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ALIBABA.COM LIMITED 阿里巴巴網絡有限公司

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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2008

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2008	2007	Change
Revenue (RMB'000)	3,001,194	2,162,757	+39%
Profit attributable to equity owners (RMB'000)	1,205,186	967,795	+25%
Earnings per share, basic (HK\$)	26.74 cents	20.41 cents	+31%
Earnings per share, diluted (HK\$)	26.71 cents	20.41 cents	+31%
Registered users	38,075,335	27,599,959	+38%
International marketplace	7,914,630	4,405,557	+80%
China marketplace	30,160,705	23,194,402	+30%
Storefronts	4,614,250	2,956,846	+56%
International marketplace	965,747	697,563	+38%
China marketplace	3,648,503	2,259,283	+61%
Paying members	432,031	305,545	+41%
Gold Supplier members	43,028	27,384	+57%
International TrustPass members	16,136	12,152	+33%
China TrustPass members	372,867	266,009	+40%

- Total revenue up by 39% to RMB3,001 million, driven by strong acquisition of paying members and increased value-added services sales.
- Total revenue contribution from China marketplace grew to 36% from 28% in 2007.
- Profit attributable to equity owners increased by 25% to RMB1,205 million. Excluding non-recurring interest income from our IPO over-subscription proceeds of RMB351 million in 2007, our profit attributable to equity owners in 2008 would have increased by 95%.
- Basic earnings per share increased by 31% to HK\$26.74 cents.
- Total registered users increased by 38% to over 38 million.
- Total storefronts increased by 56% to over 4.6 million.
- Total paying members grew by 41% to over 432,000.

GROUP RESULTS

The board of directors (our "Board") of Alibaba.com Limited (our "Company" or "Alibaba.com") is pleased to announce the consolidated results of our Company and its subsidiaries ("we" or our "Group") for the year ended December 31, 2008, which are presented together with the comparative figures for the last financial year as follows:-

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue			
- International marketplace	4	1,907,135	1,547,695
- China marketplace	4	1,094,059	615,062
Total revenue		3,001,194	2,162,757
Cost of revenue		(387,368)	(280,113)
Gross profit		2,613,826	1,882,644
Sales and marketing expenses		(1,092,086)	(736,813)
Product development expenses		(186,513)	(131,495)
General and administrative expenses		(320,144)	(229,868)
Other operating income, net	5	177,300	19,877
Profit from operations	6	1,192,383	804,345
Finance income, net	7	239,207	345,099
Share of losses of associated companies, net of tax		(16,087)	-
Profit before income taxes		1,415,503	1,149,444
Income tax charges	8	(210,317)	(181,649)
Profit attributable to equity owners of the Company		1,205,186	967,795
Proposed final dividend	9	-	-
Earnings per share, basic (RMB)	10	RMB23.86 cents	RMB19.91 cents
Earnings per share, diluted (RMB)	10	RMB23.84 cents	RMB19.91 cents
Earnings per share, basic (HK\$ equivalent)	10	HK\$26.74 cents	HK\$20.41 cents
Earnings per share, diluted (HK\$ equivalent)	10	HK\$26.71 cents	HK\$20.41 cents

**CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008**

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		28,502	29,088
Property and equipment		375,975	158,992
Interests in associated companies		31,719	-
Deferred tax assets		310,025	260,311
Prepayments, deposits and other receivables		10,768	27,067
Direct selling costs	11	15,288	10,767
Total non-current assets		<u>772,277</u>	<u>486,225</u>
Current assets			
Amounts due from related companies		12,678	26,320
Prepayments, deposits and other receivables		186,476	48,143
Direct selling costs	11	309,175	219,229
Term deposits with original maturities of over three months	12	3,923,373	952,382
Cash and cash equivalents	12	2,688,951	4,321,170
Total current assets		<u>7,120,653</u>	<u>5,567,244</u>
Total assets		<u><u>7,892,930</u></u>	<u><u>6,053,469</u></u>
EQUITY			
Capital and reserves			
Share capital		486	486
Reserves		4,967,923	3,612,595
Total equity		<u><u>4,968,409</u></u>	<u><u>3,613,081</u></u>

**CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008 (Cont'd)**

	Notes	2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	13	106,340	70,194
Current liabilities			
Deferred revenue and customer advances	13	2,150,531	1,849,655
Trade payables	14	15,576	12,883
Amounts due to related companies		69,503	17,039
Other payables and accruals		425,848	337,085
Current income tax liabilities		156,723	153,532
Total current liabilities		<u>2,818,181</u>	<u>2,370,194</u>
Total liabilities		<u>2,924,521</u>	<u>2,440,388</u>
Total equity and liabilities		<u>7,892,930</u>	<u>6,053,469</u>
Net current assets		<u>4,302,472</u>	<u>3,197,050</u>
Total assets less current liabilities		<u>5,074,749</u>	<u>3,683,275</u>

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008**

	2008 RMB'000	2007 RMB'000
Cash flows from operating activities		
Profit before income taxes	1,415,503	1,149,444
Adjustments for:		
Depreciation expense of property and equipment	76,634	59,016
Amortization of lease prepayment	586	244
Share-based compensation expense	178,815	152,077
Share of losses of associated companies, net of tax	16,087	-
Gain on disposal of the Japan operation	(41,281)	-
(Gains)/Losses on disposals of property and equipment	(61)	17
Interest income	(245,055)	(406,307)
Exchange losses	5,848	61,208
Decrease in amounts due from related companies	13,642	6,468
Increase in prepayments, deposits and other receivables	(6,224)	(28,176)
Increase in direct selling costs	(94,467)	(61,616)
Decrease in restricted cash	-	781
Increase in deferred revenue and customer advances	337,022	699,496
Increase in trade payables	2,693	4,185
Increase/(Decrease) in amounts due to related companies	67,429	(167,944)
Increase in other payables and accruals	110,593	122,962
	<hr/>	<hr/>
Net cash provided by operating activities	1,837,764	1,591,855
Income tax paid	(256,840)	(182,638)
	<hr/>	<hr/>
Net cash generated from operating activities	1,580,924	1,409,217
	<hr/>	<hr/>
Cash flows from investing activities		
(Increase)/Decrease in term deposits with original maturities of over three months	(2,970,991)	98,618
Purchase of property and equipment and lease prepayment of land use rights	(266,541)	(139,812)
Proceeds from disposals of property and equipment	2,153	342
Interest received	143,110	393,718
Payment for expenses in relation to disposal of the Japan operation	(9,513)	-
Deemed distributions to equity owners	-	(432,866)
Net cash outflow arising from deemed disposals pursuant to the reorganization before our Group's initial public offering	-	(21,947)
	<hr/>	<hr/>
Net cash used in investing activities	(3,101,782)	(101,947)
	<hr/>	<hr/>
Cash flows from financing activities		
Payments for share issuance costs	(66,472)	(112,249)
Payments for repurchase of issued ordinary shares	(12,401)	-
Proceeds from issuance of ordinary shares	-	2,935,079
Dividends paid	-	(195,909)
	<hr/>	<hr/>
Net cash (used in)/provided by financing activities	(78,873)	2,626,921
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(1,599,731)	3,934,191
Cash and cash equivalents at beginning of year	4,321,170	437,804
Effect of exchange rate for the year	(32,488)	(50,825)
	<hr/>	<hr/>
Cash and cash equivalents at end of year (Note 12)	<u>2,688,951</u>	<u>4,321,170</u>

1 General information

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on September 20, 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and reissued) of the Cayman Islands. Our Company is an investment holding company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered address of our Company is Fourth Floor, One Capital Place, P.O. Box 847GT, Grand Cayman, Cayman Islands. As of the date of this announcement, our ultimate holding company is Alibaba Group Holding Limited, a company incorporated in the Cayman Islands.

Our Group is principally engaged in the provision of software, technology and other services on the online business-to-business ("B2B") marketplaces with the uniform resource locators www.alibaba.com and www.alibaba.com.cn and under the trade name "Alibaba" (the "B2B services").

These consolidated financial statements have been approved for issue by our Board on March 19, 2009.

2 Basis of preparation

The consolidated financial statements of our Group have been prepared, under the historical cost convention, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

We have adopted the following new/revised IFRS standards and interpretations for our accounting periods commencing on or after January 1, 2008:

		Effective for annual periods <u>beginning on or after</u>
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008

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

2 Basis of preparation (Cont'd)

The following new standards, interpretations and amendments to the existing standards have been published but have not come into effect for the financial year beginning January 1, 2008:

		<u>Effective for annual periods beginning on or after</u>
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 1, 2008
IAS 1 (Revised)	Presentation of Financial Statements	January 1, 2009
IAS 23 (Revised)	Borrowing Costs	January 1, 2009
IFRS 8	Operating Segments	January 1, 2009
Amendments to IAS 32 and IAS 1	Puttable Financial Instruments and Obligations arising on Liquidation	January 1, 2009
Amendments to IFRS 1 and IAS 27	Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	January 1, 2009
Amendment to IFRS 2	Share-based Payment Vesting Conditions and Cancellations	January 1, 2009
IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements	July 1, 2009
IFRS 3 (Revised)	Business Combinations	July 1, 2009
Amendment to IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items	July 1, 2009
IFRIC 17	Distribution of Non-cash Assets to Owners	July 1, 2009

We have not early adopted any of the above new standards, interpretations and amendments to the existing standards. We are in the process of making an assessment of their impact and are not yet in a position to state what impact they would have on our results of operations and financial positions.

3 Segment information

In the respective years presented, we had one single business segment, namely the provision of the B2B services. Although the B2B services consist of the operations of our international marketplace and our China marketplace, we consider that these underlying marketplaces are subject to similar risks and returns. Therefore, we have only relied on the reported revenue associated from these underlying marketplaces in making financial decisions and allocating resources, and the significant costs incurred associated with the revenue generated cannot be separately identified by marketplaces. In addition, substantially all of our revenue was generated in the People's Republic of China (the "PRC"). Accordingly, no business or geographical segment information is presented.

4 Revenue

	2008 RMB'000	2007 RMB'000
International marketplace		
Gold Supplier	1,842,884	1,503,331
International TrustPass	41,082	32,825
Other revenue ⁽ⁱ⁾	23,169	11,539
	<u>1,907,135</u>	<u>1,547,695</u>
China marketplace		
China TrustPass	1,026,883	594,098
Other revenue ⁽ⁱⁱ⁾	67,176	20,964
	<u>1,094,059</u>	<u>615,062</u>
	<u><u>3,001,194</u></u>	<u><u>2,162,757</u></u>

(i) Other revenue earned with respect to the international marketplace mainly represents commission income from a subsidiary of our controlling shareholder, for cross-selling certain software products to our customers.

(ii) Other revenue earned with respect to the China marketplace mainly represents advertising fees paid by third party advertisers, some of which were earned through an agency arrangement with a subsidiary of our controlling shareholder.

5 Other operating income, net

	2008 RMB'000	2007 RMB'000 (Note 15)
Government grants ⁽ⁱ⁾	102,840	17,215
Gain on disposal of the Japan operation ⁽ⁱⁱ⁾	41,281	-
Reimbursement from fellow subsidiaries ⁽ⁱⁱⁱ⁾	17,121	2,290
Others	16,058	372
	<u>177,300</u>	<u>19,877</u>

(i) Alibaba (China) Technology Co., Ltd. ("Alibaba China"), our wholly-owned subsidiary, received grants from government authorities in the PRC of RMB102,840,000 (2007: RMB17,215,000) in relation to technology developments in the PRC.

(ii) Alibaba.com Japan Co., Ltd. ("Alibaba Japan"), our wholly-owned subsidiary before the transaction mentioned below, engages in the provision of Japanese language B2B services on a site with the uniform resource locator www.alibaba.co.jp. On May 30, 2008, we entered into an agreement with SOFTBANK CORP. ("SOFTBANK") under which SOFTBANK made a cash investment into Alibaba Japan for a 64.7% interest. As a result of this deemed disposal of the Japanese business, a gain (net of related expenses) of RMB41,281,000 was recognized as other operating income for the year ended December 31, 2008. We will continue to develop the Japanese B2B marketplace with SOFTBANK via Alibaba Japan.

(iii) Reimbursement from fellow subsidiaries represented amounts received for the provision of administrative and technology services, and the sharing of office space. The reimbursement charges were calculated based on actual cost incurred or actual cost incurred plus a certain margin.

6 Profit from operations

Profit from operations was stated after crediting/charging the following:

	2008 RMB'000	2007 RMB'000
Crediting:		
Gain on disposal of the Japan operation (Note 5(ii))	41,281	-
Gains on disposals of property and equipment	61	-
	<u> </u>	<u> </u>
Charging:		
Staff costs	1,041,684	756,803
Depreciation expense of property and equipment	76,634	59,016
Operating lease rentals	54,692	40,602
Auditors' remuneration	5,064	1,967
Amortization of lease prepayment	586	244
Losses on disposals of property and equipment	-	17
	<u> </u>	<u> </u>

7 Finance income, net

	2008 RMB'000	2007 RMB'000
Interest income ⁽ⁱ⁾	245,055	406,307
Exchange losses	(5,848)	(61,208)
	<u> </u>	<u> </u>
	<u>239,207</u>	<u>345,099</u>

- (i) Interest income for the year ended December 31, 2007 included interest income of RMB350,534,000 received from over-subscription proceeds in connection with our initial public offering of shares on the Stock Exchange.

8 Income tax charges

	2008 RMB'000	2007 RMB'000
PRC current tax charge	260,031	230,085
Deferred tax credit	(49,714)	(48,436)
	<u>210,317</u>	<u>181,649</u>

PRC Enterprise Income Tax (“EIT”)

Current income tax charge primarily represents the provision for EIT for subsidiaries operating in the PRC. 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 and regulations in the PRC.

In 2007, Alibaba China, our principal operating entity, was qualified for the 15% reduced statutory rate on national EIT as a high and new technology enterprise. In addition, pursuant to the PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises, the relevant PRC tax authorities exempted Alibaba China from the 3% local income tax for the year ended December 31, 2007, reducing the applicable tax rate of Alibaba China in 2007 to 15%.

On March 16, 2007, the National People’s Congress approved the PRC Enterprise Income Tax Law (the “New EIT Law”). The New EIT Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%. In addition, the New EIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises (“HNTE”). In December 2007, our management conducted research and relevant due diligence to confirm that Alibaba China will obtain its HNTE designation in 2008 under the New EIT Law upon completion of certain perfunctory administrative procedures and consequently Alibaba China applied a rate of 15% in the computation of current and deferred taxes in 2007. This position was formally confirmed during 2008 when Alibaba China obtained its formal designation as “High and New Technology Enterprise” under the New EIT Law. As a result, Alibaba China applied the 15% rate for computation of current and deferred taxes in 2007 and 2008.

In addition, Alibaba (China) Software Co., Ltd. (阿里巴巴(中國)軟件有限公司) (“Alibaba Software”), our PRC operating subsidiary, has been recognized as a “Software Enterprise” pursuant to Caishui [2008] No.1 under the New EIT Law. Under such tax circular, a “Software Enterprise” can enjoy a tax holiday of full exemption from EIT for the first two years and fifty percent reduction in EIT thereafter for three years starting from the company’s first profit-making year. Since 2008 was the first profit-making year of Alibaba Software, it enjoyed full exemption from EIT for the year.

All our other PRC entities are subject to EIT at 25% in 2008 in accordance with the New EIT Law.

9 Dividends

Our Board did not recommend the payment of a final dividend for the year ended December 31, 2008 (2007: Nil).

10 Earnings per share

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

	2008	2007
Profit for the year attributable to equity owners of our Company (RMB'000)	1,205,186	967,795
Weighted average number of ordinary shares in issue (thousand shares)	5,052,130	4,859,882
Earnings per share, basic (RMB)	<u>RMB23.86 cents</u>	<u>RMB19.91 cents</u>
Earnings per share, basic (HK\$ equivalent) ⁽ⁱ⁾	<u>HK\$26.74 cents</u>	<u>HK\$20.41 cents</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year on the assumption that potentially dilutive share options and restricted share units ("RSUs") we have granted (collectively forming the denominator for computing the diluted earnings per share) are converted into ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of our shares during the year) based on the monetary value of the subscription rights attached to the outstanding share options and RSUs. The number of shares so calculated is compared against the number of shares that would have been issued assuming the exercise of the share options and RSUs. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (the numerator).

	2008	2007
Profit for the year attributable to equity owners of our Company (RMB'000)	1,205,186	967,795
Weighted average number of ordinary shares in issue (thousand shares)	5,052,130	4,859,882
Adjustments for share options and RSUs (thousand shares)	<u>4,218</u>	<u>-</u>
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	5,056,348	4,859,882
Earnings per share, diluted (RMB)	<u>RMB23.84 cents</u>	<u>RMB19.91 cents</u>
Earnings per share, diluted (HK\$ equivalent) ⁽ⁱ⁾	<u>HK\$26.71 cents</u>	<u>HK\$20.41 cents</u>

- (i) The translation of Renminbi amounts into Hong Kong dollars has been made at the rate of RMB0.8924 to HK\$1.0000 (2007: RMB0.9757 to HK\$1.0000). No representation is made that the Renminbi amounts have been, could have been or could be converted into Hong Kong dollars or vice versa, at that rate, or at any rates or at all.

11 Direct selling costs

Upon the receipt of service fees from paying members, we are obligated to pay certain costs related to the receipt of such service fees which primarily comprise sales commissions etc. The service fees are initially deferred and recognized in the income statement in the period in which the services are rendered (Note 13). As such, the related costs are also initially deferred and recognized in the income statement in the same period as the related service fees are recognized.

12 Cash and bank balances

	2008 RMB'000	2007 RMB'000
Cash at banks and on hand	341,027	1,566,907
Term deposits and short-term highly liquid investments with original maturities of three months or less	2,347,924	2,754,263
Term deposits with original maturities of over three months	3,923,373	952,382
	<u>6,612,324</u>	<u>5,273,552</u>

As of December 31, 2008, 75.2% (2007: 66.3%) of our cash and bank balances was denominated in Renminbi.

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

The effective interest rate of our cash and bank balances was 4.2% (2007: 2.5%).

13 Deferred revenue and customer advances

Deferred revenue and customer advances represent service fees prepaid by paying members for which the relevant services have not been rendered. The respective balances were as follows:

	2008 RMB'000	2007 RMB'000
Customer advances	470,392	475,391
Deferred revenue	1,786,479	1,444,458
	<u>2,256,871</u>	<u>1,919,849</u>
Less: current portion	(2,150,531)	(1,849,655)
	<u>106,340</u>	<u>70,194</u>

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

14 Trade payables

The aging analysis of trade payables was as follows:

	2008 RMB'000	2007 RMB'000
0 - 30 days	11,691	8,034
31 days - 60 days	1,785	2,753
61 days - 90 days	753	1,634
Over 90 days	1,347	462
	<hr/>	<hr/>
	15,576	12,883
	<hr/> <hr/>	<hr/> <hr/>

15 Comparative figures

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

Economic environment

The emergence of the US sub-prime mortgages crisis at the beginning of 2008 had a cascading effect on financial markets around the world, and eventually led to a global economic recession as the year drew to a close. The slow-down in consumption posed challenges to both export-oriented as well as China domestic manufacturers and trading companies. In early 2008, we identified the impending global economic issues and assessed their impact on our customers and on our own business. Analysis revealed that the situation presented a prime opportunity to help SMEs move online and introduce greater efficiency to their business through our e-commerce platform. Following months of detailed planning and preparation, we launched several new initiatives at the end of 2008 to help SMEs weather the economic winter.

A challenging export landscape but a good opportunity for e-commerce

The global economic slowdown, coupled with an appreciation of the Renminbi against the US dollars, rising raw material and labor costs, and reduced value-added tax rebates, created strong headwind for SME exporters in China. In November 2008, China reported its first negative growth in exports in seven years and the decline continued in the subsequent months. Though risk of further contraction in Chinese exports and a sustained period of lackluster growth remain apparent, we continue to be confident in China's position as the world's top exporter. Looking beyond the current economic crisis, we believe that the fundamentals for our business remain strong. New SMEs are born every day as others close down. We see the current climate as an opportune time to expand our market presence, as more buyers around the world leverage e-commerce to reduce cost and improve efficiency. At the same time, suppliers tend to be more receptive to new ideas to combat challenges in traditional marketing channels. These views are supported by healthy growth in our registered users and traffic since the economic downturn began.

Relatively robust domestic market but not immune to the global economic downturn

China's domestic economy held up reasonably well in 2008. However, in a world of globalization, China was not immune to the worldwide economic downturn. In the fourth quarter of 2008, China's economic growth slid to 6.8% year-on-year and full-year GDP growth was down to 9.0%. In view of the slowdown, the Chinese government launched a massive RMB4 trillion stimulus package accompanied by industry-specific policies to encourage investment and spur domestic consumption. While we are optimistic on the impact of the timely fiscal stimulus, it may not have a direct and immediate impact on our target customer base of SMEs since most of the allocation is for infrastructure projects. Nonetheless, we expect the measures to help the Chinese economy regain its growth momentum and lay a solid foundation for a robust rebound in the near future.

Internet penetration and e-commerce development

One of the most remarkable developments in 2008 was China surpassing the United States in the number of Internet users to become the world's largest Internet market. According to China Internet Network Information Center, the number of Internet users in China grew by 41.9% year-on-year to reach 298 million by the end of 2008. However, Internet penetration rate remains at 22.6%. This low Internet penetration rate, in conjunction with pervasive broadband usage of 90.6%, bodes well for the growth of China's e-commerce industry.

The percentage of SMEs using B2B e-commerce platforms in China is still very low. We believe that as SMEs become more cost- and value-conscious, they will shift a greater percentage of their marketing budget online to improve efficiency. Meanwhile, we see more provincial and local governments in China demonstrating appreciation for the power of e-commerce to drive sustainable economic growth and boost exports. In line with the China central government's directive to support SMEs during the economic downturn, over 10 provincial and local government organizations have partnered with Alibaba.com to promote B2B e-commerce and will subsidize membership fees for SMEs when they become paying members on Alibaba.com.

We are confident about the long-term potential of the industry and view this downturn as an unprecedented opportunity to expand market leadership. We plan to prepare ourselves to emerge even stronger when the market recovers.

BUSINESS REVIEW

Against this macro-economic backdrop, our business continued to grow in 2008 and we delivered solid operating and financial results. While our SME customers are facing a challenging environment, we believe Alibaba.com continues to offer them a compelling value proposition in the form of cost-effective online marketing and e-commerce infrastructure services.

In 2008, we expanded our market leadership by adding 10.5 million registered users, 1.7 million storefronts and over 126,000 paying members to our marketplaces. This growth provides evidence that our network effect continues to strengthen as we solidify our position as the world's leading e-commerce marketplace for both global trade and China domestic trade. As of December 31, 2008, our combined marketplaces had in aggregate 38.1 million registered users, 4.6 million storefronts and 432,031 paying members.

International marketplace

In 2008, registered users on our international marketplace increased by 3,509,073 to reach 7,914,630 as of December 31, 2008. The number of storefronts increased by 268,184 during the year to reach 965,747. The steady growth in users and storefronts demonstrates that more buyers and sellers around the world are seeing the benefits of our e-commerce platform, especially during tough times and with limited budgets.

International marketplace operating data

As of December 31,

	2005	2006	2007	2008
Registered users	1,949,741	3,115,153	4,405,557	7,914,630
Storefronts	292,414	514,891	697,563	965,747
Paying members ⁽¹⁾	19,983	29,525	39,536	59,164
Gold Supplier members	12,192	18,682	27,384	43,028
International TrustPass members	7,791	10,843	12,152	16,136

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

Geographic distribution of registered users (other than China) of our international marketplace as of December 31, 2008

	Country or region	Number of registered users in country or region	Percentage of total registered users of our international marketplace
1	United States	1,261,962	15.9%
2	India	874,934	11.1%
3	European Union ⁽¹⁾	711,416	9.0%
4	United Kingdom	392,155	5.0%
5	Canada	186,591	2.4%

(1) Excludes the United Kingdom.

Gold Supplier

During a year when macro-economic challenges intensified, our SME customers were faced with reduced visibility in their business prospects. This uncertainty led them to reduce their budgets and delay making significant marketing commitments. In the first quarter of 2008, we restructured our sales force in order to achieve a higher level of customer satisfaction and sales productivity in the long-term. As a consequence, the number of new customer acquisitions slowed down and our customer retention process was lengthened during the first and second quarters. The combined impact meant that customer acquisition slowed in the first three quarters of 2008 to an average of 1,150 net additions of Gold Supplier members per quarter. Nonetheless, registered user and storefront growth on our international marketplace continued to be strong. In view of all of these factors, in November 2008 we made improvements to our international marketplace, upgraded our existing Gold Supplier membership and launched the "Gold Supplier Starter Pack", a new entry-level product for export suppliers in Mainland China, Hong Kong and Taiwan. These new initiatives were aimed at providing better and more affordable online marketing services to our customers when they needed them the most.

The Gold Supplier Starter Pack, priced at RMB19,800 per year, is designed for exporters with limited budgets that plan to shift their business online to achieve efficiencies in the current economic environment. It is bundled with some basic value-added services and appeals to a wide range of potential new customers. Our existing Gold Supplier membership, which remains priced at RMB50,000 per year, was upgraded to incorporate a premium value-added services package that enables suppliers to substantially increase the visibility of their key products. The improved service offering also includes corporate email accounts, virtual factory tours as well as storefront management tools such as "Traffic AnalyzerTM" and "Buyer GPSTM" that help suppliers maximize the effectiveness of their online marketing programs.

The Gold Supplier Starter Pack proved to be the right product at the right time. We have seen a sharp growth in Gold Supplier members since the launch of the new product. Sales efficiency has also improved since the completion of our sales force restructuring. In the fourth quarter of 2008, we had net additions of 12,192 Gold Supplier members, bringing the total number of Gold Supplier members to 43,028 as of December 31, 2008. This is especially significant given that it occurred while China's export sector experienced its first negative growth in seven years in November 2008.

Together with the launch of Gold Supplier Starter Pack in November 2008, we announced our Quality Supplier Program which aimed at improving the buyer experience on our international marketplace. As part of the program, we have teamed up with a trusted provider of online authentication and verification services to verify the identity of suppliers displayed on our website. We also enforced stricter policies towards the protection of intellectual property and promoted a safer online trading environment by aggressively taking down listings that are the subject of infringement complaints. Furthermore, we continued to ban members with a history of violating the rules and policies of our marketplace.

International TrustPass and overseas expansion

International TrustPass membership growth was in line with our expectations for 2008. The number of International TrustPass members reached 16,136 as of December 31, 2008, a net increase of 3,984 from 2007. Our ongoing relationship with Infomedia 18 (formerly known as “Infomedia India”) showed impressive results in India last year in registered user and paying member growth. During the second half of 2008, our associated company, Alibaba.com Japan, launched various buyer-marketing events to raise brand awareness and continued to lay the foundation for user and customer acquisition in Japan. We also opened a new sales office in Taiwan in July 2008 and began offering Gold Supplier memberships to meet the more sophisticated demand of Taiwanese suppliers. In December 2008, we opened an office in London to serve as our marketing, customer support and buyer services hub in Europe. Our presence in Europe will make it easier for SMEs in the region and beyond to conduct international trade through Alibaba.com. We continued to pursue our overseas expansion strategy by identifying countries with large SME supplier bases and e-commerce potential. We have started to identify resellers or local partners in Korea, Malaysia and countries with a good manufacturing base in continental Europe. These globalization initiatives have just started, and are all strategic projects expected to generate financial returns over the long-term.

In the third quarter of 2008, we piloted a new product called “Export-to-China”. Its product features have since been refined for better user experience. We believe that “Export-to-China” will help SMEs worldwide gain access to the enormous domestic China market.

Value-added services and new features

Value-added services (VAS) remain one of our key sources of revenue. In 2008, we continued to drive our revenue model towards a more performance-based model of “low upfront fee plus more VAS”. To help our paying members optimize the benefits of our marketplace, we added a new and more affordable VAS called “Virtual Showroom™” in December 2008.

In addition to an expanded range of value-added services, we also introduced more sophisticated back office storefront management features for paying members. Features like “Traffic Analyzer™” and “Buyer GPS™” help suppliers monitor the effectiveness of their online marketing programs with ease. These new features will help our members better appreciate the value of our VAS in the long run. Looking ahead into 2009, VAS revenue may take time to grow because new members require time to acclimate to basic functionalities and e-commerce operations before investing in additional services. Our efforts will help establish a good foundation for the future growth of VAS usage.

In the fourth quarter of 2008, we decided to return distribution of Alisoft Export Edition, an export-oriented customer relations management (CRM) software solution, back to our sister company Alisoft in order to focus our efforts on the sales and customer service of our own products.

Community

We believe that enhancing user experience and putting our customers first are fundamental to our success. In tandem to the growth of our marketplace, we have also emphasized community development on our platform. Throughout the year, we continued to carry out a wide variety of online and offline marketing and community events for buyers and sellers to improve user stickiness. To raise awareness of these enhancements to the international buyer's experience, we launched a US\$30 million marketing campaign in 2008. The campaign will continue over the course of 2009 in key buyer markets such as the US and Europe, as well as in emerging markets with meaningful buyer growth potential. This campaign represents a long-term investment in the loyalty of our user base and global brand recognition for Alibaba.com.

China marketplace

Our China marketplace continued to experience robust growth in 2008 and has contributed a greater proportion to our total revenue as China domestic trade outpaced exports. China marketplace revenues as a percentage of our total revenue went up from 28.4% in 2007 to 36.5% in 2008. Notwithstanding the larger revenue base that we have built up over the years, in 2008 we saw accelerated growth of revenue from China TrustPass membership compared to 2007. This growth supported our view that e-commerce in China remains in its infancy and, more importantly, we have the relevant products and services, and a strong team to convert this opportunity into profits. The aggressive growth of Internet users in China is promising for the growth of B2B e-commerce in China. Registered users on our China marketplace increased by 6,966,303 during the year to 30,160,705 as of December 31, 2008. The number of storefronts increased by 1,389,220 to 3,648,503 in the same period.

China TrustPass

By December 31, 2008, our China TrustPass members reached 372,867, a net increase of 106,858 members, or 40.2%, from end of 2007. The growth of China TrustPass members has been driven by the network effect of our China marketplace, strong execution by our extensive sales team and the launch of our "China TrustPass for Individuals" in the second quarter of 2008. "China TrustPass for Individuals" product helped us tap into a new market segment of sole proprietors and smaller businesses. As of the end of 2008, we had approximately 28,000 "China TrustPass for Individuals" members.

China marketplace operating data

	As of December 31,			
	2005	2006	2007	2008
Registered users	9,019,214	16,649,073	23,194,402	30,160,705
Storefronts	1,002,768	1,557,874	2,259,283	3,648,503
China TrustPass members ⁽¹⁾	121,631	189,573	266,009	372,867

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

Value-added services and new features

In 2008, significant progress was achieved in value-added services development on our China marketplace. VAS revenue contribution to overall average customer spending increased steadily over the reporting period. The expansion of keyword bidding from three to five positions, in conjunction with the launch of premium placement at the end of 2007, helped drive VAS revenue growth. Also, the powerful network and community on our China marketplace continued to attract a growing number of corporate advertisers to market their brands through our platform. Revenue from branded advertisements continued to demonstrate solid growth.

In support of our plan to build and improve the Internet infrastructure for SMEs in China, we launched the strategic product “Winport” on our China marketplace in April 2008. “Winport” lowered the entry barriers for SMEs to conduct business online. We have made firm progress in growing the user base and augmenting activity level of “Winport” user accounts on our marketplace.

The SME loan program we launched in the second half of 2007 in partnership with two major banks in China has been very well-received by our customers. In the current economic climate, our SME financing program is an invaluable resource because access to affordable capital is often critical to a SME’s survival. Last year, we helped over 600 SMEs in Zhejiang province acquire more than RMB1 billion in loans from two partnering banks. In 2009, this program will be expanded to more major manufacturing and trading cities in China in partnership with more banks to offer much needed financing to SMEs.

The launch of our new “Ali-ADvance™” program was perhaps the most profound VAS enhancement on our China marketplace. We initiated the trial of this pay-for-performance model in our online business community during the second half of 2008 and received positive feedback. The “Ali-ADvance™” program was officially launched in March 2009 and has replaced the existing keyword bidding mechanism in the listing page of keyword search. Paying customers can now bid for keyword placement on a cost-per-click basis and product listings in search results will be driven by both the relevance of the customer’s product to the search and the keyword bid amount. This should help improve efficiency of supplier’s marketing efforts, and at the same time allow us to better monetize the ever-increasing user traffic.

Technology

During the year, we continued to upgrade and enhance our technology platform through infrastructure enhancement and innovation. We established a new data center in Hong Kong to further improve our website recoverability and business continuity. In addition, we invested in our core network infrastructure and significantly strengthened our network capacity to ensure scalability for future business growth. Our technology platform was upgraded with several innovative features, including advanced machine-learning technology and image-based search that has improved user experience. Our architecture has also been improved with enhanced scalability and reduced hardware cost.

Sales and customer service

Beginning from the first quarter of 2008, we restructured the Gold Supplier sales force into two teams, one focused on customer acquisition, and the other on customer retention and service. This restructuring was implemented to achieve a higher level of customer satisfaction and sales productivity over the long-term. The arrangement also complimented our subsequent launch of the Gold Supplier Starter Pack so the “hunters” and “farmers” in our sales force can focus on their respective role of selling the Starter Pack or retaining customers and upselling VAS, thereby directly contributing to the scalability and future growth of our business.

In 2008, we opened new sales and customer service offices in 10 new cities in Mainland China and one in Taiwan, extending our Gold Supplier service coverage to more potential customers. As of December 31, 2008, we had over 3,000 field sales staff for Gold Supplier membership, over 1,300 telephone sales people for China TrustPass and around 1,000 customer service staff. We have strengthened our sales team in preparation for an accelerated member acquisition plan in 2009, along with the launch of the Gold Supplier Starter Pack.

FINANCIAL REVIEW

We experienced significant growth in the number of paying members of our combined marketplaces in 2008. As of December 31, 2008, we had 432,031 paying members, representing a 41.4% increase from the beginning of the year.

As a result of the higher number of paying members, total revenue grew by 38.8% to RMB3,001.2 million (2007: RMB2,162.8 million). Profit from operations increased by 48.2% to RMB1,192.4 million (2007: RMB804.3 million). Profit attributable to equity owners increased by 24.5% to RMB1,205.2 million (2007: RMB967.8 million). Profit attributable to equity owners in 2007 included non-recurring interest income of RMB350.5 million generated from the over-subscription proceeds retained during our initial public offering in Hong Kong in November 2007. Excluding this non-recurring item, our profit attributable to equity owners in 2008 would have been increased by 95.2%. Basic earnings per share increased 31.0% from HK\$20.41 cents to HK\$26.74 cents.

	Year ended December 31,		Variance	
	2008	2007		%
	RMB'000	RMB'000	RMB'000	
Revenue	3,001,194	2,162,757	838,437	38.8%
Cost of revenue	(387,368)	(280,113)	(107,255)	38.3%
Operating expenses	(1,598,743)	(1,098,176)	(500,567)	45.6%
Other operating income, net	177,300	19,877	157,423	792.0%
Profit from operations	1,192,383	804,345	388,038	48.2%
Finance income, net	239,207	345,099	(105,892)	(30.7%)
Share of losses of associated companies, net of tax	(16,087)	-	(16,087)	-
Income tax charges	(210,317)	(181,649)	(28,668)	15.8%
Profit attributable to equity owners	1,205,186	967,795	237,391	24.5%
Share-based compensation expense	178,815	152,077	26,738	17.6%
Profit attributable to equity owners before share-based compensation expense	1,384,001	1,119,872	264,129	23.6%
Earnings per share, basic (HK\$)	26.74 cents	20.41 cents	6.33 cents	31.0%
Earnings per share, diluted (HK\$)	26.71 cents	20.41 cents	6.30 cents	30.9%

Revenue

We generate revenue primarily by selling membership packages and value-added services to suppliers on our international and China marketplaces.

Our total revenue increased from RMB2,162.8 million in 2007 to RMB3,001.2 million in 2008, representing a growth of 38.8%, mainly due to the increase in the number of paying members on both of our marketplaces. We are pleased that our efforts to invest in the growth of China domestic trade are paying off as the significance of our China marketplace increased, contributing 36.5% of the total revenue in 2008 compared to 28.4% in 2007.

International marketplace

Revenue from our international marketplace primarily consists of:

- Revenue from the sale of Gold Supplier membership packages and value-added services, mainly comprising the sale of keywords and premium placements to Gold Supplier members;
- Revenue from the sale of International TrustPass membership packages; and
- Other revenue, which represents commission income we received from Alisoft, a wholly-owned subsidiary of Alibaba Group Holding Limited ("Alibaba Group"), for cross-selling the Alisoft Export Edition developed by Alisoft to our Gold Supplier members. In November 2008, we handed back this re-selling function to Alisoft and focused our sales efforts on our newly launched products.

Revenue from our international marketplace increased by 23.2% from RMB1,547.7 million in 2007 to RMB1,907.1 million in 2008, primarily due to increases in the number of Gold Supplier members and the sales of value-added services. It also included other revenue of RMB23.2 million from cross-selling Alisoft Export Edition in 2008 before we handed back this re-selling function in November (2007: RMB11.5 million).

China marketplace

Revenue from our China marketplace primarily consists of:

- Revenue from the sale of China TrustPass membership packages and value-added services, mainly comprising keyword bidding and premium placements to China TrustPass members; and
- Other revenue, principally comprising online placement services that allow companies to display online branded advertisements on our China marketplace.

Revenue from our China marketplace increased by 77.9% from RMB615.1 million in 2007 to RMB1,094.1 million in 2008. The growth was largely due to an increase in the number of China TrustPass members as a result of the network effect of our marketplace, growth of the domestic economy in China as well as our in-house sales and re-sellers' efforts. In addition, the sale of value-added services such as keyword bidding and branded advertisements also grew strongly during the year.

Cost of revenue and gross profit

Our cost of revenue increased by 38.3% from RMB280.1 million in 2007 to RMB387.4 million in 2008. Included in the cost of revenue was share-based compensation expense of RMB9.6 million and RMB13.7 million in 2008 and 2007, respectively. Our cost of revenue increased mainly as a result of the continued expansion of our business. In particular:

- Business taxes and related surcharges, as well as authentication and verification expenses, were higher as a result of the increase in revenue;
- Staff costs were higher mainly because we expanded our website operations and our customer support services as our customer number grew; and
- Bandwidth and depreciation expenses were higher mainly because of an increased user traffic on our websites (which required us to pay higher bandwidth and co-location fees) and additional servers and related computer equipment acquired by us.

As a percentage of revenue, cost of revenue was in line with that in 2007, rendering a flat gross profit margin year-on-year at 87.1% (2007: 87.0%).

Profit from operations

Our profit from operations (which represents profit from operations after deducting share-based compensation expense) increased from RMB804.3 million in 2007 to RMB1,192.4 million in 2008, a growth of 48.2%. Our operating profit margin increased to 39.7% in 2008 from 37.2% in 2007. The growth in margin was mainly attributable to the growth of other operating income and effective cost control during the year.

Sales and marketing expenses

Our sales and marketing expenses increased by 48.2% from RMB736.8 million in 2007 to RMB1,092.1 million in 2008. Included in the sales and marketing expenses was share-based compensation expense of RMB57.7 million and RMB49.7 million in 2008 and 2007, respectively. Our sales and marketing expenses increased mainly as a result of increased staff costs, sales commission and advertising and promotional expenses. Staff costs increased mainly as a result of the expansion of our sales force for which we can better serve and secure our increasing customers. The increase in sales commission expense was mainly due to the increase in our reported revenue. Advertising and promotional expenses increased, particularly in the fourth quarter of 2008, due to the launch of our new products as well as investments in enhancing our brand awareness. As a result of the foregoing, sales and marketing expenses as a percentage of revenue increased to 36.4% in 2008 (2007: 34.1%).

Product development expenses

Our product development expenses increased by 41.8% from RMB131.5 million in 2007 to RMB186.5 million in 2008. Included in the product development expenses was share-based compensation expense of RMB18.0 million and RMB15.0 million in 2008 and 2007, respectively.

Product development expenses increased mainly due to higher staff costs and professional fees as our business expands and we need to hire more engineers or use external professionals as required. Furthermore, expenses paid to Alibaba Group for technology and related know-how provided by Alibaba Group (which is based on a certain percentage of our revenue) increased as our revenue grew. Product development expenses, as a percentage of revenue, remained flat at 6.2% in 2008 (2007: 6.1%).

General and administrative expenses

Our general and administrative expenses increased by 39.3% from RMB229.9 million in 2007 to RMB320.1 million in 2008. Included in the general and administrative expenses was share-based compensation expense of RMB93.5 million and RMB73.7 million in 2008 and 2007, respectively. Our general and administrative expenses increased mainly as a result of the full-year effect of the increase in staff costs, including share-based compensation expense, as we had significant recruitment throughout 2007. In addition, professional expenses also increased during the year as we engaged certain professionals in accordance with the compliance requirements applicable to us following our listing in 2007. General and administrative expenses, as a percentage of revenue, remained in line with last year at 10.7% (2007: 10.6%).

Other operating income, net

Other operating income, which mainly consisted of government grants received, increased by 792.0% from RMB19.9 million in 2007 to RMB177.3 million in 2008. In 2008, we received grants of RMB102.8 million (2007: RMB17.2 million) from government authorities in the PRC. In addition, in May 2008 we entered into an agreement with SOFTBANK under which SOFTBANK made cash investment into Alibaba Japan for a 64.7% interest. As a result of this transaction, a one-off gain, net of related expenses, of RMB41.3 million was recognized in other operating income. We will continue to develop our Japanese B2B marketplace via Alibaba Japan.

Finance income, net

Finance income mainly consisted of interest income and foreign currency exchange losses arising from appreciation of Renminbi against our non-Renminbi bank deposits. Interest income decreased by 39.7% from RMB406.3 million in 2007 to RMB245.1 million in 2008, principally due to the non-recurring interest income of RMB350.5 million from the over-subscription proceeds retained by us during our initial public offering in Hong Kong in November 2007. In addition, we incurred a foreign exchange loss of RMB5.8 million (2007: RMB61.2 million), primarily due to the revaluation of our non-Renminbi bank deposits to Renminbi which is our functional currency.

Share of loss of associated companies, net of tax

During the year, we shared a start-up loss of Alibaba Japan of RMB16.1 million.

Income tax charges

Substantially all of our income tax expenses in 2007 and 2008 were related to PRC income tax incurred by our principal operating subsidiary, Alibaba China. In 2007, Alibaba China, our principal operating entity, was qualified for the 15% reduced statutory rate on national EIT as a high and new technology enterprise. In addition, pursuant to the PRC Income Tax Law on Foreign Invested Enterprises and Foreign Enterprises, the relevant PRC tax authorities exempted Alibaba China from the 3% local income tax for the year ended December 31, 2007, reducing the applicable tax rate of Alibaba China in 2007 to 15%.

On March 16, 2007, the National People's Congress approved the New EIT Law. The New EIT Law, which became effective from January 1, 2008, unifies the corporate income tax rate for domestic enterprises and foreign invested enterprises to 25%. In addition, the New EIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as HNTE. In December 2007, our management conducted research and relevant due diligence to confirm that Alibaba China will obtain its HNTE designation in 2008 under the New EIT Law upon completion of certain perfunctory administrative procedures and consequently Alibaba China applied a rate of 15% in the computation of current and deferred taxes in 2007. This position was formally confirmed during 2008 when Alibaba China obtained its formal designation as "High and New Technology Enterprise" under the New EIT Law. As a result, Alibaba China applied the 15% rate for computation of current and deferred taxes in 2007 and 2008.

In addition, Alibaba Software, our PRC operating subsidiary, has been recognized as a "Software Enterprise" pursuant to Caishui [2008] No.1 under the New EIT Law. Under such tax circular, a "Software Enterprise" can enjoy a tax holiday of full exemption from EIT for the first two years and fifty percent reduction in EIT thereafter for three years starting from the company's first profit-making year. Since 2008 was the first profit-making year of Alibaba Software, it enjoyed full exemption from EIT for the year.

All our other PRC entities are subject to EIT at 25% in 2008 in accordance with the New EIT Law.

Income tax charges increased by 15.8% from RMB181.6 million in 2007 to RMB210.3 million in 2008. This increase was primarily due to the increase in taxable profit from our operations in China. In 2007 and 2008, our effective tax rates were 15.8% and 14.9%, respectively.

Share-based compensation expense

We seek to structure our employee compensation packages to allow our employees to share in the success of our business. Therefore, a large number of our employees have been granted certain equity awards. Alibaba Group also operates equity award plans under which our employees and the employees of Alibaba Group have been granted options to purchase shares of Alibaba Group or our shares as held by Alibaba Group. In our consolidated financial statements, share-based compensation expense arising from the grant of equity-based awards by us and Alibaba Group to our employees is allocated to and included as part of our expenses. In 2007 and 2008, total share-based compensation expense was RMB152.1 million and RMB178.8 million, respectively. As a percentage of revenue, share-based compensation expense decreased from 7.0% in 2007 to 6.0% in 2008.

Profit attributable to equity owners

We recorded a profit attributable to equity owners of RMB1,205.2 million in 2008, representing a 24.5% increase from RMB967.8 million in 2007. Basic earnings per share in 2008 was HK\$26.74 cents, an increase of 31.0% from HK\$20.41 cents in 2007. Diluted earnings per share in 2008 was HK\$26.71 cents, an increase of 30.9% from HK\$20.41 cents in 2007.

Deferred revenue and customer advances

As of December 31, 2008, deferred revenue and customer advances amounted to RMB2,256.9 million, representing a 17.6% increase from RMB1,919.8 million as of December 31, 2007. The increase was mainly due to the strong growth in the number of paying members in the fourth quarter of 2008 as we launched the Gold Supplier Starter Pack and upgraded our existing Gold Supplier service in November 2008.

LIQUIDITY AND CAPITAL RESOURCES

Treasury management

Our treasury department, which reports to our chief financial officer, monitors our current and expected liquidity requirements in accordance with the policies and procedures approved by our Board. We have adopted prudent treasury management objectives, which include principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with our strategic plans. In addition, we also aim to achieve a better return on our cash and to hedge against any foreign currency exchange risk.

Foreign currency exchange exposure

Foreign currency exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Although we operate our businesses in different countries, substantially all of our revenue-generating and expense-related transactions are denominated in Renminbi which is our functional currency and that of most of our subsidiaries. Renminbi is not freely convertible into other foreign currencies. All foreign currency exchange transactions in China must be effected through either the People's Bank of China ("PBOC") or other institutions authorized by the PBOC to buy and sell foreign currencies. We hold a significant amount of our cash and bank balances in currencies other than Renminbi. Such foreign currency-denominated cash and bank balances are exposed to fluctuations in the value of Renminbi against the currencies in which these cash and bank balances are denominated. Any significant appreciation of Renminbi against these foreign currencies may result in significant exchange loss which would be recorded in our income statement. In 2008, we prudently managed our foreign exchange risk and recorded an exchange loss of RMB5.8 million, an improvement of 90.4% when compared to a loss of RMB61.2 million in 2007.

Interest rate exposure

We have no interest-bearing borrowings. Our exposure to changes in interest rates is mainly attributable to our interest-bearing assets including term deposits with original maturities of over three months and cash and cash equivalents.

Credit risk exposure

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

Capital structure

We continue to maintain a strong financial position from healthy growth in recurring free cash flow from operations. In addition, as mentioned previously, we have been cautiously managing our cash to maintain a favorable return and to minimize any foreign exchange risk. As of December 31, 2008, we had cash and bank balances of RMB6,612.3 million, which was RMB1,338.8 million or 25.4% higher than that as of December 31, 2007. As of December 31, 2008, our cash and bank balances comprised 75.2% (2007: 66.3%) Renminbi; 24.3% (2007: 0.3%) United States dollars; 0.4% (2007: 21.2%) Hong Kong dollars; and 0.1% (2007: 12.2%) other currencies. The weighted average annual return on our cash and bank balances was 4.2% in 2008 (2007: 2.5%).

As of December 31, 2008, our total assets were RMB7,892.9 million (2007: RMB6,053.5 million), which were financed by shareholders' funds of RMB4,968.4 million (2007: RMB3,613.1 million), current liabilities of RMB2,818.2 million (2007: RMB2,370.2 million) and non-current liabilities of RMB106.3 million (2007: RMB70.2 million). Of the total liabilities, RMB2,256.9 million (2007: RMB1,919.8 million) represented deferred revenue and customer advances that we collected upfront from our customers. These upfront payments are included as liabilities because we have not yet provided services to earn the related revenue. Therefore, instead of imposing any obligations on us to pay customers, these liabilities provide an assured base for our future reported revenue. As of December 31, 2008, our deferred revenue and customer advances amounted to RMB2,256.9 million which was RMB337.0 million or 17.6% more than that as of December 31, 2007.

As of December 31, 2008, our Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to RMB3,165.5 million (2007: RMB3,107.9 million).

Cash flow

Net cash generated from operating activities

Net cash generated from operating activities was RMB1,580.9 million in 2008, representing a 12.2% increase from RMB1,409.2 million in 2007. The increase in net cash generated from operating activities was principally the result of an increase in our profit from operations, partially offset by a slower increase of deferred revenue and customer advances as compared to 2007 and an increase in tax paid.

Net cash used in investing activities

Net cash used in investing activities was RMB3,101.8 million in 2008 compared to RMB101.9 million in 2007. Net cash used in investing activities during the year primarily represented an increased placement of cash in time deposits with original maturities of over three months of RMB2,971.0 million.

In 2008, our capital expenditures increased by 90.6% to RMB266.5 million (2007: RMB139.8 million). The increase in capital expenditures was primarily due to the addition of computer equipment to meet our business growth, and payment of construction costs of RMB151.5 million (2007: RMB47.0 million) for our new corporate campus in Binjiang, Hangzhou which is expected to complete in late 2009 as scheduled.

Net cash used in financing activities

Net cash used in financing activities was RMB78.9 million in 2008, compared to a net inflow (mainly from the initial public offering proceeds) of RMB2,626.9 million in 2007. The outflow in 2008 mainly represented payments for accrued listing expenses and the buy-back of our ordinary shares. In November 2008, we announced a share buy-back plan of up to HK\$2 billion (approximately US\$258 million) of our ordinary shares through the end of 2009, subject to market conditions and at the discretion of our directors. In 2008, RMB12.4 million was paid for buying back our shares in the market.

Employees

As of December 31, 2008, we had a total of 7,992 employees (December 31, 2007: 5,292). Total staff cost incurred in 2008 was RMB1,041.7 million (2007: RMB756.8 million).

FINAL DIVIDEND

Our Board did not recommend the payment of a final dividend for the year ended December 31, 2008 (2007: Nil).

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2008, we did not have any material off-balance sheet arrangements.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As of December 31, 2008, none of our assets was pledged and we did not have any material contingent liabilities or guarantees.

OUTLOOK

2009 is a year of investment and a year of expansion for Alibaba.com: investing in our customers, technology infrastructure, new product application and, again and always the most critical, our people. We believe this is a good time to invest because we are confident about China's economy, e-commerce, our products and our people. It is also more cost-effective to invest in marketing and infrastructure during an economic downturn, and in talent because they will become more accessible.

While we are making investments, we remain cost-conscious and are moving to save money in ways that support growth. For example, we recently announced a salary freeze for senior management at the vice president level and above, as we believe the focus of our compensation efforts should go to general employees who are delivering our growth promises. Also, we are reducing average travel costs by at least 10%. These are but the first of the many prudent steps we will take to reduce operating costs in 2009. We will cautiously evaluate the progress and output of our investment in every step we take, and make adjustments accordingly as required.

We expect the return of these investments to be illustrated by the following measures:

- Accelerated paying customer growth;
- Increased revenue driven by more paying customers and more value-added services in the future; and
- Leveraging our expanded economies of scale and margin enhancement.

If we succeed, paying customer growth will be the first external indicator of success, followed by revenue growth and margin growth over the next few years. We remain focused on building the largest online community of buyers and sellers possible, and our mission “To Make It Easy To Do Business Anywhere” has never changed.

CODE ON CORPORATE GOVERNANCE PRACTICES

We are committed to maintaining and upholding good corporate governance in order to protect the interests of our customers, employees and shareholders. Our Board sets high standards for our employees, senior management and directors. We abide strictly by the laws and regulations of the PRC and the other jurisdictions where we operate, and we observe the guidelines and rules issued by regulatory authorities relevant to our business and our Company, including those issued by the PRC Ministry of Information Industry, the Hong Kong Securities and Futures Commission and the Stock Exchange.

We have applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year ended December 31, 2008. We will set out further information on our corporate governance practices in the Corporate Governance Report contained in our 2008 Annual Report.

PURCHASE, SALE OR REDEMPTION OF COMPANY’S LISTED SECURITIES

During the year ended December 31, 2008, our Company purchased 3,000,000 shares of HK\$0.0001 each in the capital of our Company at prices ranging from HK\$4.23 to HK\$5.45 per share on the Stock Exchange.

Particulars of the purchase of shares are as follows:

Date (MM/YYYY)	Number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate consideration paid (excluding expenses) (HK\$)
11/2008	1,000,000	4.35	4.23	4,296,950
12/2008	2,000,000	5.45	4.40	9,717,305
Total	3,000,000			14,014,255

The repurchased shares were cancelled and accordingly, our Company’s issued share capital was diminished by the nominal value thereof. The premium payable on repurchase was charged against our Company’s share premium account.

Save as disclosed above, neither our Company nor any of our subsidiaries purchased, sold or redeemed any of the listed securities of our Company during the year ended December 31, 2008.

REVIEW OF FINANCIAL STATEMENTS

We have established an audit committee with written terms of reference in compliance with the Listing Rules. The principal duties of our audit committee include the review of our audit plan and process with the auditors, the independence of auditors, our financial statements and system of internal control. Our audit committee is composed of three non-executive directors, two of whom are independent non-executive directors, namely KWAUK Teh Ming, Walter (Committee Chairman), TSAI Chung, Joseph and KWAN Ming Sang, Savio.

Our annual results for the year ended December 31, 2008 were reviewed by our audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

On behalf of the Board
MA Yun, Jack
Chairman

Hong Kong, March 19, 2009

As at the date of this announcement, the composition of our Board is as follows:

Chairman and Non-executive Director

MA Yun, Jack

Executive Directors

WEI Zhe, David
WU Wei, Maggie
DAI Shan, Trudy
PENG Yi Jie, Sabrina

Non-executive Directors

TSAI Chung, Joseph
TSOU Kai-Lien, Rose
OKADA, Satoshi

Independent Non-executive Directors

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

A copy of this announcement is available on our website at <http://ir.alibaba.com>