment securities. As of March 31, 2017, 2018 and 2019 and June 30, 2019, substantially all of the Company's cash and cash equivalents, short-term investments and restricted cash were held by major financial institutions located worldwide, including Hong Kong and the PRC. If the banking system or the financial markets deteriorate or become volatile, the financial institutions and other issuers of financial instruments held by the Company could become insolvent and the markets for these instruments could become illiquid, in which case the Company could lose some or all of the value of its investments.
- (e) During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the Company offered a trade assurance program on the international wholesale marketplaces at no charge to the wholesale buyers and sellers. If the wholesale sellers who participate in this program do not deliver the products in their stated specifications to the wholesale buyers on schedule, the Company may compensate the wholesale buyers for their losses on behalf of the wholesale sellers up to a pre-determined amount following a review of each particular case. In turn, the Company will seek a full reimbursement from the wholesale sellers for the prepaid reimbursement amount, yet the Company is exposed to a risk over the collectability of the reimbursement from the wholesale sellers. During the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019, the Company did not incur any material losses with respect to the compensation provided under this

25. Risks and contingencies (Continued)

program. Given that the maximum compensation for each wholesale seller is pre-determined based on their individual risk assessments by the Company considering their credit profile or other relevant information, the Company determined that the likelihood of material default on the payments are not probable and therefore no provisions have been made in relation to this program.

- (f) In the ordinary course of business, the Company makes strategic investments in privately held companies and listed securities to increase the service offerings and expand capabilities. The Company continually reviews its investments to determine whether a decline in fair value below the carrying value is other-than-temporary. The primary factors which the Company considers in its determination include the length of time that the fair value of the investment is below the Company's carrying value; post-balance sheet date fair value of the investment; the financial condition, operating performance, strategic collaboration with and the prospects of the investee; the economic or technological environment in which the investee operates; and other entity specific information, such as recent financing rounds completed by the investee companies. Fair value of the listed securities is subject to volatility and may be materially affected by market fluctuations. If the decline in fair value is significant and other-than-temporary, the carrying value of the investment is written down to its fair value and this may negatively impact the results of operations of the Company.
- (g) In the ordinary course of business, the Company is from time to time involved in legal proceedings and litigations relating to disputes relating to trademarks and other intellectual property, among others. As of March 31, 2019, the Company accrued a settlement provision of US\$250 million (RMB1,679 million) for the settlement of a U.S. federal class action lawsuit in exchange for a full release of all claims brought in the lawsuit that has been pending since January 2015. The amount has been paid as of June 30, 2019 (Note 19). Except for the above, there are no legal proceedings and litigations that have in the recent past had, or to the Company's knowledge, are probable to have, a material impact on the Company's financial positions, results of operations or cash flows. Except for the above, the Company did not accrue any other material loss contingencies in this respect as of March 31, 2017, 2018 and 2019 and June 30, 2019.

26. Segment information

The Company presents segment information after elimination of inter-company transactions. In general, revenue, cost of revenue and operating expenses are directly attributable, or are allocated, to each segment. The Company allocates costs and expenses that are not directly attributable to a specific segment, such as those that support infrastructure across different segments, to different segments mainly on the basis of usage, revenue or headcount, depending on the nature of the relevant costs and expenses. The Company does not allocate assets to its segments as the CODM does not evaluate the performance of segments using asset information.

26. Segment information (Continued)

The following tables present the summary of each segment's revenue, income from operations and adjusted earnings before interest, taxes and amortization ("Adjusted EBITA") which is considered as a segment operating performance measure, for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019:

	Year ended March 31, 2017						Consolidated
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	
	<i>(in millions of RMB, except percentages)</i>						
Revenue	133,880	6,663	14,733	2,997	158,273	–	158,273
Income (Loss) from operations	74,180	(1,681)	(9,882)	(6,798)	55,819	(7,764)	48,055
Add: share-based compensation expense	5,994	1,201	1,454	3,017	11,666	4,329	15,995
Add: amortization of intangible assets	2,258	4	1,886	656	4,804	318	5,122
Adjusted EBITA (ii)	82,432	(476)	(6,542)	(3,125)	72,289	(3,117)	
Adjusted EBITA margin (iii)	62%	(7)%	(44)%	(104)%			
Year ended March 31, 2018							
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	Consolidated
	<i>(in millions of RMB, except percentages)</i>						
Revenue	214,020	13,390	19,564	3,292	250,266	–	250,266
Income (Loss) from operations	102,743	(3,085)	(14,140)	(6,901)	78,617	(9,303)	69,314
Add: share-based compensation expense	8,466	2,274	2,142	3,707	16,589	3,486	20,075
Add: amortization of intangible assets	2,891	12	3,693	198	6,794	326	7,120
Add: impairment of goodwill	–	–	–	–	–	494	494
Adjusted EBITA (ii)	114,100	(799)	(8,305)	(2,996)	102,000	(4,997)	
Adjusted EBITA margin (iii)	53%	(6)%	(42)%	(91)%			

26. Segment information (Continued)

	Year ended March 31, 2019						Consolidated
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	
	<i>(in millions of RMB, except percentages)</i>						
Revenue	323,400	24,702	24,077	4,665	376,844	–	376,844
Income (Loss) from operations	109,312	(5,508)	(20,046)	(11,795)	71,963	(14,879)	57,084
Add: share-based compensation expense	17,694	4,332	2,988	5,774	30,788	6,703	37,491
Add: amortization of intangible assets	9,161	18	1,262	50	10,491	236	10,727
Add: settlement of U.S. federal class action lawsuit	–	–	–	–	–	1,679	1,679
Adjusted EBITA (ii)	136,167	(1,158)	(15,796)	(5,971)	113,242	(6,261)	
Adjusted EBITA margin (iii)	42%	(5)%	(66)%	(128)%			
Three months ended June 30, 2018 (Unaudited)							
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	Consolidated
	<i>(in millions of RMB, except percentages)</i>						
Revenue	69,188	4,698	5,975	1,059	80,920	–	80,920
Income (Loss) from operations	23,022	(2,074)	(4,290)	(3,775)	12,883	(4,863)	8,020
Add: share-based compensation expense	8,095	1,581	818	2,564	13,058	3,320	16,378
Add: amortization of intangible assets	1,680	5	340	9	2,034	70	2,104
Adjusted EBITA (ii)	32,797	(488)	(3,132)	(1,202)	27,975	(1,473)	
Adjusted EBITA margin (iii)	47%	(10)%	(52)%	(114)%			

26. Segment information (Continued)

	Three months ended June 30, 2019						
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	
	<i>(in millions of RMB, except percentages)</i>						
Revenue	99,544	7,787	6,312	1,281	114,924	–	114,924
Income (Loss) from operations	35,049	(1,509)	(3,159)	(3,000)	27,381	(3,006)	24,375
Add: share-based compensation expense	3,310	1,147	596	1,015	6,068	1,047	7,115
Add: amortization of intangible assets	2,666	4	330	20	3,020	46	3,066
Adjusted EBITA (ii)	<u>41,025</u>	<u>(358)</u>	<u>(2,233)</u>	<u>(1,965)</u>	<u>36,469</u>	<u>(1,913)</u>	
Adjusted EBITA margin (iii)	41%	(5)%	(35)%	(153)%			

The following table presents the reconciliation from the Adjusted EBITA to the consolidated net income for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	<i>(Unaudited)</i>				
	<i>(in millions of RMB)</i>				
Total Segments					
Adjusted EBITA	72,289	102,000	113,242	27,975	36,469
Unallocated (i)	(3,117)	(4,997)	(6,261)	(1,473)	(1,913)
Share-based compensation expense	(15,995)	(20,075)	(37,491)	(16,378)	(7,115)
Amortization of intangible assets	(5,122)	(7,120)	(10,727)	(2,104)	(3,066)
Impairment of goodwill	–	(494)	–	–	–
Settlement of U.S. federal class action lawsuit	–	–	(1,679)	–	–

26. Segment information (Continued)

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	(Unaudited)				
	(in millions of RMB)				
Consolidated income from operations	48,055	69,314	57,084	8,020	24,375
Interest and investment income, net	8,559	30,495	44,106	7,246	187
Interest expenses	(2,671)	(3,566)	(5,190)	(1,213)	(1,346)
Other income (loss), net	6,086	4,160	221	(83)	2,101
Income tax expenses	(13,776)	(18,199)	(16,553)	(5,665)	(6,712)
Share of results of equity investees	(5,027)	(20,792)	566	(655)	517
Consolidated net income	<u>41,226</u>	<u>61,412</u>	<u>80,234</u>	<u>7,650</u>	<u>19,122</u>

The following table presents the total depreciation and amortization expenses of property and equipment, and operating lease cost relating to land use rights by segment for the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019:

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	(Unaudited)				
	(in millions of RMB)				
Core commerce	2,124	3,784	6,672	1,253	1,919
Cloud computing	1,438	3,047	6,580	1,188	2,014
Digital media and entertainment	752	986	1,182	291	338
Innovation initiatives and others and unallocated (i)	<u>970</u>	<u>972</u>	<u>528</u>	<u>125</u>	<u>411</u>

26. Segment information (Continued)

	Year ended March 31,			Three months ended June 30,	
	2017	2018	2019	2018	2019
	(Unaudited)				
	(in millions of RMB)				
Total depreciation and amortization expenses of property and equipment, and operating lease cost relating to land use rights	5,284	8,789	14,962	2,857	4,682

- (i) Unallocated expenses are primarily related to corporate administrative costs and other miscellaneous items that are not allocated to individual segments.
- (ii) Adjusted EBITA represents net income before (i) interest and investment income, net, interest expense, other income or loss, net, income tax expenses and share of results of equity investees, (ii) certain non-cash expenses, consisting of share-based compensation expense, amortization of intangible assets and impairment of goodwill, and (iii) settlement of a U.S. federal class action lawsuit, which are not reflective of the Company's core operating performance.
- (iii) Adjusted EBITA margin represents Adjusted EBITA divided by revenue.

Details of the Company's revenue by segment are set out in Note 5. As substantially all of the Company's long-lived assets are located in the PRC and substantially all of the Company's revenue is derived from within the PRC, no geographical information is presented.

27. Dividends

No dividends have been paid or declared by the Company during each of the years ended March 31, 2017, 2018 and 2019 and the three months ended June 30, 2018 and 2019.

28. Subsequent events

As detailed in Note 2(a), the Share Subdivision and the ADS Ratio Change were effective on July 30, 2019. The number of issued and unissued ordinary shares as disclosed in these consolidated financial statements are prepared on a basis after taking into account the effects of the Share Subdivision and the ADS Ratio Change and have been retrospectively adjusted accordingly.

Except for the above and as disclosed elsewhere in this report, there are no other significant events that occurred subsequent to June 30, 2019.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2019 and up to the date of this report. Except as disclosed elsewhere in this report, no dividends or distributions have been declared or made by the Company in respect of any period subsequent to June 30, 2019.

The following is the text of a report set out on page IB-1, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. The information set out below is the unaudited condensed interim financial information of the Company for the three months ended September 30, 2019, and does not form part of the Accountant's Report from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix IA to this prospectus, and is included herein for information purpose only.



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF ALIBABA GROUP HOLDING LIMITED**
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages IB-2 to IB-60, which comprises the condensed consolidated balance sheet of Alibaba Group Holding Limited and its subsidiaries (together, the "Company") as of September 30, 2019 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with accounting principles generally accepted in the United States of America. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Company is not prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
November 15, 2019

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UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

		Three months ended September 30,		
		2018	2019	
		RMB	RMB	US\$
		(Note 2(a))		
		(in millions, except per share data)		
Revenue	5, 20	85,148	119,017	16,651
Cost of revenue	20	(46,786)	(65,546)	(9,170)
Product development expenses	20	(8,365)	(10,938)	(1,530)
Sales and marketing expenses	20	(9,106)	(11,996)	(1,679)
General and administrative expenses	20	(4,779)	(6,591)	(922)
Amortization of intangible assets	14	(2,611)	(3,006)	(420)
Impairment of goodwill	15	—	(576)	(81)
Income from operations		13,501	20,364	2,849
Interest and investment income, net		6,635	63,348	8,862
Interest expense		(1,340)	(1,360)	(190)
Other (loss) income, net	6, 20	(1,532)	3,171	444
Income before income tax and share of results of equity investees		17,264	85,523	11,965
Income tax expenses	8	(277)	(2,815)	(394)
Share of results of equity investees	13	1,254	(11,960)	(1,673)
Net income		18,241	70,748	9,898
Net loss attributable to noncontrolling interests		1,892	1,843	258
Net income attributable to Alibaba Group Holding Limited		20,133	72,591	10,156
Accretion of mezzanine equity		(100)	(51)	(7)
Net income attributable to ordinary shareholders		<u>20,033</u>	<u>72,540</u>	<u>10,149</u>
Earnings per share attributable to ordinary shareholders (Note)	10			
Basic		0.97	3.49	0.49
Diluted		0.95	3.44	0.48
Earnings per ADS attributable to ordinary shareholders (one ADS equals eight ordinary shares)	10			
Basic		7.75	27.90	3.90
Diluted		7.62	27.51	3.85
Weighted average number of shares used in computing earnings per share (million shares) (Note)	10			
Basic		20,669	20,800	
Diluted		21,023	21,093	

Note: Basic and diluted earnings per share and the number of shares have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a).

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended September 30,		
	2018	2019	
	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
			(Note 2(a))
		(in millions)	
Net income	<u>18,241</u>	<u>70,748</u>	<u>9,898</u>
Other comprehensive income (loss):			
– Foreign currency translation:			
Change in unrealized gains	<u>381</u>	<u>1,457</u>	<u>204</u>
– Share of other comprehensive income of equity method investees:			
Change in unrealized gains	<u>308</u>	<u>29</u>	<u>4</u>
– Interest rate swaps under hedge accounting and others:			
Change in unrealized gains (losses)	<u>9</u>	<u>(55)</u>	<u>(8)</u>
Other comprehensive income	<u>698</u>	<u>1,431</u>	<u>200</u>
Total comprehensive income	<u>18,939</u>	<u>72,179</u>	<u>10,098</u>
Total comprehensive loss attributable to noncontrolling interests	<u>1,573</u>	<u>1,476</u>	<u>207</u>
Total comprehensive income attributable to ordinary shareholders	<u>20,512</u>	<u>73,655</u>	<u>10,305</u>

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

		As of March 31, 2019	As of September 30, 2019	
	Notes	RMB	RMB	US\$
			(in millions)	
			(Note 2(a))	
Assets				
Current assets:				
Cash and cash equivalents		189,976	234,177	32,763
Short-term investments		3,262	1,074	150
Restricted cash and escrow receivables		8,518	14,095	1,972
Investment securities	11	9,927	5,759	806
Prepayments, receivables and other assets	12	58,590	80,582	11,273
Total current assets		270,273	335,687	46,964
Investment securities	11	157,090	167,690	23,461
Prepayments, receivables and other assets	12	28,018	49,299	6,897
Investments in equity investees	13	84,454	163,261	22,841
Property and equipment, net		92,030	100,907	14,118
Intangible assets, net	14	68,276	66,100	9,248
Goodwill	15	264,935	276,633	38,702
Total assets		965,076	1,159,577	162,231
Liabilities, mezzanine equity and shareholders' equity				
Current liabilities:				
Current bank borrowings	18	7,356	8,136	1,138
Current unsecured senior notes	19	15,110	16,019	2,241
Income tax payable		17,685	17,152	2,400
Escrow money payable		8,250	7,830	1,095
Accrued expenses, accounts payable and other liabilities	17	117,711	148,104	20,721
Merchant deposits		10,762	11,286	1,579
Deferred revenue and customer advances	16	30,795	35,422	4,956
Total current liabilities		207,669	243,949	34,130
Deferred revenue	16	1,467	1,782	249
Deferred tax liabilities		22,517	41,892	5,861
Non-current bank borrowings	18	35,427	40,560	5,675
Non-current unsecured senior notes	19	76,407	80,962	11,327
Other liabilities	17	6,187	22,695	3,175
Total liabilities		349,674	431,840	60,417

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

	<i>Notes</i>	As of March 31, 2019	As of September 30, 2019	
		<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
			<i>(Note 2(a))</i>	
			<i>(in millions)</i>	
Commitments and contingencies	21	–	–	–
Mezzanine equity		6,819	7,506	1,050
Shareholders' equity:				
Ordinary shares, US\$0.000003125 par value; 32,000,000,000 shares authorized as of March 31, 2019 and September 30, 2019; 20,696,476,576 and 20,865,649,008 shares issued and outstanding as of March 31, 2019 and September 30, 2019, respectively <i>(Note)</i>		1	1	–
Additional paid-in capital		231,783	246,073	34,427
Treasury shares, at cost		–	–	–
Restructuring reserve		(97)	–	–
Subscription receivables		(49)	(51)	(7)
Statutory reserves		5,068	5,581	781
Accumulated other comprehensive income (loss)				
Cumulative translation adjustments		(2,592)	(257)	(36)
Unrealized gains on interest rate swaps and others		257	40	6
Retained earnings		257,886	351,412	49,164
Total shareholders' equity		492,257	602,799	84,335
Noncontrolling interests		116,326	117,432	16,429
Total equity		608,583	720,231	100,764
Total liabilities, mezzanine equity and equity		965,076	1,159,577	162,231

Note: Par value per share and the number of shares have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a).

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary shares		Additional paid-in capital		Accumulated other comprehensive income (loss)									
	Share (Note)	Amount	Treasury shares	Restructuring reserve	Subscription receivables	Statutory reserves	Cumulative translation adjustments	Unrealized gains on interest rate swaps and others	Retained earnings	Total shareholders' equity	Noncontrolling interests	Total equity		
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB		
							(in millions, except share data)							
Balance as of July 1, 2018		20,733,916,400	1	203,367	(1,412)	(295)	(172)	4,528	(2,611)	564	189,119	393,089	79,505	472,594
Foreign currency translation adjustment	-	-	-	-	-	-	(7)	-	25	20	-	38	336	374
Share of additional paid-in capital and other comprehensive income of equity method investees	-	-	(43)	-	-	-	-	-	308	-	-	265	-	265
Change in fair value of interest rate swaps under hedge accounting and others	-	-	-	-	-	-	-	-	-	9	-	9	-	9
Net income for the period	-	-	-	-	-	-	-	-	-	-	20,133	20,133	(1,909)	18,224
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(688)	(688)
Issuance of shares, including vesting of RSUs and early exercised options and exercise of share options	14,565,568	-	9	-	-	-	-	-	-	-	-	9	-	9
Repurchase and retirement of ordinary shares	(11,340,536)	-	(128)	-	-	-	-	-	-	-	(1,398)	(1,526)	-	(1,526)
Transactions with noncontrolling interests	-	-	3,167	-	-	-	-	-	-	-	-	3,167	(3,947)	(780)
Amortization of compensation cost	-	-	6,410	-	-	-	-	-	-	-	-	6,410	588	6,998
Appropriation to statutory reserves	-	-	-	-	-	-	7	-	-	-	(7)	-	-	-
Others	-	-	(100)	-	-	66	-	-	-	-	-	(34)	(98)	(132)
Balance as of September 30, 2018		20,737,141,432	1	212,682	(1,412)	(229)	(179)	4,535	(2,278)	593	207,847	421,560	73,787	495,347

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a).

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	Ordinary shares		Additional paid-in capital		Treasury shares		Restructuring reserve		Subscription receivables		Statutory reserves		Cumulative translation adjustments		Unrealized gains (losses) on interest rate swaps and others		Retained earnings		Total shareholders' equity		Noncontrolling interests		Total equity	
	Amount		RMB		RMB		RMB		RMB		RMB		RMB		RMB		RMB		RMB		RMB		RMB	
	Share (Note)																							
Balance as of July 1, 2019		20,836,609,360	1	238,023	-	(31)	(49)	5,166	(1,405)	92	279,236	521,033	116,933	637,966										
Foreign currency translation adjustment		-	-	-	-	-	(2)	-	1,119	3	-	1,120	335	1,455										
Share of additional paid-in capital and other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-	-										
of equity method investees		-	-	(97)	-	-	-	-	29	-	-	(68)	-	(68)										
Change in fair value of interest rate swaps under hedge accounting and others		-	-	-	-	-	-	-	-	-	-	-	-	-										
Net income for the period		-	-	-	-	-	-	-	-	(55)	-	(55)	-	(55)										
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-										
Issuance of shares, including vesting of RSUs and early exercised options and exercise of share options		14,711,896	-	34	-	-	-	-	-	-	-	34	-	34										
Repurchase and retirement of ordinary shares		(2,144)	-	-	-	-	-	-	-	-	-	-	-	-										
Transactions with noncontrolling interests		-	-	(1,243)	-	-	-	-	-	-	-	(1,243)	1,737	494										
Amortization of compensation cost		-	-	7,155	-	-	-	-	-	-	-	7,155	993	8,148										
Appropriation to statutory reserves		-	-	-	-	-	-	415	-	-	(415)	-	-	-										
Others		-	-	(51)	-	31	-	-	-	-	-	(20)	(56)	(76)										
Balance as of September 30, 2019		20,865,649,008	1	246,073	-	-	(51)	5,581	(257)	40	351,412	602,799	117,432	720,231										

Note: The number of shares has been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a).

The accompanying notes form an integral part of these unaudited consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended September 30,		
	2018	2019	
	RMB	RMB	US\$
		(Note 2(a)) (in millions)	
Cash flows from operating activities:			
Net income	18,241	70,748	9,898
Adjustments to reconcile net income to net cash provided by operating activities:			
Revaluation gain on previously held equity interest	(11)	(1,081)	(151)
Gain on disposals of equity investees	(20)	–	–
Realized and unrealized (gain) loss related to investment securities	(5,295)	1,937	271
Change in fair value of other assets and liabilities	(20)	(727)	(102)
Gain in relation to the receipt of the 33% equity interest in Ant Financial (Note 4(a))	–	(69,225)	(9,685)
Gain on disposals of subsidiaries	–	(2)	–
Depreciation and amortization of property and equipment, and operating lease cost relating to land use rights	3,555	5,010	701
Amortization of intangible assets and licensed copyrights	6,107	5,639	789
Share-based compensation expense	7,043	8,145	1,140
Impairment of investment securities and other assets	358	7,689	1,076
Impairment of goodwill and licensed copyrights	–	668	93
Loss on disposals of property and equipment	5	2	–
Amortization of restructuring reserve	66	31	4
Share of results of equity investees	(1,254)	11,960	1,673
Deferred income taxes	95	(61)	(9)
Allowance for doubtful accounts	(104)	352	49
Changes in assets and liabilities, net of effects of acquisitions and disposals:			
Prepayments, receivables and other assets	(2,578)	(12,969)	(1,814)
Income tax payable	(2,806)	(568)	(79)
Escrow money payable	830	962	135
Accrued expenses, accounts payable and other liabilities	4,984	15,228	2,130
Merchant deposits	(83)	119	17
Deferred revenue and customer advances	2,294	3,469	485
Net cash provided by operating activities	31,407	47,326	6,621

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)**

	Three months ended September 30,		
	2018	2019	
	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
		<i>(in millions)</i>	
		<i>(Note 2(a))</i>	
Cash flows from investing activities:			
Decrease in short-term investments, net	1,909	597	84
(Payments for) Receipts from settlement of forward exchange contracts	(11)	136	20
Acquisitions of investment securities	(17,089)	(6,968)	(975)
Disposals of investment securities	6,124	2,973	416
Acquisitions of equity investees	(2,481)	(14,114)	(1,975)
Disposals of equity investees	6	37	5
Disposals of intellectual property rights and assets <i>(Note 4(a))</i>	–	12,204	1,707
Acquisitions of:			
Land use rights and construction in progress relating to office campus	(762)	(650)	(91)
Other property and equipment	(11,632)	(9,176)	(1,284)
Licensed copyrights and other intangible assets	(3,742)	(2,451)	(343)
Cash paid for business combinations, net of cash acquired	(3,782)	(3,890)	(544)
Deconsolidation and disposal of subsidiaries, net of cash proceeds	–	(58)	(8)
Loans to employees, net of repayments	(124)	7	1
Net cash used in investing activities	(31,584)	(21,353)	(2,987)
Cash flows from financing activities:			
Issuance of ordinary shares	9	36	5
Repurchase of ordinary shares	(1,526)	–	–
Acquisition of additional equity interests in non-wholly owned subsidiaries	(184)	(3,083)	(431)
Capital injection from noncontrolling interests	2,976	3,531	494
Proceeds from bank borrowings	2,007	4,193	587
Repayment of bank borrowings	(6,759)	(2,571)	(360)
Net cash (used in) provided by financing activities	(3,477)	2,106	295
Effect of exchange rate changes on cash and cash equivalents, restricted cash and escrow receivables	1,670	2,353	329
(Decrease) Increase in cash and cash equivalents, restricted cash and escrow receivables	(1,984)	30,432	4,258
Cash and cash equivalents, restricted cash and escrow receivables at beginning of period	174,237	217,840	30,477
Cash and cash equivalents, restricted cash and escrow receivables at end of period	172,253	248,272	34,735

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2019****1. Organization and principal activities**

Alibaba Group Holding Limited (the “Company”) is a limited liability company, which was incorporated in the Cayman Islands on June 28, 1999. The Company is a holding company and conducts its businesses primarily through its subsidiaries. In these unaudited condensed consolidated financial statements, where appropriate, the term “Company” also refers to its subsidiaries as a whole. The Company provides the technology infrastructure and marketing reach to help merchants, brands and other businesses to leverage the power of new technology to engage with their users and customers and operate in a more efficient way. As of September 30, 2019, SoftBank Group Corp. (together with its subsidiaries, “SoftBank”) is a major shareholder of the Company.

The Company has four operating and reportable segments, namely core commerce, cloud computing, digital media and entertainment, and innovation initiatives and others.

The Company’s core commerce segment is mainly comprised of (i) the retail and wholesale commerce businesses, (ii) the logistics services business and (iii) the local consumer services business. Retail commerce businesses in the People’s Republic of China (the “PRC” or “China”) primarily include the mobile commerce destination (“Taobao Marketplace”) and the third-party online and mobile platform for brands and retailers (“Tmall”). Retail commerce businesses – cross-border and global include the e-commerce platform across Southeast Asia operated by Lazada (Note 4(d)), the global retail marketplace enabling consumers from around the world to buy directly from manufacturers and distributors primarily in China (“AliExpress”) and the import e-commerce platform that allows overseas brands and retailers to reach Chinese consumers (“Tmall Global”). Wholesale commerce businesses in China include the integrated domestic wholesale marketplace (“1688.com”). Wholesale commerce businesses – cross-border and global include the integrated international online wholesale marketplace (“Alibaba.com”). Logistics services business includes a logistics data platform and a nationwide fulfillment network through Cainiao Network (Note 4(b)). Local consumer services business includes the on-demand delivery and local services platform operated by Ele.me (Note 4(c)) and the restaurant and local services guide platform for in-store consumption operated by Koubei (Note 4(c)).

The Company’s cloud computing segment is comprised of Alibaba Cloud, which offers a complete suite of cloud services including elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and Internet of Things (“IoT”) services.

The Company’s digital media and entertainment segment leverages the Company’s deep data insights to serve the broader interests of consumers through two key distribution platforms, Youku and UC Browser, and through Alibaba Pictures and the Company’s other diverse content platforms that provide online videos, films, live events, news feeds, literature and music, among other areas.

The Company’s innovation initiatives and others segment includes businesses such as Amap (formerly AutoNavi), DingTalk, Tmall Genie and others.

1. Organization and principal activities (Continued)

Prior to September 2019, the Company had a profit sharing interest in Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (together with its subsidiaries including Alipay.com Co., Ltd. (“Alipay”), “Ant Financial”). Ant Financial provides payment and financial services to consumers and merchants on the Company’s platforms. In September 2019, the Company received a 33% equity interest in Ant Financial and the profit sharing arrangement with Ant Financial was terminated (Note 4(a)).

2. Summary of significant accounting policies**(a) Basis of presentation**

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for a complete set of financial statements. These unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the preceding fiscal year and include all adjustments as necessary for the fair statement of the Company’s financial position as of September 30, 2019, and the results of operations and cash flows for the three months ended September 30, 2018 and 2019.

The unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal year. The consolidated balance sheet as of March 31, 2019 has been derived from the audited consolidated financial statements as of that date but does not include all the information and footnotes required by U.S. GAAP for a complete set of financial statements. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended March 31, 2019. The accounting policies applied are consistent with those of the audited consolidated financial statements for the preceding fiscal year, except for the adoption of new accounting standards relating to share-based compensation (Note 2(d)), leases (Note 2(e)), and derivatives and hedging (Note 2(f)).

Effective on July 30, 2019, the Company subdivided each of its issued and unissued ordinary shares into eight ordinary shares (the “Share Subdivision”). Following the Share Subdivision, the Company’s authorized share capital is US\$100,000 divided into 32,000,000,000 ordinary shares with a par value of US\$0.000003125 each. The number of issued and unissued ordinary shares as disclosed elsewhere in these unaudited condensed consolidated financial statements are prepared on a basis after taking into account the effects of the Share Subdivision and have been retrospectively adjusted.

Simultaneously with the Share Subdivision, the change in ratio of the Company’s American depositary share (“ADS”) to ordinary share (the “ADS Ratio Change”) also became effective. Following the ADS Ratio Change, each ADS now represents eight ordinary shares. Previously, each ADS represented one ordinary share. Given that the ADS Ratio Change was exactly proportionate to the Share Subdivision, no new ADSs were issued to any ADS holder and the total number of the Company’s outstanding ADSs remains unchanged immediately after the Share Subdivision and the ADS Ratio Change became effective.

2. Summary of significant accounting policies (Continued)**(a) Basis of presentation (Continued)**

Translations of balances in the condensed consolidated balance sheet, condensed consolidated income statement, condensed consolidated statement of comprehensive income and condensed consolidated statement of cash flows from Renminbi (“RMB”) into the United States Dollar (“US\$”) as of and for the three months ended September 30, 2019 are solely for the convenience of the readers and are calculated at the rate of US\$1.00=RMB7.1477, representing the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on September 30, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at this rate, or at any other rate.

(b) Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

(c) Consolidation

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries, which include the PRC-registered entities directly or indirectly wholly owned by the Company (“WFOEs”) and variable interest entities (“VIEs”) over which the Company is the primary beneficiary. All transactions and balances among the Company and its subsidiaries have been eliminated upon consolidation. The results of subsidiaries acquired or disposed of are recorded in the condensed consolidated income statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. The nature of the businesses and activities of the consolidated VIEs have not changed materially from the preceding fiscal year.

(d) Share-based compensation

Share-based awards granted are measured at fair value on grant date and share-based compensation expense is recognized (i) immediately at the grant date if no vesting conditions are required, or (ii) using the accelerated attribution method, net of estimated forfeitures, over the requisite service period. The fair values of restricted share units (“RSUs”) and restricted shares are determined with reference to the fair value of the underlying shares and the fair value of share options is generally determined using the Black-Scholes valuation model. The value is recognized as an expense over the respective service period, net of estimated forfeitures. Share-based compensation expense, when recognized, is charged to the condensed consolidated income statements with the corresponding entry to additional paid-in capital, liability or noncontrolling interests.

2. Summary of significant accounting policies (Continued)**(d) Share-based compensation (Continued)**

On each measurement date, the Company reviews internal and external sources of information to assist in the estimation of various attributes to determine the fair value of the share-based awards granted by the Company, including the fair value of the underlying shares, expected life and expected volatility. The Company recognizes the impact of any revisions to the original forfeiture rate assumptions in the condensed consolidated income statements, with a corresponding adjustment to equity.

In April 2019, the Company adopted ASU 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. The amendments specify that ASC 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. Upon the adoption of this guidance, the Company no longer re-measures equity-classified share-based awards granted to consultants or non-employees at each reporting date through the vesting date and the accounting for these share-based awards to consultants or non-employees and employees will be substantially aligned. The adoption of this guidance did not have a material impact on the Company’s financial position, results of operations and cash flows. The condensed consolidated financial statements as of March 31, 2019 and for the three months ended September 30, 2018 were not retrospectively adjusted.

(e) Leases

In April 2019, the Company adopted ASU 2016-02, “Leases (Topic 842)”, including certain transitional guidance and subsequent amendments within ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, including ASU 2016-02, “ASC 842”).

ASC 842 supersedes the lease requirements in ASC 840 “Leases”, and generally requires lessees to recognize operating and finance lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. Leases that transfer substantially all of the benefits and risks incidental to the ownership of assets are accounted for as finance leases as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. The Company has no significant finance leases.

The Company adopted the new lease standard using the modified retrospective method by applying the new lease standard to all leases existing as of April 1, 2019, the date of initial application, and no adjustments were made to the comparative periods.

Upon the initial application of ASC 842 on April 1, 2019, land use rights, net with a total carrying amount of RMB6,419 million were identified as operating lease right-of-use assets. Such amount is included in the opening balance of operating lease right-of-use assets as of April 1, 2019 with no adjustments made to the comparative periods.

2. Summary of significant accounting policies (Continued)**(e) Leases (Continued)**

The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to carry forward previous lease classification, the assessment on whether a contract was or contained a lease, and the initial direct costs for any leases that existed prior to April 1, 2019. Adoption of the new standard resulted in the recognition of operating lease right-of-use assets of approximately RMB24.9 billion and operating lease liabilities of approximately RMB19.4 billion on the condensed consolidated balance sheet as of April 1, 2019. The adoption of the new lease standard does not have any significant impact on the condensed consolidated statements of comprehensive income and cash flows and there was no adjustment to the beginning retained earnings on April 1, 2019.

Under ASC 842, the Company determines if an arrangement is a lease at inception. Operating lease right-of-use assets are included in non-current prepayments, receivables and other assets, and operating lease liabilities are included in current accrued expenses, accounts payable and other liabilities and other non-current liabilities on the condensed consolidated balance sheets. Operating lease right-of-use assets and operating lease liabilities are initially recognized based on the present value of future lease payments at lease commencement. The operating lease right-of-use asset also includes any lease payments made prior to lease commencement and the initial direct costs incurred by the lessee and is recorded net of any lease incentives received. As the interest rates implicit in most of the leases are not readily determinable, the Company uses the incremental borrowing rates based on the information available at lease commencement to determine the present value of the future lease payments. Operating lease expenses are recognized on a straight-line basis over the term of the lease.

The Company elected to combine the lease and non-lease components for leases of certain asset classes such as shops and malls and equipment leases. Lease and non-lease components for leases of other asset classes are accounted for separately. The Company also elected not to recognize short-term leases with an initial lease term of twelve months or less.

(f) Derivatives and hedging

All contracts that meet the definition of a derivative are recognized on the condensed consolidated balance sheets as either assets or liabilities and recorded at fair value. Changes in the fair value of derivatives are either recognized periodically in the condensed consolidated income statements or in other comprehensive income depending on the use of the derivatives and whether they qualify for hedge accounting and are so designated as cash flow hedges, fair value hedges or net investment hedges.

2. Summary of significant accounting policies (Continued)**(f) Derivatives and hedging (Continued)**

In April 2019, the Company adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", including certain transitional guidance and subsequent amendments within ASU 2019-04 (collectively, "ASU 2017-12"). ASU 2017-12 permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test after the initial qualification, if the Company can reasonably support an expectation of high effectiveness throughout the term of the hedge. Also, for cash flow hedges and net investment hedges, if the hedge is highly effective, all changes in the fair value of the derivative hedging instrument are recorded in other comprehensive income. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations and cash flows. The condensed consolidated financial statements as of March 31, 2019 and for the three months ended September 30, 2018 were not retrospectively adjusted.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to those of the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to that of the hedged item. A hedging relationship is considered initially effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item.

Interest rate swaps

Interest rate swaps designated as hedging instruments to hedge against the cash flows attributable to recognized assets or liabilities or forecasted payments may qualify as cash flow hedges. The Company entered into interest rate swap contracts to swap floating interest payments related to certain borrowings for fixed interest payments to hedge the interest rate risk associated with certain forecasted payments and obligations. For the three months ended September 30, 2018, the effective portion of changes in the fair value of interest rate swaps that were designated and qualified as cash flow hedges was recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion was recognized immediately in interest and investment income, net in the condensed consolidated income statements. Upon the adoption of ASU 2017-12 beginning on April 1, 2019, all changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings both before and after the adoption of ASU 2017-12.

2. Summary of significant accounting policies (Continued)**(f) Derivatives and hedging (Continued)***Forward exchange contracts*

Forward exchange contracts designated as hedging instruments to hedge against the future changes in currency exposure of net investments in foreign operations may qualify as net investment hedges. During the three months ended September 30, 2018 and 2019, there were no forward exchange contracts that were designated and qualified as net investment hedges.

Changes in the fair value of the derivatives not qualified for hedge accounting are reported in the condensed consolidated income statements. The estimated fair value of the derivatives is determined based on relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

3. Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement on Credit Losses on Financial Instruments,” and issued subsequent amendments to the initial guidance and transitional guidance between November 2018 and May 2019 within ASU 2018-19, ASU 2019-04 and ASU 2019-05. ASU 2016-13 introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. Further, the new guidance indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The new guidance is effective for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies how an entity is required to test goodwill for impairment by eliminating step two from the goodwill impairment test. Step two of the goodwill impairment test measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with its carrying amount. The new guidance is effective prospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

3. Recent accounting pronouncements (Continued)

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB’s disclosure framework project. The new guidance is effective for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted for the adoption of either the entire ASU or only the provisions that eliminate or modify the requirements. The Company is evaluating the effects, if any, of the adoption of this guidance on the fair value disclosure in the consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, “Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities,” which provides guidance that indirect interests held through related parties under common control will be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. These indirect interests were previously treated the same as direct interests. The consideration of indirect interests on a proportional basis is consistent with how indirect interests held through related parties under common control are treated when determining if a reporting entity within a related party group is the primary beneficiary of a VIE. The new guidance is effective retrospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021 with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

In November 2018, the FASB issued ASU 2018-18, “Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606.” ASU 2018-18 clarifies that elements of collaborative arrangements could qualify as transactions with customers in the scope of ASC 606. The amendments require the application of existing guidance to determine the units of account in collaborative arrangement for purposes of identifying transactions with customers. For transactions outside the scope of ASC 606, companies can apply elements of ASC 606 or other relevant guidance by analogy, or apply a reasonable accounting policy if there is no appropriate analogy. ASU 2018-18 is effective retrospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

3. Recent accounting pronouncements (Continued)

In March 2019, the FASB issued ASU 2019-02, “Entertainment – Films – Other Assets – Film Costs (Subtopic 926-20) and Entertainment – Broadcasters – Intangibles – Goodwill and Other (Subtopic 920-350)”. This guidance aligns the accounting guidance for production costs for (1) films and (2) episodic content produced for television series and streaming services. This new guidance also clarifies when a company should test films and license agreements for program material for impairment at the film-group level, amends the presentation and disclosure requirements for produced or licensed content and addresses statement of cash flows classification for license arrangements. The new guidance is effective prospectively for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of this guidance on the Company’s financial position, results of operations and cash flows.

In April 2019, the FASB issued ASU 2019-04 “Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.” Apart from the amendments to ASU 2016-13 mentioned above, the ASU also included subsequent amendments to ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which the Company adopted in April 2018. The guidance in relation to the amendments to ASU 2016-01 is effective for the Company for the year ending March 31, 2021 and interim reporting periods during the year ending March 31, 2021. Early adoption is permitted. The Company is evaluating the effects, if any, of the adoption of these guidance on the Company’s financial position, results of operations and cash flows.

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments***Restructuring transaction*****(a) Restructuring of the relationship with Ant Financial and Alipay****2014 restructuring of the relationship with Ant Financial and Alipay, subsequent amendments and 2019 equity issuance*****SAPA***

In August 2014, the Company entered into a share and asset purchase agreement (together with all subsequent amendments, the “SAPA”), and entered into or amended certain ancillary agreements including an amendment and restatement of the intellectual property license agreement with Alipay (the “2014 IPLA”). Pursuant to these agreements, the Company restructured its relationships with Ant Financial and Alipay.

In February 2018, the Company amended both the SAPA and the Alipay commercial agreement, and agreed with Ant Financial and certain other parties on forms of certain ancillary agreements. In September 2019, the Company further amended the SAPA and entered into the cross license agreement and certain ancillary agreements and amendments, including the previously agreed form of amendment and restatement of the 2014 IPLA (“the Amended IPLA”).

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments (Continued)**(a) Restructuring of the relationship with Ant Financial and Alipay (Continued)***Sale of SME loan business and certain other assets*

Pursuant to the SAPA, the Company sold certain securities and assets primarily relating to the SME loan business and other related services to Ant Financial for an aggregate cash consideration of RMB3,219 million in February 2015. In addition, pursuant to software system use and service agreements relating to the know-how and related intellectual property that the Company agreed to sell together with the SME loan business and related services, the Company will receive annual fees (the “SME Annual Fee”) for a term of seven years. These SME Annual Fees, which are recognized as other revenue, are determined as follows: for calendar years 2015 to 2017, the entities operating the SME loan business paid an annual fee equal to 2.5% of the average daily balance of the SME loans provided by these entities, and in calendar years 2018 to 2021, these entities will pay an annual fee equal to the amount of the fees paid in calendar year 2017. The Company accounts for the SME Annual Fee in the periods when the services are provided, where the payments are expected to approximate the estimated fair values of the services provided. The SME Annual Fee of RMB239 million and RMB239 million were recorded in revenue in the condensed consolidated financial statements for the three months ended September 30, 2018 and 2019, respectively (Note 20).

Issuance of equity interest

In September 2019, following the satisfaction of the closing conditions, the Company received the 33% equity interest in Ant Financial pursuant to the SAPA.

Under the SAPA, the consideration to acquire the newly-issued 33% equity interest in Ant Financial was fully funded by concurrent payments from Ant Financial to the Company in consideration for certain intellectual property rights and assets that the Company transferred to Ant Financial upon the issuance of the equity interest. Such consideration was determined based on the fair values of the underlying assets exchanged in the transaction as described above at contract inception in 2014, whereby the fair value of intellectual property rights and assets approximated the fair value of the equity interest at the time.

The Company accounts for its equity interest in Ant Financial under the equity method. Upon the receipt of the equity interest in September 2019, this investment was initially measured at cost, with upward adjustments determined based on the fair value of the Company’s share of Ant Financial’s net assets as of the completion date of the transaction (Note 13). Upon the completion of the transaction, the Company recorded the 33% equity interest in Ant Financial amounting to RMB87.5 billion in investment in equity investees, and a gain of RMB69.2 billion in interest and investment income, net, which was net of the deferred tax effect of RMB18.9 billion. The application of accounting principles related to the measurement of the 33% equity interest in Ant Financial and the recognition of the related gain requires significant management judgment.

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments (Continued)**(a) Restructuring of the relationship with Ant Financial and Alipay (Continued)**

The basis difference of the Company's share of Ant Financial's net assets mainly represents the fair value adjustments of amortizable intangible assets and equity investments. These adjustments amounted to RMB27.2 billion and RMB4.7 billion, respectively, both of which were net of their corresponding tax effects. Subsequent to the issuance of the equity interest, the proportionate share of results of Ant Financial, adjusted for the effects of the basis difference as described above, will be recorded in "Share of results of equity investees" in the consolidated income statements on a one quarter in-arrears basis.

Pre-emptive rights

Following the receipt of equity interest in Ant Financial, the Company has pre-emptive rights to participate in other issuances of equity securities by Ant Financial and certain of its affiliates prior to the time of a Qualified IPO of Ant Financial. These pre-emptive rights entitle the Company to maintain the equity ownership percentage the Company holds in Ant Financial immediately prior to any such issuances. In connection with the exercise of the pre-emptive rights the Company is also entitled to receive certain payments from Ant Financial, effectively funding the subscription for these additional equity interest, up to a value of US\$1.5 billion, subject to certain adjustments. In addition, under the SAPA, in certain circumstances the Company is permitted to exercise pre-emptive rights through an alternative arrangement which will further protect the Company from dilution. The value of the pre-emptive rights was considered to be insignificant.

2014 IPLA and Amended IPLA

Under the 2014 IPLA, the Company received, in addition to a software technology service fee, royalty streams related to Alipay and other current and future businesses of Ant Financial (collectively, the "Profit Share Payments"). The Profit Share Payments were paid at least annually and equal the sum of an expense reimbursement plus 37.5% of the consolidated pre-tax income of Ant Financial, subject to certain adjustments. The expense reimbursement represented the reimbursement for the costs and expenses incurred by the Company in the provision of software technology services. The Company accounted for the Profit Share Payments in the periods when the services were provided, where the payments were expected to approximate the estimated fair values of the services provided. Upon the receipt of the equity interest in September 2019, the Company entered into the Amended IPLA and terminated the 2014 IPLA, and the Profit Share Payments arrangement was terminated.

Reversal of income of RMB910 million and income of RMB2,208 million, in connection with the Profit Share Payments, net of costs incurred by the Company, were recorded in other income, net in the condensed consolidated income statements for the three months ended September 30, 2018 and 2019, respectively (Notes 6 and 20).

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments (Continued)*Equity transactions***(b) Additional investment in Cainiao Smart Logistics Network Limited (“Cainiao Network”)**

Cainiao Network is a consolidated subsidiary of the Company and it operates a logistics data platform which leverages the capacity and capabilities of logistics partners to offer domestic and international one-stop-shop logistics services and supply chain management solutions, fulfilling various logistics needs of merchants and consumers at scale. In September 2019, the Company purchase additional equity interests in Cainiao Network for a cash consideration of US\$157 million (RMB1,118 million), which resulted in an increase in the Company’s equity interest in Cainiao Network. In November 2019, the Company subscribed for newly issued ordinary shares of Cainiao Network together with certain of Cainiao Network’s existing shareholders in connection with its equity financing transaction and to purchase certain equity interest from an existing Cainiao Network shareholder, for a total consideration of US\$3,325 million. Upon the completion of these transactions, the Company’s equity interest in Cainiao Network increased from approximately 51% to approximately 63%.

(c) Additional investment in Local Services Holding Limited (“Local Services Holdco”)

Local Services Holdco is a consolidated subsidiary of the Company and it owns substantially all of the equity interest in Rajax Holding (“Ele.me”), a leading on-demand delivery and local services platform in the PRC, and Koubei Holding Limited (“Koubei”), one of the PRC’s leading restaurant and local services guide platforms for in-store consumption. In September 2019, the Company subscribed for additional equity interest in Local Services Holdco for a cash consideration of US\$450 million (RMB3,202 million). Upon the completion of the transaction, the Company’s equity interest in Local Services Holdco was approximately 73%.

(d) Additional investment in Lazada Group S.A. (“Lazada”)

Lazada is a consolidated subsidiary of the Company and it operates a leading e-commerce platform across Southeast Asia, with local language websites and mobile apps in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. In September 2019, the Company purchased additional equity interest in Lazada for a cash consideration of approximately US\$330 million (RMB2,345 million) from a minority shareholder. Upon the completion of the transaction, the Company’s equity interest in Lazada was approximately 98%.

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments (Continued)

Mergers and acquisitions

(e) Acquisition of HQG, Inc. (“Kaola”)

Kaola is an import e-commerce platform in the PRC. In September 2019, the Company acquired a 100% equity interest in Kaola from NetEase, Inc. for an aggregate purchase price of US\$1,825 million (RMB12,958 million), comprising cash and approximately 14.3 million newly-issued ordinary shares (equivalent to approximately 1.8 million ADS) of the Company valued at US\$316 million (RMB2,252 million).

The allocation of the purchase price as of the date of acquisition is summarized as follows:

	Amounts
	<i>(in millions of RMB)</i>
Net assets acquired (i)	2,465
Amortizable intangible assets (ii)	
Trade names, trademarks and domain names	1,587
User base and customer relationships	829
Developed technology and patents	394
Goodwill	8,245
Deferred tax liabilities	(562)
	<hr/>
Total	12,958
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	Amounts
	<i>(in millions of RMB)</i>
Total purchase price is comprised of:	
– cash consideration	10,006
– share consideration	2,252
– contingent cash consideration (iii)	700
	<hr/>
Total	12,958
	<hr/> <hr/>

- (i) Net assets acquired primarily included inventories with a provisional balance of RMB2,599 million as of the date of acquisition.
- (ii) Acquired amortizable intangible assets had estimated amortization periods not exceeding 13 years and a weighted-average amortization period of 9.2 years.
- (iii) The contingent cash consideration is payable upon the satisfaction of certain non-compete provisions by the selling equity holders, and will not exceed RMB700 million.

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments (Continued)**(e) Acquisition of HQG, Inc. (“Kaola”) (Continued)**

Upon the issuance of these condensed consolidated financial statements, the accounting of this business combination, including the determination and allocation of purchase price, has not been finalized because the purchase price is subject to post-closing purchase price adjustments as set out in the definitive agreements for the transaction, and the Company is currently in the process of finalizing the valuation of certain assets acquired and liabilities assumed as part of the acquisition.

The Company expected that the acquisition will further elevate the Company’s import service and experience for consumers in the PRC through synergies across the Company’s digital economy. Goodwill arising from this acquisition was attributable to the synergies expected from the combined operations of Kaola and the Company, the assembled workforce and their knowledge and experience in the import e-commerce sector in the PRC. The Company did not expect the goodwill recognized to be deductible for income tax purposes.

Pro forma results of operations for this acquisition have not been presented because they are not material to the condensed consolidated income statements for the three months ended September 30, 2018 and 2019.

Equity investments and others**(f) Investment in BEST Inc. (formerly known as Best Logistics Technologies Limited) (“Best Logistics”)**

Best Logistics is an equity investee of the Company, and it is a provider of comprehensive supply-chain solutions and services. In September 2019, the Company subscribed for convertible senior notes issued by Best Logistics for a cash consideration of US\$100 million (RMB712 million). These convertible senior notes bear interest at a rate of 1.75% and will mature in October 2024.

(g) Investment in STO Express Co., Ltd. (“STO Express”)

STO Express, a company that is listed on the Shenzhen Stock Exchange, is one of the leading express delivery services companies in the PRC. In July 2019, the Company acquired a 49% equity interest in an investment vehicle which holds a 29.9% equity interest in STO Express (equivalent to an effective equity interest of approximately 14.7% in STO Express) for a cash consideration of RMB4.7 billion. The investment is accounted for under the fair value option and recorded under investment securities (Note 11). The investment vehicle was established by the controlling shareholder of STO Express, and the Company subsequently entered into an option agreement with this controlling shareholder. Under the terms of the agreement, the Company may elect to acquire an additional effective equity interest of approximately 31.3% in STO Express through a call option to acquire the remaining 51% equity interest in this investment vehicle and another call option to acquire a 16.1% effective equity interest in STO Express for a total consideration of RMB10.0 billion. The Company can exercise the options to acquire equity interests in the investment vehicles or in STO Express at any time during the three-year period beginning on December 28, 2019. These options are measured at fair value with unrealized gains and losses recorded in

4. Significant restructuring transaction, equity transactions, mergers and acquisitions and investments (Continued)**(g) Investment in STO Express Co., Ltd. (“STO Express”) (Continued)**

the condensed consolidated income statements (Note 11). Unrealized gain recorded in interest and investment income, net relating to these options amounted to RMB247 million during the three months ended September 30, 2019.

Transactions that were not completed as of September 30, 2019**(h) Investment in Meinian Onehealth Healthcare Holdings Co Ltd (“Meinian”)**

Meinian, a company that is listed on the Shenzhen Stock Exchange, offers health examination, health evaluation, health consulting, and other services. In October 2019, the Company, together with Ant Financial, agreed to acquire new and existing shares of Meinian, representing a minority stake in Meinian for a total consideration of RMB6,700 million. The completion of the transaction is subject to customary closing conditions including receipt of the required regulatory approval. Yunfeng is also an investor in this transaction.

(i) Investment in AliExpress Russia Holding Pte. Ltd. (“AliExpress Russia Joint Venture”)

AliExpress Russia Joint Venture is a joint venture set up by the Company, Mail.ru Group Limited (“Mail.ru Group”, a leading internet company in Russia), Public Joint Stock Company MegaFon (“MegaFon”, a Russian mobile telecommunications operator) and Joint Stock Company “Managing Company of Russian Direct Investment Fund” (“RDIF”, a Russian sovereign wealth fund). In October 2019, the Company invested US\$100 million into the joint venture and contributed the Company’s AliExpress Russia businesses into the joint venture. The other shareholders of the joint venture also made cash and non-cash contributions to the joint venture pursuant to the transaction documents. As of the issuance date of these condensed consolidated financial statements, the Company holds an approximately 56% equity interest and less-than-majority voting rights in the joint venture. As part of the transaction, the Company has also taken a minority stake in Mail.ru Group.

5. Revenue

Revenue by segment is as follows:

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Core commerce:		
China commerce retail (i)		
– Customer management	32,920	41,301
– Commission	13,136	16,275
– Others (ii)	8,095	18,210
	54,151	75,786
China commerce wholesale (iii)	2,497	3,283
International commerce retail (iv)	4,464	6,007
International commerce wholesale (v)	2,022	2,434
Cainiao logistics services (vi)	3,206	4,759
Local consumer services (vii)	5,021	6,835
Others	1,114	2,116
Total core commerce	72,475	101,220
Cloud computing (viii)	5,667	9,291
Digital media and entertainment (ix)	5,940	7,296
Innovation initiatives and others (x)	1,066	1,210
Total	85,148	119,017

- (i) Revenue from China commerce retail is primarily generated from the Company's China retail marketplaces and includes revenue from customer management, commissions and sales of goods.
- (ii) "Others" revenue under China commerce retail is primarily generated by the Company's New Retail and direct sales businesses, mainly Freshippo, Tmall Supermarket, direct import and Intime.
- (iii) Revenue from China commerce wholesale is primarily generated from 1688.com and includes revenue from membership fees and customer management.
- (iv) Revenue from international commerce retail is primarily generated from Lazada (Note 4(d)) and AliExpress and includes revenue from sales of goods, commissions, logistics services and customer management.
- (v) Revenue from international commerce wholesale is primarily generated from Alibaba.com and includes membership fees and revenue from customer management.
- (vi) Revenue from Cainiao logistics services represents revenue from the domestic and cross-border fulfillment services provided by Cainiao Network (Note 4(b)).
- (vii) Revenue from local consumer services primarily represents revenue from the provision of delivery services and other services provided by Ele.me (Note 4(c)).

5. Revenue (Continued)

- (viii) Revenue from cloud computing is primarily generated from the provision of services, such as elastic computing, database, storage, network virtualization services, large scale computing, security, management and application services, big data analytics, a machine learning platform and IoT services.
- (ix) Revenue from digital media and entertainment is primarily generated from Youku and UCWeb and includes revenue from customer management and membership fees.
- (x) Revenue from innovation initiatives and others is primarily generated from businesses such as Amap, Tmall Genie and other innovation initiatives. Other revenue also includes the SME Annual Fee received from Ant Financial and its affiliates (Note 4(a)).

Revenue by type is as follows:

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Customer management services		
P4P and display marketing	35,050	42,624
Other customer management services	3,059	4,368
Total customer management services	38,109	46,992
Commission	17,522	24,064
Membership fees	4,935	5,543
Logistics services	5,542	7,518
Cloud computing services	5,667	9,291
Sales of goods	9,776	20,391
Other revenue (i)	3,597	5,218
Total	<u>85,148</u>	<u>119,017</u>

- (i) Other revenue includes other value-added services provided through various platforms and the SME Annual Fee received from Ant Financial and its affiliates (Note 4(a)).

The amount of revenue recognized for performance obligations satisfied (or partially satisfied) in prior periods for contracts with expected duration of more than one year during the three months ended September 30, 2018 and 2019 was not material.

6. Other (loss) income, net

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Profit Share Payments <i>(Note 4(a))</i>	(910)	2,208
Exchange differences	(907)	441
Government grants (i)	82	124
Amortization of restructuring reserve	(66)	(31)
Others	269	429
Total	<u>(1,532)</u>	<u>3,171</u>

- (i) Government grants mainly represent amounts received from central and local governments in connection with the Company's investments in local business districts and contributions to technology development.

7. Leases

The Company entered into operating lease agreements primarily for shops and malls, offices, warehouses and land. Certain lease agreements contain an option for the Company to renew a lease for a term of up to five years or an option to terminate a lease early. The Company considers these options in determining the classification and measurement of the leases.

The leases may include variable payments based on measures such as the level of sales at a physical store, which are expensed as incurred.

Components of operating lease cost were as follows:

	Three months ended September 30, 2019
	<i>(in millions of RMB)</i>
Operating lease cost	1,099
Variable lease cost	<u>21</u>
Total operating lease cost	<u>1,120</u>

7. Leases (Continued)

Prior to the adoption of ASC 842, the Company incurred rental expenses under operating leases of RMB1,220 million for the three months ended September 30, 2018.

For the three months ended September 30, 2019, cash payments for operating leases and the operating lease assets obtained in exchange for operating lease liabilities amounted to RMB1,030 million and RMB1,121 million, respectively.

As of September 30, 2019, the Company's operating leases had a weighted average remaining lease term of 10.4 years and a weighted average discount rate of 5.5%. Future lease payments under operating leases as of September 30, 2019 were as follows:

	Operating Leases
	<i>(in millions of RMB)</i>
Six months ending March 31, 2020	1,738
Year ending March 31, 2021	3,499
Year ending March 31, 2022	2,822
Year ending March 31, 2023	2,383
Year ending March 31, 2024	2,203
Thereafter	14,207
	<hr/>
	26,852
Less: imputed interest	(6,952)
	<hr/>
Total operating lease cost	19,900
	<hr/> <hr/>

8. Income tax expenses

Composition of income tax expenses

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Current income tax expense	182	2,876
Deferred taxation	95	(61)
	<hr/>	<hr/>
	277	2,815
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8. Income tax expenses (Continued)

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed. The Company's subsidiaries incorporated in Hong Kong were subject to the Hong Kong profits tax rate at 16.5% for the three months ended September 30, 2018 and 2019. The Company's subsidiaries incorporated in other jurisdictions were subject to income tax charges calculated according to the tax laws enacted or substantially enacted in the countries where they operate and generate income.

Current income tax expense primarily includes the provision for PRC Enterprise Income Tax ("EIT") for subsidiaries operating in the PRC and withholding tax on earnings that have been declared for distribution by PRC subsidiaries to offshore holding companies. Substantially all of the Company's income before income tax and share of results of equity investees are generated by these PRC subsidiaries. These subsidiaries are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws, rules and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the EIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises. Further, certain subsidiaries were recognized as Software Enterprises and thereby entitled to full exemption from EIT for two years beginning from their first profitable calendar year and a 50% reduction for the subsequent three calendar years. In addition, a duly recognized Key Software Enterprise within China's national plan can enjoy a preferential EIT rate of 10%. The Key Software Enterprise status is subject to review by the relevant authorities every year. The timing of the annual review and notification by the relevant authorities may vary from year to year, and the related tax adjustments in relation to the change in applicable EIT rate as a result of notification of qualification are accounted for in the period in which the Key Software Enterprise status is recognized and notified.

The tax status of the subsidiaries of the Company with major taxable profits is described below:

Alibaba (China) Technology Co., Ltd. ("Alibaba China"), Taobao (China) Software Co., Ltd. ("Taobao China") and Zhejiang Tmall Technology Co., Ltd. ("Tmall China"), entities primarily engaged in the operations of the Company's wholesale marketplaces, Taobao Marketplace and Tmall, respectively, obtained the annual review and notification relating to the renewal of the Key Software Enterprises status for the taxation years of 2017 and 2018 in the quarters ended September 30, 2018 and 2019, respectively. Accordingly, these entities, which had qualified as High and New

8. Income tax expenses (Continued)

Technology Enterprises and applied an EIT rate of 15% for the taxation years of 2017 and 2018, reflected the reduction in tax rate to 10% for the taxation years of 2017 and 2018 in the condensed consolidated income statements for the three months ended September 30, 2018 and 2019.

The total tax adjustments for Alibaba China, Taobao China, Tmall China and certain other PRC subsidiaries of the Company, amounting to RMB4,656 million and RMB4,144 million, were recorded in the condensed consolidated income statements for the three months ended September 30, 2018 and 2019, respectively.

The annual review and notification relating to the renewal of the Key Software Enterprises status for the taxation year of 2019 has not yet been obtained. Accordingly, Alibaba China, Taobao China and Tmall China continued to apply an EIT rate of 15% for the taxation year of 2019 as High and New Technology Enterprises.

Most of the remaining PRC entities of the Company are subject to EIT at 25% for the three months ended September 30, 2018 and 2019.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared by PRC companies 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 company are incorporated in Hong Kong and meet the relevant requirements pursuant to the tax arrangement between the PRC and Hong Kong. Since the equity holders of the major PRC subsidiaries of the Company are Hong Kong incorporated companies and meet the relevant requirements pursuant to the tax arrangement between the PRC and Hong Kong, the Company has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed. As of September 30, 2019, the Company had accrued the withholding tax on substantially all of the distributable earnings of the PRC subsidiaries, except for those undistributed earnings that the Company intends to invest indefinitely in the PRC which amounted to RMB92.3 billion.

9. Share-based awards

Share-based awards such as RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, share appreciation rights and share payments may be granted to any directors, employees and consultants of the Company or affiliated companies under the equity incentive plan adopted in 2011, which govern the terms of the awards. In September 2014, the Company adopted a post-IPO equity incentive plan (the “2014 Plan”) which has a ten-year term. Share-based awards are only available for issuance under the 2014 Plan. If an award under the previous plan terminates, expires or lapses, or is canceled for any reason, ordinary shares subject to the award become available for the grant of a new award under the 2014 Plan. Starting from April 1, 2015 and on each anniversary thereof, an additional amount equal to the lesser of (A) 200,000,000 ordinary shares (previously 25,000,000 ordinary

9. Share-based awards (Continued)

shares before the Share Subdivision as detailed in Note 2(a)), and (B) such lesser number of ordinary shares as determined by the board of directors will become available for the grant of a new award under the 2014 Plan. All share-based awards granted under the 2014 Plan are subject to dilution protection should the capital structure of the Company be affected by a share split, reverse share split, share dividend or other dilutive action. The 2014 Plan has substantially similar terms as the plan adopted in 2011 except that (i) the 2014 Plan is administered by the compensation committee of the board (or a subcommittee thereof), or such other committee of the board to which the board has delegated power to act, or the board in the absence of any such committee, and (ii) certain terms are adjusted for the purposes of compliance with the Sarbanes-Oxley Act of 2002, U.S. Securities Act of 1933 and the regulations thereunder, as amended from time to time and U.S. Securities Exchange Act of 1934 and the regulations thereunder, as amended from time to time, among others. As of September 30, 2019, the number of shares authorized but unissued was 313,757,016 ordinary shares.

RSUs and share options granted are generally subject to a four-year vesting schedule as determined by the administrator of the plans. Depending on the nature and the purpose of the grant, RSUs and share options generally vest 25% or 50% upon the first or second anniversary of the vesting commencement date, respectively, as provided in the grant agreement, and 25% every year thereafter. No outstanding RSUs or share options will be subject to vesting or exercisable after the expiry of a maximum of six years from the date of grant. Certain RSUs and share options granted to the senior management members of the Company are subject to a six-year vesting schedule. No outstanding RSUs or share options will be subject to vesting or exercisable after the expiry of a maximum of eight years from the date of grant.

Following the Share Subdivision and the ADS Ratio Change that became effective on July 30, 2019 as detailed in Note 2(a), each ordinary share was subdivided into eight ordinary shares and each ADS represents eight ordinary shares. Pro-rata adjustments have been made to the number of ordinary shares underlying each RSU and share option granted, so as to give the participants the same proportion of the equity that they would have been entitled to prior to the Share Subdivision. Prior to July 30, 2019, one ordinary share was issuable upon the vesting of one outstanding RSU or the exercise of one outstanding share option, respectively. Subsequent to the Share Subdivision, eight ordinary shares are issuable upon the vesting of one outstanding RSU or the exercise of one outstanding share option, respectively. The Share Subdivision has no impact on the number of RSUs, the number of share options, the weighted average grant date fair value per RSU and the weighted average exercise price per share option as stated below.

9. Share-based awards (Continued)

(a) RSUs relating to ordinary shares of the Company

A summary of the changes in the RSUs relating to ordinary shares granted by the Company during the three months ended September 30, 2019 is as follows:

	Number of RSUs	Weighted- average grant date fair value per RSU <i>US\$</i>
Awarded and unvested as of July 1, 2019	64,656,153	153.44
Granted	4,204,930	174.38
Vested	(1,763,928)	135.95
Canceled/forfeited	(1,104,165)	156.92
	<u>65,992,990</u>	<u>155.18</u>
Awarded and unvested as of September 30, 2019	<u>65,992,990</u>	<u>155.18</u>
Expected to vest as of September 30, 2019 (i)	54,439,032	153.50

(i) RSUs expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding RSUs.

As of September 30, 2019, 1,717,013 outstanding RSUs were held by non-employees. During the three months ended September 30, 2018, these RSUs were subject to re-measurement through each vesting date to determine the appropriate amount of the expense. Upon the adoption of ASU 2018-07 beginning on April 1, 2019, the Company no longer re-measures equity-classified share-based awards granted to non-employees (Note 2(d)).

As of September 30, 2019, there were RMB34,475 million of unamortized compensation costs related to these outstanding RSUs, net of expected forfeitures and after re-measurement applicable to the awards granted to non-employees before the adoption of ASU 2018-07 beginning on April 1, 2019. These amounts are expected to be recognized over a weighted average period of 1.9 years.

9. Share-based awards (Continued)

(b) Share options relating to ordinary shares of the Company

A summary of the changes in the share options relating to ordinary shares granted by the Company during the three months ended September 30, 2019 is as follows:

	Number of share options	Weighted average exercise price per share option <i>US\$</i>	Weighted average remaining contractual life <i>(in years)</i>
Outstanding as of July 1, 2019	6,366,024	72.38	3.4
Exercised	(77,046)	65.97	
Outstanding as of September 30, 2019	<u>6,288,978</u>	<u>72.46</u>	3.2
Vested and exercisable as of September 30, 2019	4,047,093	72.26	3.1
Vested and expected to vest as of September 30, 2019 (i)	6,253,136	72.42	3.2

(i) Share options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding share options.

As of September 30, 2019, 78,900 outstanding share options were held by non-employees. During the three months ended September 30, 2018, these share options were subject to re-measurement through each vesting date to determine the appropriate amount of the expense. Upon the adoption of ASU 2018-07 beginning on April 1, 2019, the Company no longer re-measures equity-classified share-based awards granted to non-employees (Note 2(d)).

As of September 30, 2019, there were RMB73 million of unamortized compensation costs related to these outstanding share options, net of expected forfeitures and after re-measurement applicable to the awards granted to non-employees before the adoption of ASU 2018-07 beginning on April 1, 2019. These amounts are expected to be recognized over a weighted average period of 1.2 years.

9. Share-based awards (Continued)**(c) Partner Capital Investment Plan relating to ordinary shares of the Company**

Beginning in 2013, the Company offered selected members of the Alibaba Partnership rights to acquire restricted shares of the Company. For the rights offered before 2016, these rights and the underlying restricted shares were subject to a non-compete provision, and each right entitles the holder to purchase eight restricted shares at an aggregate price of US\$14.50, after the Share Subdivision as detailed in Note 2(a), during a four-year period. Upon the exercise of the rights, the underlying ordinary shares may not be transferred for a period of eight years from the date of subscription of the relevant rights. For the rights offered since 2016, the rights and the underlying restricted shares were subject to certain service provisions that were not related to employment, and each right entitles the holder to purchase eight restricted shares at an aggregate price between US\$23.00 and US\$26.00 after the Share Subdivision as detailed in Note 2(a), over a period of ten years from the vesting commencement date.

The number of ordinary shares underlying these rights is 144,000,000 shares (previously 18,000,000 shares before the Share Subdivision as detailed in Note 2(a)), of which the rights to subscribe for 140,000,000 shares (previously 17,500,000 shares before the Share Subdivision as detailed in Note 2(a)) had been offered and subscribed up to September 30, 2019. The rights offered before 2016 were accounted for as noncontrolling interests of the Company as these rights were issued by the Company's subsidiaries and classified as equity at the subsidiary level. The rights offered in the subsequent periods were accounted for as share options issued by the Company.

As of September 30, 2019, there were RMB830 million of unamortized compensation costs related to these rights, net of expected forfeitures and after re-measurement applicable to the awards granted to non-employees before the adoption of ASU 2018-07 beginning on April 1, 2019. These amounts are expected to be recognized over a weighted average period of 4.3 years.

(d) Share-based awards relating to Ant Financial

Since March 2014, Junhan, the general partner of which is a company wholly-owned by the Company's director and former executive chairman and a major equity holder of Ant Financial, has made grants of share economic rights similar to share appreciation awards linked to the valuation of Ant Financial (the "SERs") to certain employees of the Company. In addition, Ant Financial, through its subsidiary, has granted certain RSUs and share appreciation rights (the "SARs") to certain employees of the Company since April 2018 and July 2019, respectively. The SERs will be settled in cash by Junhan upon disposal of these awards by the holders. The RSUs and SARs may be settled in cash or equity by the Ant Financial subsidiary upon the vesting or exercise of these awards. Junhan and the Ant Financial subsidiary have the right to repurchase the vested awards (or any underlying equity for the settlement of

9. Share-based awards (Continued)

(d) Share-based awards relating to Ant Financial (Continued)

the vested awards) granted by them, as applicable, from the holders upon an initial public offering of Ant Financial or the termination of the holders' employment with the Company at a price to be determined based on the then fair market value of Ant Financial. These awards are generally subject to a four-year vesting schedule as determined by the administrator of the plan. Depending on the nature and the purpose of the grant, these awards generally vest 25% or 50% upon the first or second anniversary of the vesting commencement date, respectively, as provided in the grant agreement, and 25% every year thereafter. Certain awards granted to the senior management members of the Company are subject to a six-year vesting schedule. The Company has no obligation to reimburse Junhan, Ant Financial or its subsidiaries for the cost associated with these awards.

For accounting purposes, these awards meet the definition of a financial derivative. The cost relating to these awards is recognized by the Company and the related expense is recognized over the requisite service period in the condensed consolidated income statements with a corresponding credit to additional paid-in capital. Subsequent changes in the fair value of these awards are recorded in the condensed consolidated income statements. The expenses relating to the SERs and SARs are re-measured at the fair value on each reporting date until their settlement dates. The expenses relating to the RSUs granted by the Ant Financial subsidiary are re-measured at the fair value on each reporting date until their vesting dates.

(e) Share-based compensation expense by function

	Three months ended	
	September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Cost of revenue	1,566	2,033
Product development expenses	3,078	3,517
Sales and marketing expenses	746	990
General and administrative expenses	1,653	1,605
Total	7,043	8,145

10. Earnings per share/ADS

Following the Share Subdivision and the ADS Ratio Change as detailed in Note 2(a), each ordinary share was subdivided into eight ordinary shares and each ADS represents eight ordinary shares. The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share/ADS for the three months ended September 30, 2018 have been retrospectively adjusted.

Basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of outstanding ordinary shares, adjusted for treasury shares. Basic earnings per ADS is derived from the basic earnings per share after adjustment to the Company's ordinary share-to-ADS ratio.

For the calculation of diluted earnings per share, net income attributable to ordinary shareholders for basic earnings per share is adjusted by the effect of dilutive securities, including share-based awards, under the treasury stock method. Potentially dilutive securities, of which the amounts are insignificant, have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Diluted earnings per ADS is derived from the diluted earnings per share after adjustment to the Company's ordinary share-to-ADS ratio.

The following table sets forth the computation of basic and diluted net income per share/ADS for the following periods:

	Three months ended	
	September 30,	
	2018	2019
<i>(in millions of RMB, except share data and per share data)</i>		
Earnings per share		
<u>Numerator:</u>		
Net income attributable to ordinary shareholders		
for computing net income per ordinary share –		
basic	20,033	72,540
Dilution effect arising from share-based awards		
issued by subsidiaries and equity investees	(12)	(4)
Net income attributable to ordinary shareholders		
for computing net income per ordinary share –		
diluted	20,021	72,536

10. Earnings per share/ADS (Continued)

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB, except share data and per share data)</i>	
<u>Shares (denominator):</u>		
Weighted average number of shares used in calculating net income per ordinary share – basic (million shares) <i>(Note)</i>	20,669	20,800
Adjustments for dilutive RSUs and share options (million shares) <i>(Note)</i>	354	293
Weighted average number of shares used in calculating net income per ordinary share – diluted (million shares) <i>(Note)</i>	21,023	21,093
Net income per ordinary share – basic (RMB) <i>(Note)</i>	<u>0.97</u>	<u>3.49</u>
Net income per ordinary share – diluted (RMB) <i>(Note)</i>	<u>0.95</u>	<u>3.44</u>
Earnings per ADS		
Net income per ADS – basic (RMB)	<u>7.75</u>	<u>27.90</u>
Net income per ADS – diluted (RMB)	<u>7.62</u>	<u>27.51</u>

Note: Basic and diluted net income per ordinary share, weighted average number of shares and the adjustments for dilutive RSUs and share options have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that were effective on July 30, 2019 as detailed in Note 2(a).

11. Investment securities and fair value disclosure

As of March 31, 2019					
	Original cost	Gross unrealized gains	Gross unrealized losses	Provision for decline in value	Carrying value
<i>(in millions of RMB)</i>					
Equity securities:					
Listed equity securities	57,121	15,968	(11,887)	–	61,202
Investments in privately held companies	81,894	14,107	(78)	(13,250)	82,673
Debt investments (i)	23,843	44	(20)	(725)	23,142
	<u>162,858</u>	<u>30,119</u>	<u>(11,985)</u>	<u>(13,975)</u>	<u>167,017</u>
As of September 30, 2019					
	Original cost	Gross unrealized gains	Gross unrealized losses	Provision for decline in value	Carrying value
<i>(in millions of RMB)</i>					
Equity securities:					
Listed equity securities	62,239	14,034	(15,537)	–	60,736
Investments in privately held companies	93,266	17,078	(75)	(19,304)	90,965
Debt investments (i)	23,783	39	(687)	(1,387)	21,748
	<u>179,288</u>	<u>31,151</u>	<u>(16,299)</u>	<u>(20,691)</u>	<u>173,449</u>

- (i) Debt investments include convertible and exchangeable bonds accounted for under the fair value option, for which the fair value as of March 31, 2019 and September 30, 2019 were RMB2,742 million and RMB5,845 million, respectively. The aggregate fair value of these convertible and exchangeable bonds was higher (lower) than their aggregate unpaid principal balance as of March 31, 2019 and September 30, 2019 by RMB197 million and RMB(645) million, respectively. Unrealized losses recorded on these convertible and exchangeable bonds in interest and investment income, net were nil and RMB629 million during the three months ended September 30, 2018 and 2019, respectively. Debt investments also include investments in certain wealth management products amounting to RMB6.9 billion as of March 31, 2019 and September 30, 2019. These investments were pledged to a financial institution in the PRC to secure a financing provided by this financial institution amounting to RMB6.9 billion to one of the Company's founders and an equity holder in certain of the Company's variable interest entities, to support his minority investment through a PRC limited partnership in Wasu Media Holding Co., Ltd., a company listed on the Shenzhen Stock Exchange.

11. Investment securities and fair value disclosure (Continued)

Details of the significant additions during the three months ended September 30, 2018 and 2019 are set out in Note 4.

For equity securities, a summary of gains and losses, including impairment losses, recognized in interest and investment income, net is as follows:

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Net unrealized losses recognized during the period for equity securities still held as of the end of the period	(54)	(7,357)
Net gains recognized during the period from disposals of equity securities during the period	4,986	237
Net gains (losses) recognized during the period on equity securities	4,932	(7,120)

The Company elected to record a majority of equity investments in privately held companies using the measurement alternative at cost, less impairment, with subsequent adjustment for observable price changes resulting from orderly transactions for identical or similar investments of the same issuer. During the three months ended September 30, 2018 and 2019, upward adjustments of RMB3,815 million and RMB260 million, and impairments and downward adjustments of RMB494 million and RMB5,763 million, were recorded in interest and investment income, net, in the condensed consolidated income statements, respectively. The Company's impairment analysis considers both qualitative and quantitative factors that may have a significant effect on the fair value of these equity securities. As of March 31, 2019 and September 30, 2019, the amount of investments in privately held companies for which the Company elected to record using the measurement alternative amounted to RMB81,514 million and RMB84,092 million, respectively.

During the three months ended September 30, 2018 and 2019, no realized gains or losses were recognized for the disposal of debt investments. During the same periods, impairment losses on debt investments of RMB22 million and RMB681 million were recorded in interest and investment income, net in the condensed consolidated income statements, respectively.

11. Investment securities and fair value disclosure (Continued)

The carrying amount of debt investments approximates their fair value due to the fact that the related effective interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable maturities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets and liabilities in active markets.
- Level 2 – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Valuations based on unobservable inputs reflecting assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Fair value of short-term investments and listed equity securities are based on quoted prices in active markets for identical assets or liabilities. Other financial instruments, such as call option agreements and interest rate swap contracts, are valued based on inputs derived from or corroborated by observable market data. Valuations of convertible and exchangeable bonds that do not have a quoted price are performed using valuation models such as the binomial model with unobservable inputs including risk-free interest rate and expected volatility. The valuation of contingent consideration is performed using an expected cash flow method with unobservable inputs including the probability to achieve the contingencies, which is assessed by the Company, in connection with the contingent consideration arrangements. Investments in privately held companies for which the Company elected to record using the measurement alternative were re-measured on a non-recurring basis, and are categorized within Level 3 under the fair value hierarchy. The values were estimated based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs including volatility, as well as rights and obligations of the securities that the Company holds.

11. Investment securities and fair value disclosure (Continued)

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized under the fair value hierarchy:

	As of March 31, 2019			
	Level 1	Level 2	Level 3	Total
	<i>(in millions of RMB)</i>			
Assets				
Short-term investments	3,262	–	–	3,262
Restricted cash and escrow				
receivables	8,518	–	–	8,518
Listed equity securities (i)	61,202	–	–	61,202
Convertible bonds (i)	244	–	2,498	2,742
Interest rate swap contracts (ii)	–	331	–	331
Others	604	1,444	1,159	3,207
	<u>73,830</u>	<u>1,775</u>	<u>3,657</u>	<u>79,262</u>
Liabilities				
Contingent consideration in				
relation to investments and				
acquisitions (iii)	–	–	5,122	5,122
	<u>–</u>	<u>–</u>	<u>5,122</u>	<u>5,122</u>

11. Investment securities and fair value disclosure (Continued)

	As of September 30, 2019			
	Level 1	Level 2	Level 3	Total
	<i>(in millions of RMB)</i>			
Assets				
Short-term investments	1,074	–	–	1,074
Restricted cash and escrow receivables	14,095	–	–	14,095
Listed equity securities (i)	60,736	–	–	60,736
Investments in privately held companies (i)	–	5,156	1,717	6,873
Convertible and exchangeable bonds (i)	949	–	4,896	5,845
Call option agreement (ii)	–	3,535	–	3,535
Interest rate swap contracts (ii)	–	119	–	119
Others	252	941	–	1,193
	<u>77,106</u>	<u>9,751</u>	<u>6,613</u>	<u>93,470</u>
Liabilities				
Contingent consideration in relation to investments and acquisitions (iii)	–	–	4,361	4,361
	<u>–</u>	<u>–</u>	<u>4,361</u>	<u>4,361</u>

(i) Included in investment securities on the condensed consolidated balance sheets.

(ii) Included in prepayments, receivables and other assets on the condensed consolidated balance sheets.

(iii) Included in accrued expenses, accounts payable and other liabilities on the condensed consolidated balance sheets.

11. Investment securities and fair value disclosure (Continued)

Convertible and exchangeable bonds categorized within Level 3 under the fair value hierarchy:

	<u>Amounts</u>
	<i>(in millions of RMB)</i>
Balance as of July 1, 2019	5,453
Net decrease in fair value	(634)
Foreign currency translation adjustments	<u>77</u>
Balance as of September 30, 2019	<u><u>4,896</u></u>

Contingent consideration in relation to investments and acquisitions categorized within Level 3 under the fair value hierarchy:

	<u>Amounts</u>
	<i>(in millions of RMB)</i>
Balance as of July 1, 2019	5,238
Addition	700
Net decrease in fair value	(5)
Payment	(1,861)
Foreign currency translation adjustments	<u>289</u>
Balance as of September 30, 2019	<u><u>4,361</u></u>

12. Prepayments, receivables and other assets

	As of March 31, 2019	As of September 30, 2019
	<i>(in millions of RMB)</i>	
Current:		
Accounts receivable, net of allowance	13,771	16,518
Inventories	8,534	15,762
Amounts due from related companies (i)	7,445	12,645
VAT receivables, net of allowance	7,347	9,968
Prepaid cost of revenue, sales and marketing and other expenses	7,049	6,810
Advances to/receivables from customers, merchants and others	4,689	6,514
Deferred direct selling costs (ii)	1,990	2,080
Interest receivables	867	884
Licensed copyrights	1,126	881
Loan receivables, net	490	413
Others (iv)	5,282	8,107
	<u>58,590</u>	<u>80,582</u>
Non-current:		
Operating lease right-of-use assets (iii)	–	27,069
Film costs and prepayment for licensed copyrights and others	7,205	8,520
Prepayment for acquisition of property and equipment	7,643	6,627
Deferred tax assets	2,533	3,307
Deferred direct selling costs (ii)	281	268
Fair value of interest rate swap contracts	331	119
Land use rights, net (iii)	6,419	–
Others	3,606	3,389
	<u>28,018</u>	<u>49,299</u>

- (i) Amounts due from related companies primarily represent balances arising from transactions with Ant Financial and its subsidiaries (Notes 4(a) and 20). The balances are unsecured, interest free and repayable within the next twelve months.

12. Prepayments, receivables and other assets (Continued)

- (ii) The Company is obligated to pay certain costs upon the receipt of membership fees from merchants or other customers, which primarily consist of sales commissions. The membership fees are initially deferred and recognized as revenue in the condensed consolidated income statements in the period in which the services are rendered. As such, the related costs are also initially deferred and recognized in the condensed consolidated income statements in the same period as the related service fees are recognized.
- (iii) Upon initial application of ASC 842 on April 1, 2019, land use rights, net of carrying amount of RMB6,419 million were identified as operating lease right-of-use assets, such amount was included in the opening balance of operating lease right-of-use assets as of April 1, 2019 with no adjustments made to the comparative period.
- (iv) As of September 30, 2019, the amount includes certain call options for the Company to acquire additional effective interest in STO Express (Note 4(g)).

13. Investments in equity investees

	<u>Amounts</u> <i>(in millions of RMB)</i>
Balance as of July 1, 2019	85,596
Additions (i)	89,551
Share of results, other comprehensive income and other reserves (ii)	(436)
Disposals	(126)
Impairment loss (iii)	(11,590)
Foreign currency translation adjustments	266
	<u>163,261</u>
Balance as of September 30, 2019	<u>163,261</u>

- (i) Additions were primarily related to the 33% equity interest in Ant Financial received pursuant to the SAPA (Note 4(a)).
- (ii) Share of results, other comprehensive income and other reserves include the share of results of the equity investees, the gain or loss arising from the deemed disposal of the equity investees and the amortization of basis differences. The amount excludes the expenses relating to the share-based awards underlying the equity of the Company and Ant Financial granted to employees of certain equity investees (Note 9(d)).
- (iii) Impairment loss recorded represents the other-than-temporary decline in fair value below the carrying value of the investments in equity investees. The valuation inputs for the fair value measurement with respect to the impairments include the stock price for equity investees that are listed, as well as certain unobservable inputs that are not subject to meaningful aggregation.

As of September 30, 2019, equity method investments with an aggregate carrying amount of RMB45,047 million that are publicly traded have increased in value and the total market value of these investments amounted to RMB62,976 million.

14. Intangible assets, net

	As of March 31, 2019	As of September 30, 2019
	<i>(in millions of RMB)</i>	
User base and customer relationships	47,913	49,037
Trade names, trademarks and domain names	22,592	25,250
Non-compete agreements	12,528	12,958
Developed technology and patents	9,510	10,167
Licensed copyrights (i)	9,225	9,872
Others	1,358	353
	<u>103,126</u>	<u>107,637</u>
Less: accumulated amortization and impairment	<u>(34,850)</u>	<u>(41,537)</u>
Net book value	<u><u>68,276</u></u>	<u><u>66,100</u></u>

- (i) Licensed copyrights are presented on the condensed consolidated balance sheets as current assets under prepayments, receivables, and other assets (Note 12), or non-current assets under intangible assets, net, based on estimated time of usage. Total amortization expenses recognized for the three months ended September 30, 2018 and 2019 amounted to RMB6,107 million and RMB5,639 million, respectively, including the portion relating to licensed copyrights of RMB3,496 million and RMB2,633 million which were recorded in cost of revenue for the three months ended September 30, 2018 and 2019, respectively.

15. Goodwill

Changes in the carrying amount of goodwill by segment for the three months ended September 30, 2019 were as follows:

	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total
	<i>(in millions of RMB)</i>				
Balance as of July 1, 2019	198,660	1,483	60,685	6,066	266,894
Additions (i)	11,247	–	–	–	11,247
Measurement period adjustments	(541)	–	(850)	–	(1,391)
Impairment	–	–	(576)	–	(576)
Foreign currency translation adjustments	442	(1)	18	–	459
	<u>209,808</u>	<u>1,482</u>	<u>59,277</u>	<u>6,066</u>	<u>276,633</u>
Balance as of September 30, 2019	<u><u>209,808</u></u>	<u><u>1,482</u></u>	<u><u>59,277</u></u>	<u><u>6,066</u></u>	<u><u>276,633</u></u>

15. Goodwill (Continued)

- (i) Additions under the core commerce segment were primarily related to the acquisition of Kaola (Note 4(e)).

Gross goodwill balance was RMB281,153 million as of September 30, 2019.

Accumulated impairment loss was RMB4,520 million as of the same date.

16. Deferred revenue and customer advances

Deferred revenue and customer advances primarily represent service fees prepaid by merchants or customers for which the relevant services have not been provided. The respective balances are as follows:

	As of March 31, 2019	As of September 30, 2019
	<i>(in millions of RMB)</i>	
Deferred revenue	18,448	20,921
Customer advances	13,814	16,283
	32,262	37,204
Less: current portion	(30,795)	(35,422)
Non-current portion	<u>1,467</u>	<u>1,782</u>

All service fees received in advance are initially recorded as customer advances. These amounts are transferred to deferred revenue upon commencement of the provision of services by the Company and are recognized in the condensed consolidated income statements in the period in which the services are provided. In general, service fees received in advance are non-refundable after the amounts are transferred to deferred revenue. Substantially all of the balances of deferred revenue and customer advances are generally recognized as revenue within one year. The amounts of revenue recognized during the three months ended September 30, 2018 and 2019 from performance obligations satisfied (or partially satisfied) in previous periods were not material.

17. Accrued expenses, accounts payable and other liabilities

	As of March 31, 2019	As of September 30, 2019
	<i>(in millions of RMB)</i>	
Current:		
Payables and accruals for cost of revenue and sales and marketing expenses	51,958	60,831
Other deposits and advances received	10,447	17,470
Payable to merchants and third party marketing affiliates	12,554	14,961
Accrued bonus and staff costs, including sales commission	14,034	13,171
Contingent and deferred consideration in relation to investments and acquisitions	3,301	10,207
Payables and accruals for purchases of property and equipment	5,548	7,411
Other taxes payable (i)	3,448	6,303
Amounts due to related companies (ii)	4,570	3,879
Operating lease liabilities (Note 7)	–	3,346
Accrued donations	1,738	2,139
Accrued professional services and administrative expenses	2,361	1,808
Accrual for interest expense	924	1,005
Others (iii)	6,828	5,573
	<u>117,711</u>	<u>148,104</u>
Non-current:		
Operating lease liabilities (Note 7)	–	16,554
Contingent and deferred consideration in relation to investments and acquisitions	3,872	4,259
Others	2,315	1,882
	<u>6,187</u>	<u>22,695</u>

- (i) Other taxes payable represent VAT, business tax and related surcharges and PRC individual income tax of employees withheld by the Company.
- (ii) Amounts due to related companies primarily represent balances arising from the transactions with Ant Financial and its subsidiaries (Note 20). The balances are unsecured, interest free and repayable within the next twelve months.
- (iii) Other current liabilities as of March 31, 2019 include a settlement provision of US\$250 million (RMB1,679 million) for a U.S. federal class action lawsuit that has been pending since January 2015. The amount has been paid as of September 30, 2019.

18. Bank borrowings

Bank borrowings are analyzed as follows:

	As of March 31, 2019	As of September 30, 2019
	<i>(in millions of RMB)</i>	
Current portion:		
Short-term other borrowings (i)	<u>7,356</u>	<u>8,136</u>
Non-current portion:		
US\$4.0 billion syndicated loan denominated in		
US\$ (ii)	26,780	28,325
Long-term other borrowings (iii)	<u>8,647</u>	<u>12,235</u>
	<u>35,427</u>	<u>40,560</u>

- (i) As of September 30, 2019, the Company had short-term borrowings from banks which were repayable within one year or on demand and charged interest rates ranging from 0.8% to 19.0% per annum. As of September 30, 2019, the weighted average interest rate of these borrowings was 3.7% per annum. The borrowings are primarily denominated in RMB, US\$ or HK\$.
- (ii) As of September 30, 2019, the Company had a five-year US\$4.0 billion syndicated loan, which was entered into with a group of eight lead arrangers. The loan initially had a five-year bullet maturity and was priced at 110 basis points over LIBOR. The related floating interest payments are hedged by certain interest rate swap contracts entered into by the Company. The proceeds of the loan were used for general corporate and working capital purposes (including acquisitions). In May 2019, the loan terms were modified such that the interest rate of the loan was reduced to 85 basis points over LIBOR and the maturity of the loan was extended to May 2024.
- (iii) As of September 30, 2019, the Company had long-term borrowings from banks with weighted average interest rates of approximately 4.5% per annum. The borrowings are primarily denominated in RMB.

Certain other bank borrowings are collateralized by a pledge of certain bank deposits, buildings and property improvements, construction in progress and land use rights in the PRC with carrying value of RMB20,620 million as of September 30, 2019. As of September 30, 2019, the Company is in compliance with all covenants in relation to bank borrowings.

18. Bank borrowings (Continued)

As of September 30, 2019, the borrowings will be due according to the following schedule:

	Principal amounts
	<i>(in millions of RMB)</i>
Within 1 year	8,136
Between 1 to 2 years	1,306
Between 2 to 3 years	1,695
Between 3 to 4 years	743
Between 4 to 5 years	30,339
Beyond 5 years	6,638
	<hr/>
	48,857
	<hr/> <hr/>

19. Unsecured senior notes

In November 2014, the Company issued unsecured senior notes including floating rate and fixed rate notes with varying maturities for an aggregate principal amount of US\$8.0 billion (the “2014 Senior Notes”), of which US\$1.3 billion was repaid in November 2017. The 2014 Senior Notes are senior unsecured obligations that are listed on the HKSE, and interest is payable in arrears, quarterly for the floating rate notes and semiannually for the fixed-rate notes.

In December 2017, the Company issued another series of unsecured fixed rate senior notes with varying maturities for an aggregate principal amount of US\$7.0 billion (the “2017 Senior Notes”). The 2017 Senior Notes are senior unsecured obligations that are listed on the Singapore Stock Exchange, and interest is payable in arrears semiannually.

19. Unsecured senior notes (Continued)

The following table provides a summary of the Company's unsecured senior notes as of March 31, 2019 and September 30, 2019:

	As of March 31, 2019	As of September 30, 2019	Effective interest rate
	<i>(in millions of RMB)</i>		
US\$2,250 million 2.500% notes due 2019	15,110	16,019	2.67%
US\$1,500 million 3.125% notes due 2021	10,044	10,646	3.26%
US\$700 million 2.800% notes due 2023	4,687	4,967	2.90%
US\$2,250 million 3.600% notes due 2024	15,061	15,959	3.68%
US\$2,550 million 3.400% notes due 2027	16,989	18,004	3.52%
US\$700 million 4.500% notes due 2034	4,650	4,927	4.60%
US\$1,000 million 4.000% notes due 2037	6,663	7,059	4.06%
US\$1,750 million 4.200% notes due 2047	11,655	12,347	4.25%
US\$1,000 million 4.400% notes due 2057	6,658	7,053	4.44%
Carrying value	91,517	96,981	
Unamortized discount and debt issuance costs	589	584	
Total principal amounts of unsecured senior notes	92,106	97,565	
Less: current portion of principal amounts of unsecured senior notes	(15,127)	(16,024)	
Non-current portion of principal amounts of unsecured senior notes	76,979	81,541	

19. Unsecured senior notes (Continued)

The 2014 Senior Notes and the 2017 Senior Notes were issued at a discount with a total amount of US\$47 million (RMB297 million). The debt issuance costs of US\$82 million (RMB517 million) were presented as a direct deduction from the principal amount of the unsecured senior notes on the condensed consolidated balance sheets. The effective interest rates for the unsecured senior notes include the interest charged on the notes as well as amortization of the debt discounts and debt issuance costs.

The 2014 Senior Notes and the 2017 Senior Notes contain covenants including, among others, limitation on liens, consolidation, merger and sale of the Company's assets. As of September 30, 2019, the Company is in compliance with all these covenants. In addition, the 2014 Senior Notes and the 2017 Senior Notes rank senior in right of payment to all of the Company's existing and future indebtedness expressly subordinated in right of payment to the notes and rank at least equally in right of payment with all of the Company's existing and future unsecured unsubordinated indebtedness (subject to any priority rights pursuant to applicable law).

The proceeds from issuance of the 2014 Senior Notes were used in full to refinance a previous syndicated loan in the same amount. The proceeds from the issuance of the 2017 Senior Notes were used for general corporate purposes.

As of September 30, 2019, the future principal payments for the Company's unsecured senior notes will be due according to the following schedule:

	Principal amounts
	<i>(in millions of RMB)</i>
Within 1 year	16,024
Between 1 to 2 years	–
Between 2 to 3 years	10,682
Between 3 to 4 years	4,985
Between 4 to 5 years	–
Thereafter	65,874
	<u>97,565</u>

As of September 30, 2019, the fair value of the Company's unsecured senior notes, based on Level 2 inputs, was US\$14,543 million (RMB103,565 million).

20. Related party transactions

During the three months ended September 30, 2018 and 2019, the Company had the following material related party transactions:

Transactions with Ant Financial and its affiliates

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Amounts earned by the Company		
Profit Share Payments (<i>Note 4(a)</i>)	(910)	2,208
SME Annual Fee (<i>Note 4(a)</i>)	239	239
Administrative and support services	204	316
Commission on transactions	140	203
Cloud computing revenue	181	374
Other amounts earned	256	405
	<u>110</u>	<u>3,745</u>
Amounts incurred by the Company		
Payment processing fee	1,845	2,280
Other amounts incurred	41	742
	<u>1,886</u>	<u>3,022</u>

As of September 30, 2019, the Company had certain amount of cash held in accounts managed by Alipay in connection with the provision of online and mobile commerce and related services for a total amount of RMB4,371 million which has been classified as cash and cash equivalents on the condensed consolidated balance sheet.

Transactions with Weibo Corporation (“Weibo”)

The strategic collaboration agreement and the marketing cooperation agreement that were entered into between the Company and Weibo, an equity investee of the Company, expired in January 2016. Expenses incurred in connection with the marketing services provided by Weibo pursuant to these agreements and other commercial arrangements of RMB196 million and RMB195 million were recorded in the cost of revenue and sales and marketing expenses in the condensed consolidated income statements for the three months ended September 30, 2018 and 2019, respectively.

20. Related party transactions (Continued)

The Company also has other commercial arrangements with Weibo primarily related to cloud computing services. In connection with these services provided by the Company, RMB70 million and RMB71 million were recorded in revenue in the condensed consolidated income statements for the three months ended September 30, 2018 and 2019, respectively.

Transactions with other investees

Cainiao Network has commercial arrangements with certain investees of the Company related to logistics services. Revenues recognized in connection with these services of RMB30 million and RMB294 million were recorded in the condensed consolidated income statements for the three months ended September 30, 2018 and 2019, respectively. Expenses incurred in connection with these services of RMB3,845 million and RMB3,215 million were recorded in the condensed consolidated income statements for the same periods, respectively.

The Company has extended loans to certain of the Company's investees for working capital and other uses in conjunction with the Company's investments. As of September 30, 2019, the aggregate outstanding balance of these loans was RMB2,033 million, with durations generally ranging from one year to ten years and interest rates of up to 6% per annum.

Other transactions

The Company's digital economy offers different platforms on which different enterprises operate and the Company believes that all transactions on the Company's platforms are conducted on terms obtained in arms-length transactions with similar unrelated parties.

Other than the transactions disclosed above or elsewhere in the condensed consolidated financial statements, the Company has commercial arrangements with SoftBank, its investees and other related parties to provide and receive certain marketing, logistics, traffic acquisition, cloud computing and other services and products. The amounts relating to these services provided and received represent less than 1% of the Company's revenue and total costs and expenses, respectively, for the three months ended September 30, 2018 and 2019.

20. Related party transactions (Continued)

In addition, the Company has made certain acquisitions and equity investments together with related parties from time to time during the three months ended September 30, 2018 and 2019. The agreements for acquisitions and equity investments were entered into by the parties involved and conducted on fair value basis. The significant acquisitions and equity investments together with related parties are included in Note 4.

21. Risks and contingencies

- (a) The Company is incorporated in the Cayman Islands and considered as a foreign entity under PRC laws. Due to legal restrictions on foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of Internet content providers, the Company conducts its Internet businesses and other businesses through various contractual arrangements with VIEs that are held by PRC citizens or by PRC entities owned and/or controlled by PRC citizens. The VIEs hold the licenses and approvals that are essential for their business operations in the PRC and the Company has entered into various agreements with the VIEs and their equity holders such that the Company has the right to benefit from their licenses and approvals and generally has control of the VIEs. In the Company's opinion, the current ownership structure and the contractual arrangements with the VIEs and their equity holders as well as the operations of the VIEs are in substantial compliance with all existing PRC laws, rules and regulations. However, there may be changes and other developments in PRC laws, rules and regulations. Accordingly, the Company gives no assurance that PRC government authorities will not take a view in the future that is contrary to the opinion of the Company. If the current ownership structure of the Company and its contractual arrangements with the VIEs and their equity holders were found to be in violation of any existing or future PRC laws or regulations, the Company's ability to conduct its business could be impacted and the Company may be required to restructure its ownership structure and operations in the PRC to comply with the changes in the PRC laws which may result in deconsolidation of the VIEs.

21. Risks and contingencies (Continued)

- (b) The PRC market in which the Company operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Company to operate or invest in online and mobile commerce or other Internet related businesses, representing the principal services provided by the Company, in the PRC. The information and technology industries are highly regulated. Restrictions are currently in place or are unclear regarding what specific segments of these industries foreign owned enterprises, like the Company, may operate. If new or more extensive restrictions were imposed on the segments in which the Company is permitted to operate, the Company could be required to sell or cease to operate or invest in some or all of its current businesses in the PRC.
- (c) The Company's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of the Company's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Company in the PRC must be processed through the PBOC or other PRC foreign exchange regulatory bodies and require certain supporting documentation in order to effect the remittance. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currencies to satisfy its currency demands, the Company may not be able to pay dividends in foreign currencies and the Company's ability to fund its business activities that are conducted in foreign currencies could be adversely affected.
- (d) Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and cash equivalents, short-term investments, restricted cash and investment securities. As of September 30, 2019, substantially all of the Company's cash and cash equivalents, short-term investments and restricted cash were held by major financial institutions located worldwide, including Hong Kong and the PRC. If the banking system or the financial markets deteriorate or become volatile, the financial institutions and other issuers of financial instruments held by the Company could become insolvent and the markets for these instruments could become illiquid, in which case the Company could lose some or all of the value of its investments.

21. Risks and contingencies (Continued)

- (e) During the three months ended September 30, 2018 and 2019, the Company offered a trade assurance program on the international wholesale marketplaces at no charge to the wholesale buyers and sellers. If the wholesale sellers who participate in this program do not deliver the products in their stated specifications to the wholesale buyers on schedule, the Company may compensate the wholesale buyers for their losses on behalf of the wholesale sellers up to a pre-determined amount following a review of each particular case. In turn, the Company will seek a full reimbursement from the wholesale sellers for the prepaid reimbursement amount, yet the Company is exposed to a risk over the collectability of the reimbursement from the wholesale sellers. During the three months ended September 30, 2018 and 2019, the Company did not incur any material losses with respect to the compensation provided under this program. Given that the maximum compensation for each wholesale seller is pre-determined based on their individual risk assessments by the Company considering their credit profile or other relevant information, the Company determined that the likelihood of material default on the payments are not probable and therefore no provisions have been made in relation to this program.
- (f) In the ordinary course of business, the Company makes strategic investments in privately held companies and listed securities to increase the service offerings and expand capabilities. The Company continually reviews its investments to determine whether a decline in fair value below the carrying value is other-than-temporary. The primary factors which the Company considers in its determination include the length of time that the fair value of the investment is below the Company's carrying value; post-balance sheet date fair value of the investment; the financial condition, operating performance, strategic collaboration with and the prospects of the investee; the economic or technological environment in which the investee operates; and other entity specific information, such as recent financing rounds completed by the investee companies. Fair value of the listed securities is subject to volatility and may be materially affected by market fluctuations. If the decline in fair value is significant and other-than-temporary, the carrying value of the investment is written down to its fair value and this may negatively impact the results of operations of the Company.
- (g) In the ordinary course of business, the Company is from time to time involved in legal proceedings and litigations relating to disputes relating to trademarks and other intellectual property, among others. There are no legal proceedings and litigations that have in the recent past had, or to the Company's knowledge, are probable to have, a material impact on the Company's financial positions, results of operations or cash flows. The Company did not accrue any material loss contingencies in this respect as of September 30, 2019.

22. Segment information

The Company presents segment information after elimination of inter-company transactions. In general, revenue, cost of revenue and operating expenses are directly attributable, or are allocated, to each segment. The Company allocates costs and expenses that are not directly attributable to a specific segment, such as those that support infrastructure across different segments, to different segments mainly on the basis of usage, revenue or headcount, depending on the nature of the relevant costs and expenses. The Company does not allocate assets to its segments as the CODM does not evaluate the performance of segments using asset information.

The following tables present the summary of each segment's revenue, income from operations and adjusted earnings before interest, taxes and amortization ("Adjusted EBITA") which is considered as a segment operating performance measure, for the three months ended September 30, 2018 and 2019:

	Three months ended September 30, 2018						
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	
	<i>(in millions of RMB, except percentages)</i>						
Revenue	72,475	5,667	5,940	1,066	85,148	–	85,148
Income (Loss) from operations	24,290	(1,165)	(4,805)	(2,201)	16,119	(2,618)	13,501
Add: share-based compensation expense	3,292	928	710	952	5,882	1,161	7,043
Add: amortization of intangible assets	2,225	5	293	8	2,531	80	2,611
Adjusted EBITA (ii)	<u>29,807</u>	<u>(232)</u>	<u>(3,802)</u>	<u>(1,241)</u>	<u>24,532</u>	<u>(1,377)</u>	
Adjusted EBITA margin (iii)	41%	(4)%	(64)%	(116)%			

22. Segment information (Continued)

Three months ended September 30, 2019							
	Core commerce	Cloud computing	Digital media and entertainment	Innovation initiatives and others	Total segments	Unallocated (i)	Consolidated
<i>(in millions of RMB, except percentages)</i>							
Revenue	101,220	9,291	7,296	1,210	119,017	-	119,017
Income (Loss) from operations	32,069	(1,928)	(3,327)	(3,073)	23,741	(3,377)	20,364
Add: share-based compensation expense	3,901	1,400	790	1,136	7,227	918	8,145
Add: amortization of intangible assets	2,604	7	330	20	2,961	45	3,006
Add: impairment of goodwill	-	-	-	-	-	576	576
Adjusted EBITA (ii)	<u>38,574</u>	<u>(521)</u>	<u>(2,207)</u>	<u>(1,917)</u>	<u>33,929</u>	<u>(1,838)</u>	
Adjusted EBITA margin (iii)	38%	(6)%	(30)%	(158)%			

The following table presents the reconciliation from the Adjusted EBITA to the consolidated net income for the three months ended September 30, 2018 and 2019:

Three months ended September 30,		
	2018	2019
<i>(in millions of RMB)</i>		
Total Segments Adjusted EBITA	24,532	33,929
Unallocated (i)	(1,377)	(1,838)
Share-based compensation expense	(7,043)	(8,145)
Amortization of intangible assets	(2,611)	(3,006)
Impairment of goodwill	-	(576)
Consolidated income from operations	13,501	20,364
Interest and investment income, net	6,635	63,348
Interest expenses	(1,340)	(1,360)
Other (loss) income, net	(1,532)	3,171
Income tax expenses	(277)	(2,815)
Share of results of equity investees	1,254	(11,960)
Consolidated net income	<u>18,241</u>	<u>70,748</u>

22. Segment information (Continued)

The following table presents the total depreciation and amortization expenses of property and equipment, and operating lease cost relating to land use rights by segment for the three months ended September 30, 2018 and 2019:

	Three months ended September 30,	
	2018	2019
	<i>(in millions of RMB)</i>	
Core commerce	1,614	2,086
Cloud computing	1,515	2,252
Digital media and entertainment	320	339
Innovation initiatives and others and unallocated (i)	106	333
Total depreciation and amortization expenses of property and equipment, and operating lease cost relating to land use rights	<u>3,555</u>	<u>5,010</u>

- (i) Unallocated expenses are primarily related to corporate administrative costs and other miscellaneous items that are not allocated to individual segments.
- (ii) Adjusted EBITA represents net income before (i) interest and investment income, net, interest expense, other income or loss, net, income tax expenses and share of results of equity investees, and (ii) certain non-cash expenses, consisting of share-based compensation expense, amortization of intangible assets and impairment of goodwill, which are not reflective of the Company's core operating performance.
- (iii) Adjusted EBITA margin represents Adjusted EBITA divided by revenue.

Details of the Company's revenue by segment are set out in Note 5. As substantially all of the Company's long-lived assets are located in the PRC and substantially all of the Company's revenue is derived from within the PRC, no geographical information is presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the Company's reporting accountant, as set out in Appendix IA to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix IA to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the ordinary shareholders of the Company as of June 30, 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of Alibaba Group Holding Limited and its consolidated subsidiaries, or the Company, had the Global Offering been completed as of June 30, 2019 or at any future dates. It is prepared based on the consolidated net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2019 as derived from the Accountant's Report, the text of which is set out in Appendix IA to this prospectus, and adjusted as described below.

Audited consolidated net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2019	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS
(in millions of RMB) (Note 1)	(in millions of RMB) (Note 2)	(in millions of RMB)	RMB (Note 3)	RMB (Note 4)	HK\$ (Note 5)	HK\$ (Note 5)
Based on the indicative offer price of HK\$188.00 per Offer Share	284,393	83,618	368,011	17.25	137.98	19.30
						154.36

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2019 is derived from the Accountant's Report set out in Appendix IA to this prospectus, which is based on the audited consolidated net assets attributable to ordinary shareholders of the Company as of June 30, 2019 of RMB521,033 million with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of the Company of RMB188,688 million and RMB47,952 million, respectively.
- (2) The estimated net proceeds from the Global Offering are based on the indicative offer price of HK\$188.00 per Offer Share after deduction of the estimated underwriting fees and other related expenses payable by the Company subsequent to June 30, 2019 and without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 21,336,609,360 Shares were in issue assuming that the Global Offering had been completed on June 30, 2019 and after having accounted for the Share Split but without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares by the Company.
- (4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents eight Shares.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.000 to HK\$1.1187. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transactions of the Company entered into subsequent to June 30, 2019.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report set out on pages II-3 to II-5, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Alibaba Group Holding Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Alibaba Group Holding Limited and its subsidiaries (together, the "Company") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Company as at June 30, 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated November 15, 2019, in connection with the proposed listing of shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed listing of shares on the Company's financial position as at June 30, 2019 as if the proposed listing of shares had taken place at June 30, 2019. As part of this process, information about the Company's financial position has been extracted by the directors from the Company's financial information for the period ended June 30, 2019, on which an accountant's report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Hong Kong Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Hong Kong Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed listing of shares at June 30, 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Hong Kong Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

November 15, 2019

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our memorandum and articles of association, and the Cayman Companies Law and the common law of the Cayman Islands.

As of the date of this prospectus, our authorized share capital was US\$100,000 divided into 32,000,000,000 Shares of par value US\$0.000003125 per Share.

The following are summaries of material provisions of our Articles, as currently in effect, and the Cayman Companies Law insofar as they relate to the material terms of our Shares.

Summary of Our Constitution

Memorandum of Association

Our Memorandum of Association, as currently in effect, states, among other things, that the liability of our members is limited, that the objects for which we are established are unrestricted and we shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

Our Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents Available for Inspection.”

Articles of Association

Our Articles of Association, as currently in effect, include provisions to the following effect:

Shares

General

A shareholder shall only be entitled to a share certificate if our directors resolve that share certificates shall be issued. We may not issue shares to bearer.

Dividends

The holders of our Shares are entitled to such dividends as may be declared by our board. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by our board and, if so forfeited, shall revert to us.

Voting Rights

Each Share is entitled to one vote on all matters upon which our Shares are entitled to vote.

Voting at any meeting of shareholders is by poll.

An ordinary resolution to be passed by our shareholders requires the affirmative vote of a simple majority of the votes cast by our shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than three-fourths of the votes cast by our shareholders entitled to vote who are present in person or by proxy at a general meeting (except for certain matters described below which require a higher affirmative vote, in which cases the required majority to pass a special resolution shall be 95%, and for certain types of winding up of us, in which case the required majority to pass a special resolution shall be 100%). Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all shareholders, as permitted by our Articles.

Our Articles provide that a special resolution shall be required, and that for the purposes of any such special resolution, the affirmative vote of no less than 95% of votes cast by our shareholders entitled to vote who are present in person or by proxy at a general meeting shall be required to approve any amendments to any provisions of our Articles that relate to or have an impact upon:

- the right of the Alibaba Partnership to nominate directors to our board as described below under “— Nomination, Election and Removal of Directors;”
- the affirmative shareholder vote necessary to approve or authorize a merger or change of control if the Alibaba Partnership’s right to nominate directors is adversely impacted by such merger or change of control;
- the procedures regarding the election, appointment and removal of directors or the size of our board; and
- any alteration of the voting rights with respect to the above.

Transfer of Shares

Subject to the restrictions contained in our Articles as set out below, any of our shareholders may transfer all or any of his or her Shares by an instrument of transfer in any usual or common form or any other form approved by our board, executed by or on behalf of the transferor (and, if in respect of a nil or partly paid up share, or if so required by our directors, by or on behalf of the transferee).

Our board may, in its absolute discretion, decline to register any transfer of any Share that has not been fully paid up or is subject to a company lien. Our board may also decline to register any transfer of any Share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for our Shares to which it relates and such other evidence as our board may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of Shares;
- the instrument of transfer is properly stamped, if required;
- the Share transferred is fully paid and free of any lien in favor of us;
- any fee related to the transfer has been paid to us; and
- the transfer is not to more than four joint holders.

If our directors refuse to register a transfer, they are required, within three months after the date on which the instrument of transfer was lodged, to send to each of the transferor and the transferee notice of such refusal.

Liquidation

On our winding up, if the assets available for distribution among the holders of our Shares shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among the holders of our Shares on a pro rata basis in proportion to the par value of the Shares held by them. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by the holders of our Shares in proportion to the par value of our Shares held by them.

The liquidator may, with the sanction of a special resolution of our shareholders and any other sanction required by the Cayman Companies Law, divide amongst our shareholders in species or in kind the whole or any part of our assets, and may for that purpose value any assets and determine how the division shall be carried out as between our shareholders or different classes of shareholders.

Calls on Shares and Forfeiture of Shares

Our board may from time to time make calls upon shareholders for any amounts unpaid on their Shares. Shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined by our board. Subject to the provisions of the Cayman Companies Law, we may, by agreement with the relevant shareholder, repurchase our own shares (including any redeemable shares) provided that the manner and terms of such purchase have been approved by our directors or by an ordinary resolution by our shareholders (provided further that no repurchase may be made contrary to the terms or manner recommended by the directors). In addition, we may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares

If at any time, our share capital is divided into different classes of shares, all or any of the rights attached to any class of shares may be varied with the consent in writing of the holders of not less than three-fourths of the shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights will not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

Notwithstanding the foregoing, our board may issue preferred shares, without further action by the shareholders. See “— Directors’ Power to Issue Shares.”

Nomination, Election and Removal of Directors

Our Articles provide that persons standing for election as directors at a duly constituted general meeting with requisite quorum shall be elected by an ordinary resolution of our shareholders, which requires the affirmative vote of a simple majority of the votes cast on the resolution by our shareholders entitled to vote who are present in person or by proxy at the meeting. Our Articles further provide that our board is divided into three groups designated as Group I, Group II and Group III with as nearly equal a number of directors in each group as possible. Each director of each group shall, upon the expiration of his or her term, be eligible for re-election at the next following annual general meeting to hold office for a three-year term and until such director’s successor has been duly elected. Our Articles provide that, unless otherwise determined by shareholders in a general meeting, our board shall consist of not less than nine directors, for so long as SoftBank has the right to nominate a director and when SoftBank no longer has such right, not less than seven. Our Articles further provide that our board should be comprised of no fewer than five directors. We have no provisions relating to retirement of directors upon reaching any age limit.

Our Articles provide that the Alibaba Partnership shall have the right to nominate such number of persons who shall stand for election as directors as may be required to ensure that directors nominated or appointed by the Alibaba Partnership shall constitute a simple majority of the total number of directors on our board, with as equal a number of such nominated directors assigned to each group of directors as possible. Our Articles further provide that the Alibaba Partnership’s nomination rights are conditioned on the Alibaba Partnership being governed by the partnership agreement in effect as of the completion of

the offering of our ADSs in 2014, or as may be amended in accordance with its terms from time to time. Any amendment to the provisions in the partnership agreement relating to the purpose of the partnership, or to the manner in which the Alibaba Partnership exercises its right to nominate a simple majority of our directors, will be subject to the approval of the majority of our directors who are not nominees or appointees of the Alibaba Partnership and are “independent directors” within the meaning of Section 303A of the Corporate Governance Rules of the New York Stock Exchange.

A nominating and corporate governance committee of our board shall have the right to determine the persons who shall stand for election as directors for the remainder of the places available for election to our board, subject to the right of SoftBank to nominate one person to stand for election so long as SoftBank owns at least 15% of our outstanding shares pursuant to the Articles. Each of the compensation committee and the nominating and corporate governance committee shall consist of at least three directors and the majority of the committee members shall be independent within the meaning of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The audit committee shall consist of at least three directors, all of whom shall be independent within the meaning of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and shall meet the criteria for independence set forth in Rule 10A-3 of the U.S. Exchange Act by the end of the one year transition period for companies following an initial public offering. The director nominated by SoftBank is entitled to receive notices and materials for all meetings of our committees and upon notice to the relevant committee, to join as an observer in meetings of the audit committee, the compensation committee, the nominating and corporate governance committee and other board committees we may establish.

In the event that the appointment of any person standing for election as a director fails to be approved by a simple majority of votes cast at a duly constituted general meeting, the party that nominated such person to stand for election shall have the power to appoint a different person to our board to be a director until the next annual general meeting of shareholders after such appointment. Such appointment shall become effective upon the nominating party giving a written notice (duly signed by the general partner of the Alibaba Partnership, or by majority of the members of the nominating and corporate governance committee, or by an authorized representative of SoftBank, as the case may be) to us, without the requirement for any further vote or approval by our shareholders or our board. In the event of a casual vacancy on our board due to the resignation, death or removal of a director, the party that nominated or appointed such director shall have the right to appoint a person to our board to be a director until the next annual general meeting of shareholders after such appointment. Our board may expand the maximum number of directors on our board, subject to any maximum number determined from time to time by our shareholders at a general meeting. The Alibaba Partnership shall be entitled to appoint such number of additional directors to our board as may be necessary to ensure that the directors nominated or appointed by the Alibaba Partnership comprise a simple majority of our board (such additional directors shall be designated as Alibaba Partnership nominated directors). If at any time our board consists of less than a simple majority of directors nominated or appointed by the Alibaba Partnership for any reason, including because a director previously nominated by the Alibaba Partnership ceases to be a member of our board or because the Alibaba Partnership had previously not fully exercised its right to nominate or appoint a simple majority of our board, the Alibaba Partnership shall be entitled (in its sole discretion) to appoint such number of additional directors to the board as necessary to ensure that the directors nominated or appointed by the Alibaba Partnership comprise a

simple majority of our board. The nominating and corporate governance committee shall be entitled to appoint any other directors up to the maximum number of directors on our board, if any (designated as nominating and corporate governance committee nominated directors). The Alibaba Partnership and the nominating and corporate governance committee shall have the right to appoint persons to our board as Alibaba Partnership nominated directors and nominating and corporate governance committee nominated directors, respectively, until the next annual general meeting of shareholders after such appointment.

A director will be removed from office automatically if, among other things, the director (1) dies or becomes bankrupt or makes any arrangement or composition with his creditors generally; or (2) is found of unsound mind; or (3) resigns his office by notice in writing to us. In addition, directors nominated or appointed by the Alibaba Partnership are, so long as the Alibaba Partnership is governed by the partnership agreement in effect or as may be amended in accordance with its terms from time to time, subject to removal, with or without cause, only by the Alibaba Partnership, and director nominated or appointed by SoftBank will be subject to removal, with or without cause, only by SoftBank. So long as the Alibaba Partnership is governed by the partnership agreement in effect or as may be amended in accordance with its terms from time to time, any director nominated or appointed by the nominating and corporate governance committee may be removed for cause by a vote of the majority of our board upon the recommendation of the nominating and corporate governance committee. After such time, any director may be removed by ordinary resolution, with or without cause.

There is no shareholding qualification for directors nor is there any specified age limit for directors.

Proceedings of Our Board

Our Articles provide that our business is to be managed and conducted by our board. The quorum necessary for a board meeting may be fixed by our board and, unless so fixed at another number, will be a majority of the directors.

Our Articles provide that our board may from time to time at its discretion exercise all our powers to raise capital or borrow money, to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and, subject to the Cayman Companies Law, issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of us or of any third party.

Changes in Capital

Our shareholders may from time to time by ordinary resolution:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;

- sub-divide our existing shares, or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

Our shareholders may by special resolution, subject to any confirmation or consent required by the Cayman Companies Law, reduce our share capital or any capital redemption reserve in any manner permitted by law.

Restrictive Provisions

Under our Articles, in connection with any change of control, merger or sale, the partners of the Alibaba Partnership and other holders of our Shares shall receive the same consideration with respect to their Shares in connection with any such transaction. In addition, our Articles provide that the Alibaba Partnership may not transfer or otherwise delegate or give a proxy to any third party with respect to its right to nominate directors and that the consent of the independent members of our board who are not nominees of the Alibaba Partnership shall be needed for any amendment of the partnership agreement relating to the purpose of the partnership or the manner in which the partnership exercises its rights to nominate or appoint a majority of our board.

Directors' Power to Issue Shares

Under our Articles, our board is empowered to issue or allot shares or grant options, with or without preferred, deferred, qualified or other special rights or restrictions. In particular, pursuant to our Articles, our board has the authority, without further action by the shareholders, to issue all or any part of our capital and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions therefrom, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of our Shares. Our board, without shareholder approval, may issue preferred shares with voting, conversion or other rights that could adversely affect the voting power and other rights of holders of our Shares.

Directors' Borrowing Powers

Our directors may exercise all of our powers to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of us or of any third party.

Disclosure of interest in contracts with us or any of our subsidiaries

Our Articles provide that a director who has a direct or indirect interest in any contract, business or arrangement in which we or our affiliates is a party or becomes a party to (an "Interested director"), shall declare the nature of his interest at a meeting of the directors.

A general notice given to the directors by any director to the effect that he is affiliated with any specified person and is to be regarded as interested in any contract which may later be made with that person shall be deemed a sufficient declaration of interest in regard to any contract so made.

An Interested director shall be counted in the quorum but shall not be entitled to vote in respect of any contract or proposed contract or arrangement in which he is interested. Except with the prior approval of a majority of the non-Interested directors, we will not, and will cause each of our subsidiaries not to, enter into or engage in any transaction or agreement to which we or any of our subsidiaries, on the one hand, and any such Interested director or person affiliated with such Interested director, on the other hand, are parties or receive any direct or indirect economic or other benefits (except to the extent of their pro rata share in benefits accruing to other shareholders).

Remuneration of directors

Our Articles provide that the remuneration of our directors shall be determined by our board. No independent quorum is required.

Restriction on Ownership of Securities

There are no provisions in our Articles relating to restriction on ownership of our Shares or securities.

Lien on Our shares

Our Articles provide that we have a first and paramount lien on every share (whether or not fully paid) for all amounts (whether presently payable or not) payable at a fixed time or called in respect of that share. We also have a first and paramount lien on every share registered in the name of a person indebted or under liability to us (whether he is the sole registered holder of a share or one of two or more joint holders) for all amounts owing by him or his estate to us (whether or not presently payable). Our directors may at any time declare a share to be wholly or in part exempt from these requirements. Our lien on a share extends to any amount payable in respect of it.

Suspension of Registration of Transfers

Our registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the our Register of Members closed at such times and for such periods as our directors may, in their absolute discretion, from time to time determine, provided always that such registration of transfer shall not be suspended nor our Register of Members closed for more than 30 days in any year.

General Meeting

We may in each year hold a general meeting as annual general meeting and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholder Requisition of General Meeting

A shareholders' requisition is a requisition of shareholders holding at the date of deposit of the requisition in aggregate not less than one-third of the voting rights of such of the issued Shares as at that date of the deposit carries the right of voting at our general meetings.

Our Articles provide that, the shareholders who requisition a meeting (i) may propose only ordinary resolutions to be considered and voted upon at such meeting; and (ii) shall have no right to propose any resolutions with respect to the election, appointment or removal of directors or with respect to the size of our board.

Save as the right set out above, our shareholders have no right to propose resolutions to be considered or voted upon at our annual general meetings or extraordinary general meetings.

Notice of General Meeting

At least 10 days' advance notice but not more than 60 days' advance notice shall be given for any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting as determined by our board and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by our board, provided that our general meeting shall, whether or not the notice specified above has been given and whether or not the provisions of our Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed: (a) in the case of an annual general meeting by all shareholders (or their proxies) entitled to attend and vote thereat; and (b) in the case of an extraordinary general meeting by a majority in number of our shareholders (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than 95% in par value of our shares giving that right.

Quorum of General Meeting

No business shall be transacted at any general meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business. The quorum required for a general meeting of shareholders consists of at least one shareholder, present in person or by proxy and entitled to vote, holding in aggregate not less than one-third of the voting power of our shares in issue carrying a right to vote at such meeting.

Claims Against us

Unless otherwise determined by a majority of our board, in the event that (i) any shareholder (the "Claiming Party") initiates or asserts any claim or counterclaim ("Claim") or joins, offers substantial assistance to or has a direct financial interest in any Claim against us and (ii) the Claiming Party (or the third party that received substantial assistance from the Claiming Party or in whose Claim the Claiming Party had a direct financial interest) does not obtain a judgment on the merits in which the Claiming Party prevails, then each Claiming Party shall, to the fullest extent permissible by law, be obligated jointly and severally to reimburse us for all fees, costs and expenses (including, but not limited to, all reasonable attorneys' fees and other litigation expenses) that we may incur in connection with such Claim.

Summary of Cayman Islands Company Law and Taxation***Introduction***

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

Incorporation

We were incorporated in the Cayman Islands as an exempted company with limited liability on 28 June 1999 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. We are required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- paying distributions or dividends to members;
- paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- writing-off the preliminary expenses of the company;
- writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see "— Share Capital" above for details).

Shareholder Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- all sales and purchases of goods by the company; and
- the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

Special Resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

Subsidiary Owning Shares in Parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

Mergers and Consolidations

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a

written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, we may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of our shares, debentures or other obligations; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to us.

Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

General

Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, have sent to us a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed “Documents Available for Inspection” in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

Further Information About Us***Our Incorporation***

We were incorporated in the Cayman Islands under Cayman Companies Law as an exempted company with limited liability on June 28, 1999. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at 26/F, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. Timothy A. Steinert has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of our Constitution of and Cayman Companies Law” in Appendix III.

Changes in Our Share Capital

As at the Latest Practicable Date, after having accounted for the Share Split, we had an authorized share capital of US\$100,000, divided into 32,000,000,000 Shares of par value US\$0.000003125 per Share, and our issued share capital was 20,886,784,264 Shares.

The following tables set out the changes in the share capital, after having accounted for the Share Split, of our Company during the periods presented in this prospectus:

	Fiscal year ended March 31, 2017	
	Shares	Shareholders' Equity
		(US\$)
Balances as at April 1, 2016	19,791,422,872	61,848.20
Issuance of Shares	659,922,752	2,062.25
Repurchase and retirement of Shares	(216,432,112)	(676.35)
Balances as at March 31, 2017	<u>20,234,913,512</u>	<u>63,234.10</u>

	Fiscal year ended March 31, 2018	
	Shares	Shareholders' Equity
		(US\$)
Balances as at April 1, 2017	20,234,913,512	63,234.10
Issuance of Shares	340,564,200	1,064.27
Repurchase and retirement of Shares	(38,968)	(0.12)
Balances as at March 31, 2018	<u>20,575,438,744</u>	<u>64,298.25</u>

	Fiscal year ended March 31, 2019	
	Shares	Shareholders' Equity
		(US\$)
Balances as at April 1, 2018	20,575,438,744	64,298.25
Issuance of Shares	208,011,512	650.03
Repurchase and retirement of Shares	(86,973,680)	(271.79)
Balances as at March 31, 2019	<u>20,696,476,576</u>	<u>64,676.49</u>

	Three-months ended June 30, 2019	
	Shares	Shareholders' Equity
		(US\$)
Balances as at April 1, 2019	20,696,476,576	64,676.49
Issuance of Shares	140,164,760	438.01
Repurchase and retirement of Shares	(31,976)	(0.10)
Balances as at June 30, 2019	<u>20,836,609,360</u>	<u>65,114.40</u>

Changes in the Share Capital of Our Major Subsidiaries

The following alterations in the share capital of our Major Subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

Zhejiang Tmall Technology Co., Ltd. (浙江天貓技術有限公司), or Tmall China

On November 5, 2018, the registered capital of Tmall China was increased from US\$49.0 million to US\$114.0 million.

Alibaba (China) Technology Co., Ltd. (阿里巴巴(中國)網絡技術有限公司), or Alibaba China

On September 21, 2018, the registered capital of Alibaba China was increased from US\$596.9 million to US\$714.1 million.

On November 27, 2018, the registered capital of Alibaba China was increased from US\$714.1 million to US\$3.3 billion.

On April 8, 2019, the registered capital of Alibaba China was increased from US\$3.3 billion to US\$5.1 billion.

Further Information About Our Business*Summary of Material Contracts*

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material, as well as contracts required to be disclosed pursuant to the Hong Kong Stock Exchange's Guidance Letter HKEX-GL94-18 and Listing Decision HKEX-LD43-3:

1. a loan agreement entered into by Hangzhou Zhenxi Investment Management Co., Ltd. (杭州臻希投資管理有限公司), or Hangzhou Zhenxi and Tmall China dated January 10, 2018, pursuant to which Tmall China agreed to provide a loan to Hangzhou Zhenxi in an aggregate principal amount of RMB10,000,000 to be used for operation activities approved by Tmall China;
2. an exclusive call option agreement entered into by and among Hangzhou Zhenxi, Tmall China and Zhejiang Tmall Network Co., Ltd. (浙江天貓網絡有限公司), or Zhejiang Tmall Network dated January 10, 2018, pursuant to which (i) Hangzhou Zhenxi agreed to irrevocably and unconditionally grant an exclusive option to Tmall China whereby Hangzhou Zhenxi shall, upon the request of Tmall China, transfer all or part of the entire equity interest in Zhejiang Tmall Network to Tmall China and/or its designated entity and/or individual; (ii) Zhejiang Tmall Network agreed to irrevocably and unconditionally grant an exclusive option to Tmall China whereby Zhejiang Tmall Network shall, upon the request of Tmall China, transfer all or part of its tangible and intangible assets to Tmall China and/or its designated entity and/or individual; and (iii) Hangzhou Zhenxi and Zhejiang Tmall Network severally and jointly agreed to irrevocably and unconditionally grant an exclusive option to Tmall China whereby, upon the

request of Tmall China, Zhejiang Tmall Network shall decrease its capital, and Tmall China and/or its designated entity and/or individual shall be entitled to subscribe for the newly increased registered capital of Zhejiang Tmall Network;

3. a shareholder's voting rights proxy agreement entered into by and among Hangzhou Zhenxi, Tmall China and Zhejiang Tmall Network dated January 10, 2018, pursuant to which Hangzhou Zhenxi irrevocably undertook to execute a proxy letter whereby it shall authorize the individual then designated by Tmall China to exercise, on its behalf certain rights available to Hangzhou Zhenxi in its capacity as shareholder of Zhejiang Tmall Network;
4. an equity pledge agreement entered into by and among Hangzhou Zhenxi, Tmall China and Zhejiang Tmall Network dated January 10, 2018, pursuant to which Hangzhou Zhenxi agreed to pledge all of the equity interests in Zhejiang Tmall Network held by it, increased capital contribution amounts and distributions from pledged equity to Tmall China;
5. an exclusive services agreement entered into by Zhejiang Tmall Network and Tmall China dated January 10, 2018, pursuant to which Zhejiang Tmall Network has, on an exclusive basis, agreed to engage Tmall China to provide services including but not limited to, licensing of software, providing economic information, computing technology, commerce and management consulting services and advices and other services to Zhejiang Tmall Network in return for service fees;
6. an amendment agreement entered into by and among our Company, Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團股份有限公司), formerly known as Zhejiang Ant Small and Micro Financial Services Group Co., Ltd (浙江螞蟻小微金融服務集團有限公司), or Ant Financial, Alibaba.com China Limited, Zhejiang Taobao Network Co., Ltd (浙江淘寶網絡有限公司), Hangzhou Ali Venture Capital Co., Ltd. (杭州阿里創業投資有限公司), Silverworld Technology Limited, SoftBank Group Corp., Alipay.com Co., Ltd. (支付寶(中國)網絡技術有限公司), or Alipay, APN Ltd., Jack Ma, Xie Shihuang, Joseph Chung Tsai; PMH Holding Limited, Hangzhou Junao Equity Investment Partnership (Limited Partnership) (杭州君澳股權投資合夥企業(有限合夥)) and Hangzhou Junhan Equity Investment Partnership (Limited Partnership) (杭州君瀚股權投資合夥企業(有限合夥)) dated February 1, 2018, relating to amendments made to a share and asset purchase agreement entered into by and among the same parties dated August 12, 2014;
7. an amended and restated commercial agreement entered into by and among our Company, Ant Financial and Alipay dated February 1, 2018, relating to amendments and restatements to a commercial agreement entered into by and among the same parties dated July 29, 2011;
8. a loan agreement entered into by Hangzhou Zhenxi and Zhejiang Alibaba Cloud Computing Ltd. (浙江阿里巴巴雲計算有限公司), or Zhejiang Alibaba Cloud dated July 19, 2018, pursuant to which Zhejiang Alibaba Cloud agreed to provide a loan to Hangzhou Zhenxi in an aggregate principal amount of RMB50,025,013 to be used for operation activities approved by Zhejiang Alibaba Cloud;

9. an exclusive call option agreement entered into by and among Hangzhou Zhenxi, Alibaba Cloud Computing Ltd. (阿里雲計算有限公司), or Alibaba Cloud and Zhejiang Alibaba Cloud dated July 19, 2018, pursuant to which (i) Hangzhou Zhenxi agreed to irrevocably and unconditionally grant an exclusive option to Zhejiang Alibaba Cloud whereby Hangzhou Zhenxi shall, upon the request of Zhejiang Alibaba Cloud, transfer all or part of the entire equity interest in Alibaba Cloud to Zhejiang Alibaba Cloud and/or its designated entity and/or individual; (ii) Alibaba Cloud agreed to irrevocably and unconditionally grant an exclusive option to Zhejiang Alibaba Cloud whereby Alibaba Cloud shall, upon the request of Zhejiang Alibaba Cloud, transfer all or part of its tangible and intangible assets to Zhejiang Alibaba Cloud and/or its designated entity and/or individual; and (iii) Hangzhou Zhenxi and Alibaba Cloud severally and jointly agreed to irrevocably and unconditionally grant an exclusive option to Zhejiang Alibaba Cloud whereby, upon the request of Zhejiang Alibaba Cloud, Alibaba Cloud shall decrease its capital, and Zhejiang Alibaba Cloud and/or its designated entity and/or individual shall be entitled to subscribe for the newly increased registered capital of Alibaba Cloud;
10. a shareholder's voting rights proxy agreement entered into by and among Hangzhou Zhenxi, Zhejiang Alibaba Cloud and Alibaba Cloud dated July 19, 2018, pursuant to which Hangzhou Zhenxi irrevocably undertook to execute a proxy letter whereby it shall authorize the individual then designated by Zhejiang Alibaba Cloud to exercise, on its behalf certain rights available to Hangzhou Zhenxi in its capacity as shareholder of Alibaba Cloud;
11. an equity pledge agreement entered into by and among Hangzhou Zhenxi, Zhejiang Alibaba Cloud and Alibaba Cloud dated July 19, 2018, pursuant to which Hangzhou Zhenxi agreed to pledge all of the equity interest in Alibaba Cloud held by it, increased capital contribution amounts and distributions from pledged equity to Zhejiang Alibaba Cloud;
12. an exclusive services agreement entered into by Alibaba Cloud and Zhejiang Alibaba Cloud dated July 19, 2018, pursuant to which Alibaba Cloud has, on an exclusive basis, agreed to engage Zhejiang Alibaba Cloud to provide services including but not limited to, licensing of software, providing economic information, computing technology, commerce and management consulting services and advices and other services to Alibaba Cloud in return for service fees;
13. a loan agreement entered into by Hangzhou Zhenxi and Alibaba China dated December 27, 2018, pursuant to which Alibaba China agreed to provide a loan to Hangzhou Zhenxi in an aggregate principal amount of RMB10,041,800 to be used for operation activities approved by Alibaba China;
14. an exclusive call option agreement entered into by and among Hangzhou Zhenxi, Hangzhou Alibaba Advertising Co., Ltd. (杭州阿里巴巴廣告有限公司), or Hangzhou Alibaba Advertising and Alibaba China dated December 27, 2018, pursuant to which (i) Hangzhou Zhenxi agreed to irrevocably and unconditionally grant an exclusive option to Alibaba China whereby Hangzhou Zhenxi shall, upon the request of Alibaba China, transfer all or part of the entire equity interest in Hangzhou Alibaba Advertising to Alibaba China and/or its designated entity and/or individual; (ii) Hangzhou Alibaba Advertising agreed to irrevocably and unconditionally grant an exclusive option to Alibaba China whereby

Hangzhou Alibaba Advertising shall, upon the request of Alibaba China, transfer all or part of its tangible and intangible assets to Alibaba China and/or its designated entity and/or individual; and (iii) Hangzhou Zhenxi and Hangzhou Alibaba Advertising severally and jointly agreed to irrevocably and unconditionally grant an exclusive option to Alibaba China whereby, upon the request of Alibaba China, Hangzhou Alibaba Advertising shall decrease its capital, and Alibaba China and/or its designated entity and/or individual shall be entitled to subscribe for the newly increased registered capital of Hangzhou Alibaba Advertising;

15. a shareholder's voting rights proxy agreement entered into by and among Hangzhou Zhenxi, Alibaba China and Hangzhou Alibaba Advertising dated December 27, 2018, pursuant to which Hangzhou Zhenxi irrevocably undertook to execute a proxy letter whereby it shall authorize the individual then designated by Alibaba China to exercise, on its behalf certain rights available to Hangzhou Zhenxi in its capacity as shareholder of Hangzhou Alibaba Advertising;
16. an equity pledge agreement entered into by and among Hangzhou Zhenxi, Alibaba China and Hangzhou Alibaba Advertising dated December 27, 2018, pursuant to which Hangzhou Zhenxi agreed to pledge all of the equity interest in Hangzhou Alibaba Advertising held by it, increased capital contribution amounts and distributions from pledged equity to Alibaba China;
17. an exclusive services agreement entered into by Hangzhou Alibaba Advertising and Alibaba China dated December 27, 2018, pursuant to which Hangzhou Alibaba Advertising has, on an exclusive basis, agreed to engage Alibaba China to provide services including but not limited to, licensing of software, providing economic information, computing technology, commerce and management consulting services and advices and other services to Hangzhou Alibaba Advertising in return for service fees;
18. a loan agreement entered into by Hangzhou Zhenxi and Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司), or Taobao (China) Software dated January 4, 2019, pursuant to which Taobao (China) Software agreed to provide a loan to Hangzhou Zhenxi in an aggregate principal amount of RMB65,032,517 to be used for operation activities approved by Taobao (China) Software;
19. an exclusive call option agreement entered into by and among Hangzhou Zhenxi, Zhejiang Taobao Network Co., Ltd. (浙江淘寶網絡有限公司), or Zhejiang Taobao Network and Taobao (China) Software dated January 4, 2019, pursuant to which (i) Hangzhou Zhenxi agreed to irrevocably and unconditionally grant an exclusive option to Taobao (China) Software whereby Hangzhou Zhenxi shall, upon the request of Taobao (China) Software, transfer all or part of the entire equity interest in Zhejiang Taobao Network to Taobao (China) Software and/or its designated entity and/or individual; (ii) Zhejiang Taobao Network agreed to irrevocably and unconditionally grant an exclusive option to Taobao (China) Software whereby Zhejiang Taobao Network shall, upon the request of Taobao (China) Software, transfer all or part of its tangible and intangible assets to Taobao (China) Software and/or its designated entity and/or individual; and (iii) Hangzhou Zhenxi and Zhejiang Taobao Network severally and jointly agreed to irrevocably and unconditionally grant an exclusive option to Taobao (China) Software whereby, upon the request of Taobao (China) Software, Zhejiang







Taobao Network shall decrease its capital, and Taobao (China) Software and/or its designated entity and/or individual shall be entitled to subscribe for the newly increased registered capital of Zhejiang Taobao Network;

20. a shareholder's voting rights proxy agreement entered into by and among Hangzhou Zhenxi, Taobao (China) Software and Zhejiang Taobao Network dated January 4, 2019, pursuant to which Hangzhou Zhenxi irrevocably undertook to execute a proxy letter whereby it shall authorize the individual then designated by Taobao (China) Software to exercise, on its behalf certain rights available to Hangzhou Zhenxi in its capacity as shareholder of Zhejiang Taobao Network;
21. an equity pledge agreement entered into by and among Hangzhou Zhenxi, Taobao (China) Software and Zhejiang Taobao Network dated January 4, 2019, pursuant to which Hangzhou Zhenxi agreed to pledge all of the equity interest in Zhejiang Taobao Network held by it, increased capital contribution amounts and distributions from pledged equity to Taobao (China) Software;
22. an exclusive services agreement entered into by Zhejiang Taobao Network and Taobao (China) Software dated January 4, 2019, pursuant to which Zhejiang Taobao Network has, on an exclusive basis, agreed to engage Taobao (China) Software to provide services including but not limited to, licensing of software, providing economic information, computing technology, commerce and management consulting services and advices and other services to Zhejiang Taobao Network in return for service fees;
23. a loan agreement entered into by Alibaba Culture & Entertainment Co., Ltd. (阿里巴巴文化娛樂有限公司), or Alibaba Culture & Entertainment and Beijing Youku Technology Co., Ltd. (北京優酷科技有限公司), or Beijing Youku dated July 24, 2019, pursuant to which Beijing Youku agreed to provide a loan to Alibaba Culture & Entertainment in an aggregate principal amount of RMB60,010,005 to be used for operation activities approved by Beijing Youku;
24. an exclusive call option agreement entered into by and among Alibaba Culture & Entertainment, Youku Information Technology (Beijing) Co., Ltd. (優酷信息技術(北京)有限公司), or Youku Information Technology and Beijing Youku dated July 24, 2019, pursuant to which (i) Alibaba Culture & Entertainment agreed to irrevocably and unconditionally grant an exclusive option to Beijing Youku whereby Alibaba Culture & Entertainment shall, upon the request of Beijing Youku, transfer all or part of the entire equity interest in Youku Information Technology to Beijing Youku and/or its designated entity and/or individual; (ii) Youku Information Technology agreed to irrevocably and unconditionally grant an exclusive option to Beijing Youku whereby Youku Information Technology shall, upon the request of Beijing Youku, transfer all or part of its tangible and intangible assets to Beijing Youku and/or its designated entity and/or individual; and (iii) Alibaba Culture & Entertainment and Youku Information Technology severally and jointly agreed to irrevocably and unconditionally grant an exclusive option to Beijing Youku whereby, upon the request of Beijing Youku, Youku Information Technology shall decrease its capital, and Beijing Youku and/or its designated entity and/or individual shall be entitled to subscribe for the newly increased registered capital of Youku Information Technology;

25. a shareholder's voting rights proxy agreement entered into by and among Alibaba Culture & Entertainment, Youku Information Technology and Beijing Youku dated July 24, 2019, pursuant to which Alibaba Culture & Entertainment irrevocably undertook to execute a proxy letter whereby it shall authorize the individual then designated by Beijing Youku to exercise, on its behalf certain rights available to Alibaba Culture & Entertainment in its capacity as shareholder of Youku Information Technology;
26. an equity pledge agreement entered into by and among Alibaba Culture & Entertainment, Youku Information Technology and Beijing Youku dated July 24, 2019, pursuant to which Alibaba Culture & Entertainment agreed to pledge all of the equity interest in Youku Information Technology held by it, increased capital contribution amounts and distributions from pledged equity to Beijing Youku;
27. an exclusive services agreement entered into by Beijing Youku and Youku Information Technology dated July 24, 2019, pursuant to which Youku Information Technology has, on an exclusive basis, agreed to engage Beijing Youku to provide services including but not limited to, licensing of software, providing economic information, computing technology, commerce and management consulting services and advices and other services to Youku Information Technology in return for service fees;
28. second amendment to share and asset purchase agreement entered into by and among our Company, Ant Financial and Softbank Group Corp. dated September 23, 2019 relating to amendments made to a share and asset purchase agreement entered into by and among the same parties dated August 12, 2014 and amended pursuant to an amendment agreement dated February 1, 2018;
29. second amended and restated intellectual property license agreement entered into by and among our Company, Ant Financial and Alipay dated September 23, 2019 relating to amendments made to an intellectual property license and software technology services agreement entered into by and between our Company and Alipay dated July 29, 2011, as amended and restated on August 12, 2014;
30. cross license agreement entered into by and between our Company and Ant Financial dated September 23, 2019 relating to cross licenses and additional cross licensing of certain patents, trademarks and technology between the parties; and
31. the Hong Kong Underwriting Agreement.

Our Intellectual Property Rights

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

As of June 30, 2019, we had 6,175 issued patents and 13,336 publicly filed patent applications in China and 3,112 issued patents and 9,742 publicly filed patent applications in various countries and jurisdictions. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. In addition to patents, we have a large number of copyrights, trademarks and domain names, including registered trademarks consisting of the brands (and related logos and images) for “Alibaba” ( Alibaba Group ), “Taobao” ( 淘宝网), “Tmall” ( Tmall 天猫), “Alibaba Cloud” ( Alibaba Cloud) and “YOUKU” (), and ownership of domain names for alibabagroup.com, alibaba.com, taobao.com, tmall.com, aliyun.com and youku.com.

Further Information About Directors and Executive Officers

Disclosure of Interests

See “Major Shareholders” for disclosure of interests of directors and executive officers.

Directors’ Service Contracts

We have entered into employment agreements with each of our directors who is also an officer. See “Directors, Senior Management and Employees — Compensation — Employment Agreements.”

Each of our directors has been nominated pursuant to our Articles of Association. Their terms of the appointment are for a period of three years or until such director’s successor is elected or appointed and duly qualified. No annual directors’ fees are payable to our directors other than our independent directors under the current arrangement. We pay annual fees and grant share-based awards to our independent directors under the current arrangement.

Directors’ Remuneration

See “Directors, Senior Management and Employees — Compensation” for a discussion of Directors’ remuneration.

Disclosures relating to Directors and Experts

Save as disclosed in this prospectus:

- None of our directors nor any of the persons listed in “— Other Information — Qualification of Experts” below is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to our subsidiaries and our affiliated consolidated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our affiliated consolidated entities.
- None of our directors nor any of the persons listed in “— Other Information — Qualification of Experts” below is materially interested in any contract or arrangement with us subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to our business as a whole.

- None of the persons listed in “— Other Information — Qualification of Experts” below has any shareholding in us or any of our Major Subsidiaries or has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us or any of our Major Subsidiaries.

Equity Incentive Plans

See “Directors, Senior Management and Employees — Compensation” for details about our Equity Incentive Plans.

Other Information***Estate duty***

Our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

See “Our Business — Legal and Administrative Proceedings” for further information.

Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), and the Shares to be issued pursuant to the Equity Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

CICC satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

Credit Suisse considers itself to be independent under Rule 3A.07 of the Hong Kong Listing Rules, notwithstanding the fact that Credit Suisse technically falls in Rule 3A.07(3) of the Hong Kong Listing Rules by reason of the role of Credit Suisse Trust Limited (an affiliate of Credit Suisse), or CS Trustee, as the trustee of a trust established by the Alibaba Partnership. CS Trustee is also in the process of being appointed to act as trustee of a trust settled by a partner of the Alibaba Partnership. In forming its view on its independence under Rule 3A.07, Credit Suisse has considered, among other things, (a) the professional role that CS Trustee has in the trusts, (b) the fact that CS Trustee and the relevant personnel working for the trusts were not involved, directly or indirectly, in sourcing the sponsor engagement, and (c) the insignificance to both the sponsor group of Credit Suisse and us of the business relationship arising from the trusts.

The fee payable to each of the Joint Sponsors is US\$500,000 and is payable by our Company.

No Material Adverse Change

Our directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2019 (being the date to which our latest audited consolidated financial statements were prepared).

Qualification of Experts

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance) who have given opinions or advice which are contained in this prospectus:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation under the SFO for 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) of the regulated activities as defined under the SFO
Credit Suisse (Hong Kong) Limited	A licensed corporation under the SFO for 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 9 (asset management) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Fangda Partners	Legal adviser to Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal adviser to Company as to Cayman Islands law

Consents of Experts

Each of the experts above has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Promoter

Our Company has no promoter for the purpose of the Hong Kong Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (WUMP) Ordinance insofar as applicable.

Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

- Save as disclosed in this prospectus or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - to the best of our knowledge, neither we nor any of our Major Subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - save for underwriting discounts paid to the managers of the issuance of our US\$7 billion notes in November 2017, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Major Subsidiaries;
 - no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - there is no arrangement under which future dividends are waived or agreed to be waived.
- Our branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless the directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.
- Our directors confirm that:
 - there has not been any interruption in our business which may have or have had a material adverse effect on our financial position in the 12 months immediately preceding the date of this prospectus; and

- save for the US\$8 billion notes we issued in November 2014 and the US\$7 billion notes we issued in November 2017, we and our Major Subsidiaries have no outstanding debentures or convertible debt securities.
- The English version of this prospectus shall prevail over the Chinese version.

Documents Delivered to the Registrar of Companies

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- the Green Application Form;
- a copy of each of the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this prospectus; and
- the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix IV to this prospectus.

Documents Available for Inspection

Copies of the following documents will be available for inspection at the office of Simpson Thacher & Bartlett, 35/F ICBC Tower, 3 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- the Memorandum and Articles of Association of our Company;
- our audited consolidated financial statements for the years ended March 31, 2017, 2018 and 2019 and for the three months ended June 30, 2019;
- the Accountant’s Report and the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the texts of which are set out in Appendices IA, IB and II to this prospectus;
- the legal opinion issued by Fangda Partners, our PRC legal adviser, in respect of certain aspects of us;
- the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal adviser, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;
- the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this prospectus;
- the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix IV to this prospectus; and
- the Cayman Companies Law.

