The Alibaba Group

Chinese internet entrepreneur Jack Ma’s move to ‘hive off’ Alipay adds to his troubles with Yahoo!

By July of 2011, Yun “Jack” Ma had achieved his goal of creating one of the world’s leading e-commerce companies. Ma founded the Alibaba Group and took advantage of growing internet usage in China to launch the leading B2B, C2C and B2C sites in the country and capture a huge market. Despite his success, Ma had a troubled relationship with Yahoo!, the largest investor in the Alibaba Group. Ma’s decision in January of 2011 to transfer Alipay (the Alibaba Group’s online payment unit) from the Alibaba Group to a company under his personal control was just making matters worse.

When Ma founded Alibaba.com in 1999, he faced competition from a number of other Chinese B2B web portals. Ma made a number of strategic decisions that allowed his portal to grow as others fell by the wayside. By 2003, Alibaba.com had emerged as the dominant B2B site in China. With Alibaba.com prospering, Ma entered the C2C space by creating Taobao.com which quickly overcame eBay-EachNet as China’s dominant internet consumer space. He also created Alipay (PayPal type site) to allow for easy transactions and T-Mall a B2C portal allowing merchants to sell directly to Taobao.com consumers.

Expansion required capital and technical expertise. Ma hoped to obtain both by striking a strategic partnership with Yahoo! in 2005. Under the terms of the agreement, Yahoo! provided Alibaba with $1 billion in capital, access to Yahoo’s search technology, and the control of Yahoo! China. In return, Yahoo received a 40% stake in the Alibaba Group, the entity that Ma created to own his various ventures. In the intervening years, tensions had flared between Yahoo! and Ma over the direction of the Alibaba Group. Indeed in 2010, Ma had sought to buy back Yahoo!’s share in the venture.

These issues came to a head in May of 2011 when Yahoo! investors reacted negatively to a disclosure that Alipay had been spun-out of the Alibaba Group. Ma claimed that he was forced into the transfer by Chinese authorities who insisted that Alipay be controlled by domestic Chinese investors or risk losing its license to operate. After the disclosure of spin-out, Ma promised to make sure that Yahoo! and his other foreign investors were adequately compensated for the transfer. But two months after the disclosure, negotiations over how to compensate the foreign shareholders in the Alibaba Group had yet to be resolved.
Jack Ma and the founding of Alibaba

Yun “Jack” Ma came to the internet in a round-about manner. Ma was born in Hangzhou, a city in Zhejiang province located a hundred miles southwest of Shanghai. As a child, he became fascinated with the English language and over the next nine years, Ma perfected his language skills by offering free tours to foreigners travelling through China. He then attended Hangzhou Teachers College and graduated in 1988 with a bachelor’s degree in English. Upon graduation, Ma attained a post at Hangzhou Dianzi University where he taught in the English and International Trade departments.

A budding entrepreneur, Ma left behind his teaching duties and started a translation agency. In 1995, he traveled to the United States to help facilitate a joint venture between a U.S. and a Chinese company. In the U.S., Ma not only first worked with a computer keyboard, but also discovered the internet. Intrigued by the new technology, he learned some basic internet coding and created a website for his translation agency. Within 12 hours, Ma was surprised to see he had received five e-mails inquiring about his services. The results led Ma to believe that he should investigate the internet further once he got back to China.

In 1995, Ma started China Pages, believed to be China’s first internet-based company. From 1998 to 1999, he headed an information technology company established by the China International Electronic Commerce Center, a division of the Ministry of Foreign Trade and Economic Cooperation. These experiences developed Ma’s knowledge of the web portal and e-commerce landscape in China.

Ma’s introduction to the internet paralleled China’s growing utilization of this information channel. According to statistics from the China Internet Network Information Center (CNNIC), the number of internet users in China grew from less than 1 million in 1995 to 59 million in 2002, and to 137 million in 2006 – a 56% CAGR from 1995 to 2006 (see Exhibit 1). China’s penetration rate increased from less than 5% in 2000 to roughly a third of the population by 2010 (see Exhibit 2).

Ma was hardly alone in seeing the economic opportunities in e-commerce. Many entrepreneurs from China’s new economy took to the net. Small start-ups featuring online gaming, new media advertising, and electronic commerce were founded throughout China during the late 1990s.

B2B portals in China

In 1999, Ma founded Alibaba.com as a B2B internet portal to link Chinese manufacturers with companies that wanted to take advantage of China’s low labor costs by outsourcing production to the country. This kind of web-based B2B portal seemed to provide an ideal solution to a persistent problem in the booming Chinese economy – how to link China’s growing number of Small and Medium-sized Enterprises (SMEs) with international companies.

China’s growth during the 1990s and 2000s had been fueled by exports of manufactured goods. A large number of Chinese SMEs devoted to manufacturing had grown up in the Pearl and Yangzi River deltas. These SMEs had built substantial capabilities both in terms of scale and the ability to meet global quality standards. However, SMEs lacked the established sales channels and marketing budgets to promote themselves to foreign buyers.

Conversely, foreign buyers had difficulties identifying high-quality and reliable Chinese companies to be their outsourcing partners. This difficulty was exacerbated by China’s physical distance, cultural peculiarities, language issues, and differences in legal and political systems. So while China boasted thousands of potential partners, overseas companies had trouble finding the right company for their needs.

Traditionally, international commerce agencies had acted as intermediaries between Chinese manufacturers and foreign businesses. However the pace of Chinese growth - more than 10% per year
since 1978 - had overwhelmed the abilities of most agencies to keep track of the pool of suppliers. Additionally, newly-formed and often under-capitalized manufacturers could not afford agency fees.

The internet seemed to offer a low cost way for buyers and sellers to find each other. However, Ma was not the only entrepreneur to perceive this opportunity. During the late 1990s, venture capitalists armed with seed money found internet entrepreneurs, leading to a wave of B2B web sites. B2B websites became a major driver in China’s e-commerce development.

Two models emerged for B2B web sites — vertical and horizontal. Vertical B2B sites concentrated on a single industry and were often backed by a collection of industry leaders. About 70% of China’s early B2B sites were vertical. Horizontal B2B sites provided services to suppliers and buyers across all industries, while generating revenue from advertising and membership fees. In 1997, China Chemical Net became one of China’s e-commerce pioneers and the first vertical industry B2B website. Other B2B portals soon followed. Tradeeasy.com became China’s first horizontal B2B website; MeetChina.com developed the country’s first global B2B commerce site; 8848 combined B2B and B2C platforms onto one website.

Despite the number of B2B providers, it was not until 2002 that a sizable number of SMEs began using B2B platforms (see Exhibit 3). The late 1990s and first years of the 2000s proved difficult for China’s budding B2B web sites. In Asia, the effects of the 1997 Asian Financial Crisis continued to linger. Overseas, the collapse of the dot-com bubble and the 9/11 terrorist attacks led to an economic downturn that discouraged new investment.

When the United States began to emerge from recession in 2003, the B2B business in China took off. Revenues for Chinese e-commerce in grew from 280 million CNY in 1997 to 10.8 billion CNY in 2007 (see Exhibit 4). The user base tripled as more and more SMEs became involved, starting from 4.5% in 2002 to 82.1% based on 2012 estimates.

**Alibaba’s early strategy**

When Ma left his position with the government sponsored internet company, he certainly did not lack for ambition. Shortly after founding Alibaba, he outlined his goals to his small group of employees:

> First, we want to set up a company that lasts for one hundred and two years. Second, we want to establish a company that provides e-commerce services to China’s small and medium sized companies. Third, we want to set up the world’s largest e-commerce company, one that will enter the ranks of the top ten names among global Internet sites. Even the name of the company was a nod to Ma’s ambitions. He chose Alibaba so the company’s name would resonate in all languages and have global significance.

On first glance, Alibaba.com’s basic model was similar to that of other B2B web sites: the website provided a space for suppliers to meet with buyers and do business together. Alibaba.com divided its offerings into two platforms: China Marketplace and International Marketplace. China Marketplace was meant for SMEs within China who needed to source materials in-country, meaning that suppliers in many cases were also buyers. On International Marketplace, thousands of Chinese SME manufactures were listed as suppliers. Global buyers were invited to peruse the listings to find potential partners. Both China Marketplace and International Marketplace were free to the public, allowing buyers to browse the supplier list. The company earned its money by requiring suppliers to pay registration and membership fees to be listed. The company also generated additional revenue by providing trading advice, marketing and promotions, and other valued-added e-commerce services.

In a crowded and slowly developing internet space, Ma needed to distinguish Alibaba.com’s offerings from those of its competitors. Like every new B2B site, Alibaba.com faced the challenge of building customer volume, as buyers would not find it useful to investigate a web site with few suppliers and
suppliers could hardly be expected to pay for a web listing on a site that attracted few buyers. And yet, Ma established policies that seemingly limited the number of suppliers listed to achieve longer-term strategic objectives.

To gain long-term success, Ma believed that one key was building credibility. Buyers needed someone they could trust when dealing with a faceless entity an ocean away. This led Ma to establish a stringent approval processes at the cost of quickly growing customer volume. “Small enterprises,” rationalized Ma, “need B2B information flow support in a no-fraud environment.” Alibaba.com developed a code of standards to regulate transactions between its buyers and sellers.

In addition, Alibaba.com established a reporting process that would suspend the account of any supplier suspected of fraud and warn all users across the site. Most competing B2B websites did not employ such strict measures for fear of losing accounts. But Ma maintained his strict selection standards. Alibaba.com’s vigilance resulted in the lowest occurrence of fraud in the industry as their competitors continuously suffered from false and fraudulent transactions.

Ma also decided to focus Alibaba.com’s services on the exchange of information between buyers and sellers. Other B2B sites at that time aimed to create a one-stop website that provided customers with information, logistics, and online financial transactions. Ma believed that “only information flow was strongly needed at this point… given China’s current infrastructure [in late 1990’s], only information flow service is realistic to be delivered to users.” At that time, Ma accurately perceived that China lacked a nationwide commercial logistics network and had no viable credit system or third-party payment platform to conduct electronic financial transactions.

Finally, Ma encouraged his sales force to “focus on clients who really needed us” and targeted SMEs in southern China. These SMEs lacked marketing and channel development funds and had difficulty sourcing business leads through traditional channels. Alibaba attracted these manufacturers through a combination of low commission fees and its large database of business leads. As one of Alibaba.com’s early users recalls, “I didn’t know what a website or internet was, not to mention e-Commerce. But I knew I could sell my products on Alibaba.com at a good price and collect the revenue with no worries.”

The tight focus on SMEs meant that Alibaba.com did not approach any of China’s large state-owned-enterprises (SOEs). SOEs were a legacy from China’s planned economy. They generally held a dominant market position and conducted business through quotas set by the government. Inside China, SOEs generally did business by signing annual contracts with one another. For international business, SOE’s conducted their transactions through dedicated state-owned international trading companies.

Ma was approached by a number of venture capitalists offering to fund his start-up. Though desperate for cash, he rebuffed initial offers until approached by Goldman Sachs. Goldman invested $5 million in the small venture in October of 1999 and then a few months later, Japan’s Softbank was brought on with a $20 million investment. This capital helped Alibaba.com survive the collapse of the dot-com bubble.

Alibaba.com, like all internet ventures, had a difficult time following the dot-com bubble collapse as revenue and customer volume tumbled downward. Nonetheless, Ma maintained the company’s policies regarding credibility, its focus on information services and its target market. During this time other B2B websites shifted their focus towards more profitable areas such as mobile texting and online gaming, while others simply went bankrupt.

“We cannot give up our customers,” Ma explained regarding his commitment. “They needed us to go through this difficult time with them.” By sticking with its strategy and its customer base during the downturn in the market, Alibaba won its users’ loyalty and “grow with its customers”, forming strategic partnerships that allowed the company to leverage its existing clients into additional B2B business areas.

**Going beyond Alibaba.com**

Having survived and thrived during the difficult early days of e-commerce in China, Ma sought to expand to other forms of e-commerce. He established the Alibaba Group to serve as the umbrella organization for Alibaba.com and a range of new web services and e-commerce web sites.

**Taobao.com**

In May 2003, the Alibaba Group launched Taobao.com to enter the Chinese C2C market. Taobao (a Chinese term roughly meaning ‘digging for treasure’) was taking on a significant challenger, eBay. The U.S. internet giant had entered the Chinese market in 2002 with its acquisition of EachNet for $150 million. By 2003, eBay-EachNet web site facilitated 90% of China’s C2C transactions and served five million active users.

Hoping to knock out its competitor in its infancy, eBay responded to Taobao.com’s debut with a $100 million marketing campaign. To further strengthen its market advantage, eBay-EachNet also signed exclusive contracts with online portals and newspapers to promote the eBay site. eBay’s tactics effectively squeezed Taobao.com out of China’s mainstream media outlets (except television) as the fledging site had little money to match eBay’s promotional push.

Facing eBay’s aggressive challenges, Taobao.com made its platform free to all users in contrast to eBay’s “pay-to-play” listing system. Ma told his staff, “China has 80 million internet users. Among them, five million are C2C users, whom are now eBay’s customers. We don’t want to touch these customers. Leave them there, and we are going to explore the [remaining] 75 million users.”

Taobao.com’s offer attracted thousands of new users into China’s C2C space. Ironically, many of these new users had first learned about C2C retailing through eBay’s marketing campaign. Yet when deciding where to place their listing, these new users almost universally selected Taobao’s free platform. Besides the free listing service, Taobao also boasted higher user satisfaction ratings than eBay-EachNet. By 2006, Taobao.com had grabbed 67% of China’s C2C business versus eBay-EachNet’s 29% share. eBay largely gave up the battle, combining EachNet with another online portal, Tom.

Taobao.com’s strategy, however, proved to be a double-edged sword. The “free-to-play” concept meant the web service had generated little revenue. The rapidly growing user base further compounded this problem, to the point that many observers believed that the Alibaba Group had to give Taobao extensive subsidies. The Alibaba Group did collect some revenue from advertising featured on Taobao.com. With its huge user base (analysts estimated in 2011 that Taobao accounted for anywhere from 55-80% of all C2C business in China with nearly 370 million registered users), this revenue stream could make Taobao.com a potentially valuable property.

**Alipay**

Soon after introducing Taobao.com, Ma created Alipay to facilitate transactions on Taobao.com. Alipay was a proprietary third-party payment system that provided electronic transaction support. For transactions on Taobao, Alipay waived any service fee. However, Alipay could be used on other websites. “He [Ma] wanted to resolve the payment problem of the whole domestic Internet business, not merely to
give Taobao a way to resolve its payment problems,” an executive at Alipay noted. In 2005, Ma spun Alipay out of Taobao.

Alipay proved very popular in China’s growing electronic payment market, gaining about a 50% share of the market (the next biggest electronic payment provider was Tenpay with only 20% of the market). Since the Chinese financial system was far more rudimentary than the extensive credit system in the United States and Europe, online payment services were doing increasing amounts of business. In 2010, Alipay began experimenting with credit cards and voucher cards that could be used in bricks-and-mortar establishments.

iResearch estimated that more than $85 billion in transactions would be facilitated by these services in 2011. With its market position, one analyst estimated that Alipay would generate in excess of $1 billion in revenue during 2011. Indeed, many believed that Alipay had already supplanted PayPal as the world’s largest online 3rd party payment platform.

Expanding Alibaba.com

While Alibaba.com’s early focus on information services successfully launched the brand, the Alibaba Group expanded its offerings to its B2B customers in 2006. To expand its business beyond a B2B listing service, the firm sought partnerships with third-party vendors and suppliers. The firm struck an agreement with the China Construction Bank and the Bank of China to provide Alibaba.com users with online payment options and a small loan program. Also in 2006, Alibaba signed a five year contract with China Post that granted Alibaba.com users a nationwide logistics network that included a fleet of transportation jets and rental space across China’s major ports. Alibaba also partnered with other e-Commerce companies to complement client-sharing services. With these alliances, Alibaba Group provided customers with a one-stop B2B service platform; a competitive advantage that further differentiated Alibaba.com from competing sites.

T-Mall

The success of Taobao.com allowed the Alibaba Group to launch yet another web site affiliated with Taobao.com named T-Mall. T-Mall ran in parallel with Taobao.com and allowed established vendors to offer goods and services. The B2C business was meant to complement Taobao.com’s C2C service. As one analyst observed, “The consumer-to-consumer business brings the traffic to Taobao. Why would Jack Ma want to give that up? But, once they’re there and like the experience, his hope is that they stay around and hit T-Mall.”

With Taobao.com’s user base, T-Mall proved popular with merchants, with more than 30,000 signing up to create virtual storefronts by the end of 2010. Observers estimated that T-Mall had become China’s leading B2C site conducting nearly a third of all B2C transactions.

Unlike Taobao.com however, T-Mall did charge merchants for listing their offerings on the site. Depending on the goods being sold, T-Mall had a ‘take rate’ of 2-5% of any transaction.

Additional e-commerce services

With the establishment of TMall, the Alibaba Group became the first company in China to do business across all e-Commerce channels (B2B, B2C, and C2C). This concentration of services provided a number of opportunities for finding synergies. For example, B2B users on Alibaba.com could sell their wares on T-Mall’s B2C channel. Alibaba.com users were encouraged to use Alipay to settle their transactions.

In addition, the Alibaba Group continued to broaden its e-commerce solution packages including Alisoft, an online business management tool for its B2B and B2C customers, and AliCloud Computing, an
enterprise cloud computing solutions, targeting the enterprise customers from the B2C channel. In 2010, the Alibaba Group expanded into digital marketing through a new affiliate site entitled Alimama.com.

**Yahoo! invests**

At the start of the Alibaba Group’s expansion, Ma and Yahoo!’s CEO Jerry Yang began discussions about combining forces in some way. In August of 2005, Yahoo! announced that it would take a 46% share in the Alibaba Group (that would eventually dilute to 40%). In return, the Alibaba Group would receive $1 billion in cash and control of all of Yahoo!' China’s properties, including its search technology, its information and advertising business, and its authentication and verification service. The overall transaction was valued at $4 billion. Both Yang and Ma touted the partnership’s advantages for their respective firms. However within a few years, tensions between the two firms would emerge.

In 1994, Stanford graduate students Jerry Yang and David Filo founded Yahoo!. The company became well-known for its human-edited directory of web sites and gained a loyal following among new users to the web. Even though the web was still in its infancy, Yahoo! recorded a million visits a day soon after its founding. With the success of its directory, Yahoo! began adding other information services to its portal, such as Yahoo! Sports and Yahoo! Finance. The company also introduced a text and e-mail service. In 2000, Yahoo! announced a partnership with Google to provide search engine technology for its site. As one of the most popular sites on the web, Yahoo! rode the internet bubble to extraordinary valuations in a short period of time. From its IPO in 1996, the company’s market cap rose to $125 billion in just four years (see Exhibit 5).

Nonetheless, Yahoo!, like other internet companies, suffered greatly following the burst of the dot-com bubble in 2000. By September of 2001, the company’s capitalization had fallen below $5 billion. Yahoo!, however, managed to stay afloat and added additional services including online shopping, travel booking and the photo-sharing site Flickr. In 2004, Yahoo! ended its relationship with Google and introduced its own search engine. As advertising revenue increased (more than 80% of Yahoo!’s revenue came from online advertising), the company emerged from its post-bubble lows and had a market cap of about $35 billion at the time of the Alibaba deal.

Yahoo! had entered China in 1999 with its web directory, instant messenger, and email services. While Yahoo! gained loyalists in China, by the early 2000s the company was losing share. Google was aggressively increasing its presence in China and local search engine Baidu was gaining clicks. Nonetheless in 2004, Yahoo! China still attracted 30% of all internet clicks in China and had 60 million daily users. Yahoo! CEO Yang, a native of Taiwan (known in China by his Chinese name, Yang Zhiyuan), continued to have high hopes for the Chinese market and invested in hiring local IT managers and engineers.

When Ma and Yang announced their deal, both sides cited advantages the combination of forces would bring to their respective companies. For Yahoo!, partnership with a Chinese company would give the company local buy-in and access to millions of subscribers. In addition, Yahoo! had great confidence in Alibaba’s Taobao.com and Alipay businesses. Yang argued in *Businessweek*:

> [T]his Alibaba arrangement is a unique model of partnership for us. We believe that to be successful in China, we absolutely have to have strong local management, and [Alibaba CEO] Jack Ma and his team are the best-of-breed Internet management team inside China. [Alibaba and Yahoo China are] probably the most unique basket of assets assembled together. We are combining our strong No. 2 search and mail businesses with Alibaba’s first-place consumer auction platform, their leading business-to-business franchise, and their AliPay, which is their payment platform. It’s the only company in China that has commerce, search, communications, and a very, very strong local management team. This is going to be a very valuable franchise going forward.
For its part, Alibaba was entering a critical point in its growth. Though it had attained a dominant spot in the market, Alibaba Group’s Taobao.com C2C site still required subsidy. In addition, Ma believed that Taobao could be improved with better search engine technology. Finally, the Yahoo! investment moved Ma closer to his aspiration to create a global internet company.

A significant portion of the $1 billion was used to help restructure Alibaba Group. Ma used the money to buy down Softbank’s investment in Taobao and transfer all of Softbank’s holdings to the Alibaba Group. (Interestingly, Softbank and Yahoo! co-owned Yahoo! Japan.) Following the restructuring, the Alibaba Group was to be governed by a four-person board. The management of the Alibaba Group held two seats, with CEO Jack Ma serving as the board’s chairman. One other seat would be allocated to Yang from Yahoo!, and a representative from Softbank (after the buyback, the Japanese internet holding company held 33% of the Alibaba Group). According to the shareholder agreement, Yahoo would hold 35% of the voting shares in the enterprise and be accorded an additional board seat if there was no IPO by 2010.

**Relationship Sours**

Within a few years, what seemed to be a mutually beneficial partnership, began to display tensions. Observers ascribed the growing rift between Yahoo! and Alibaba to a number of factors: thwarted expectations, the changing fortunes of the two companies and personality conflicts between the principals.

Yahoo! leadership was clearly miffed of what they perceived as the mismanagement of the Yahoo! brand in China. The Alibaba Group devoted few resources to maintaining and expanding Yahoo! China. As a result, Yahoo! China’s share of portal usage in China dropped to less than 1%, dropping from 60 million daily visits to less than 2 million in a few years time. Other Yahoo! China businesses such as advertising were completely closed.

Management of the Alibaba Group were disappointed with the technological assistance that they expected to receive from Yahoo!. One key for Ma in the deal was getting superior search technology for the Alibaba Group’s e-commerce sites. Yahoo! however failed to develop its search function. By 2009, Yahoo! abandoned its own search technology and contracted with Microsoft’s Bing to provide search services for its web portal. In 2010, the Alibaba Group followed suit and contracted with Microsoft.

The companies' differences extended beyond financial and technical issues. Yang apologized before Congress in 2007 for turning over information about a journalist to Chinese authorities and then in 2010 Yahoo! backed Google in its dispute with the Chinese government over censorship and cyber attacks. On the other hand, Ma was adamant that companies operating in China must obey all Chinese laws and condemned Google during its troubles with the Chinese government.

More dramatic was the change in fortunes for the two companies. In 2005, Yahoo! seemed to emerging smartly from the dot.com bust. By early 2006, the company’s valuation topped $60 billion. However, analysts increasingly despaired about Yahoo!’s future. Internet companies such as Google and Facebook had more dynamic franchises and internet news aggregators such as the Huffington Post were developing loyal followers for their content with far smaller operating costs. Yahoo! was losing advertising dollars to both kinds of competitors.

In February of 2008, Microsoft made a $44 billion takeover bid for all of Yahoo!’s assets. Despite the significant premium that the offer placed on Yahoo! assets, Yang fought the takeover bid and four months later Microsoft withdrew the offer. The takeover fight focused attention on Yang’s management of the firm and the underlying weakness in Yahoo!’s core assets. In 2009, Yang was forced out as CEO and replaced by Carol Bartz, a veteran of a number of Silicon Valley companies. Nonetheless, the market valuation of the company continued to decline and by the end of the 2010, Yahoo!’s market cap had fallen to about $21 billion.
On the other hand, the Alibaba Group’s fortunes improved each year. The various businesses Ma had launched appeared to be thriving (though it was difficult to know since the Alibaba Group was still privately held). In 2007, Ma carved out an IPO for the B2B segment of his business, Alibaba.com, and launched it as a semi-independent venture. The IPO was extremely successful (see below) and brought the Group additional capital. With China’s economy and internet booming, analysts in 2010 were extremely bullish on the Alibaba Group’s portfolio of web services – some valuing the enterprise at between $30–50 billion, if it were to go public.

Despite losing his post as CEO, Yang remained Yahoo!’s representative on the Alibaba Group’s board. The relationship between Bartz and Ma, however, proved contentious. Reportedly in an early meeting between the two, Bartz berated Ma for squandering Yahoo!’s position in China. Ma countered that Yahoo! had reneged on its commitments to provide technical support for Alibaba.

Loveless marriage?

Differences between Yahoo! and the Alibaba Group made headlines during the summer of 2010. Desperate to re-exert control over the company that he built, Ma reportedly approached Yahoo! management with an $11 billion offer to buy out the company’s share in the Alibaba Group. After considering the offer for some time, Yahoo! turned Ma down. Bartz reasoned that Alibaba Group would be more valuable once Taobao.com or Alipay had gone public.\(^\text{21}\)(See Exhibit 6 for Yahoo!’s accounting for its Alibaba Group investment.)

At the same time, rumors were swirling that a group of private equity investors and/or America Online were about to launch an effort to take over Yahoo! or at least take the company private. Observers suggested that Ma was opposed to such a takeover since it could additional pressure on the Alibaba Group. One analyst argued:

> Ma is worried that P.E.s, in a search for fast profits, may push for public listings of Taobao and Alipay ahead of a reasonable schedule. Another concern is that Yahoo’s stake in Alibaba might be sold to Chinese rivals such as search giant Baidu, or that P.E.s would force Ma to pay a high price for a stock buyback. “The worst situation for Ma is to see (Alibaba’s) assets controlled by P.E.s.”\(^\text{22}\)

Later reports suggested that Ma might join with P.E. investors to take over Yahoo!\(^\text{23}\)

In September of 2010, Bartz suggested that she would take the fifth seat on the Alibaba Group’s Board that would become available to Yahoo! in October 2010. A spokesman for Alibaba shot back “They [Yahoo] demonstrate a lack of appreciation of the Internet, the mainland market and business partners… Perhaps it would not be a bad idea for [Bartz] to concentrate her efforts on improving Yahoo’s current situation.”\(^\text{24}\)

Also in September of 2010, Alibaba.com reported that Yahoo! Hong Kong (a separate entity from Yahoo! China) was poaching advertisers from Alibaba.com. A spokesman for Alibaba noted that if this continued “We might have to further re-evaluate our relationship with Yahoo!”\(^\text{25}\)

Trying to smooth over differences with the Alibaba Group, Bartz struck a conciliatory posture. “It’s merely an investment,” Bartz said of Yahoo’s stake in Alibaba Group, “so all of this sort of commotion about a ‘loveless marriage’ is I think a pretty good headline, but it doesn’t make much to do with anything.”\(^\text{26}\)

In November of 2010, Yahoo! revealed that it would not be appointing anyone to take the fifth seat on the Alibaba Group’s board (Jerry Wang remained as Yahoo!’s sole representative). “We have not placed a director there yet, mainly because things are going well,” Yahoo! CFO Tim Morse said. “There isn’t a
dramatic need at this point to upset the balance.” Others pointed out that if Yahoo! did appoint a fifth board member, the Alibaba Group would be majority owned by foreign interests and Chinese regulations would make it more difficult to launch an IPO.

### Initial Public Offering

In the spring of 2007, Ma and the management of the Alibaba Group decided to sell equity on the capital markets. Before going public, the Alibaba Group made a number of strategic decisions as to what part of the Group’s enterprises to put on the market, what percentage of the equity to sell, and on which market to list the stock.

What to put on the market was an issue that engendered some public debate. When word leaked that the Alibaba Group was considering a public offering, many people, including stock analysts, believed the IPO would include all of the Alibaba Group’s subsidiaries. However, Ma elected to include only the B2B business, Alibaba.com, in the IPO. The Alibaba Group spent much of the spring of 2007 restructuring the internal organization of their respective ventures to better differentiate Alibaba.com from their other enterprises and allow it to exist as a stand-alone business. Ma explained the decision to “carve out” Alibaba.com as being “responsible to our investors. Alibaba.com was the most mature, stable company we have … we believe Alibaba.com is the only one that was prepared for an IPO at this point.”

Management also decided to sell only a thin slice of Alibaba.com to the public, putting about a quarter of the business’s equity on the market. Under the terms of the offering, 24.71% of the shares of Alibaba.com would be held by public shareholders and another 2.08% would be allocated to the management team. The vast majority of the shares, 73.21%, would remain in the hands of the Alibaba Group. The company was officially incorporated in the Cayman Islands.

The Alibaba Group also bucked the popular trend of Chinese companies listing on either the NASDAQ or the New York Stock Exchange. Ma opted to list Alibaba.com on the HKSE (Hong Kong Stock Exchange). One source told the *South China Morning Post* that Ma wanted to avoid stringent U.S. disclosure rules and that “Jack Ma is a Sarbanes-Oxley hater.” Ma also argued that “Hong Kong is also an international financial center… and the analysts here (in Hong Kong), with rich international commerce understanding, would know the business of Alibaba better.”

Despite Ma’s decision to list on the HKSE, Alibaba.com’s IPO still created corporate governance issues for the Hong Kong Securities and Futures Commission (SFC). Regulators raised concerns about the independence of Alibaba.com’s cash flow from Alibaba Group’s other subsidiaries, and pushed Alibaba.com’s management on how this separation would be maintained over time. While Alibaba.com’s management managed to assure regulators, other observers and analysts worried that the Alibaba Group might transfer portions of Alibaba.com’s shareholder value to support its other subsidiaries.

Not withstanding these issues, Alibaba.com completed a very successful US$1.7 billion IPO on the Hong Kong Stock Exchange in November 2007. The deal was handled by a prestigious group of underwriters -- Deutsche Bank, Goldman Sachs, and Morgan Stanley. The deal was oversubscribed with eight cornerstone investors (Yahoo!, AIG Global Investment Corporation (Asia) Ltd., Foxconn (Far East) Limited, Baldonna Investments Limited, Finawood Investments Limited, Honeybush Limited, Cisco Systems International B.V., and Industrial and Commercial Bank of China (Asia) Limited) taking about $295 million of shares. The IPO was the largest internet IPO since Google’s 2004 offering on the NASDAQ. The pricing worked out to an astronomical price-to-earnings of over 95 times 2007 earnings.”
Post-IPO questions and concerns

Alibaba.com shares shot up dramatically from its already high IPO price in the weeks after the shares were listed. Ma explained that "Some investors who had missed out on Google's I.P.O. don't want to miss out on Alibaba's." 

Some of Alibaba.com's attractiveness may have been due to investor confusion. Some investors may have been attracted to Alibaba's stock because they thought they were buying shares of the whole Alibaba Group, including Taobao.com, T-Mall and Alipay. Nearly three years after the IPO, investors at Alibaba.com's shareholder meeting in May of 2010 queried the management team on why it excluded Taobao from its IPO. As one local equity research analyst noted, "people have to think of Taobao whenever they talk about Alibaba's stock… excluding Taobao leaves both confusions and hopes, which might be a good thing for Alibaba and Ma."

Other observers continued to be worried about the relationship between Alibaba.com and the Alibaba Group, especially in the area of related party transactions. Eyebrows were raised when Alibaba.com purchased Alisoft from the Alibaba Group in 2009 for $30 million.

Alibaba.com's high valuations could not withstand the downward pressure the world economic crisis put on all equity values. Alibaba.com's market cap declined from a high of 201.84 billion RMB (approx US$33 billion) at the end of November 2007 to a low of 18.69 billion RMB (approx US$3.12 billion) less than a year later. (See Exhibit 7) Operational results remained strong and the company's market cap recovered in 2009 and 2010. (See Exhibits 8-12 for Alibaba.com operational and market share information).

In 2011, Alibaba.com was rocked by scandal. The company discovered that more than 2,000 vendors had been defrauded of more than $6 million. Chinese police arrested 36 people in connection with the scam. Though they did not directly participate in the scheme, Alibaba.com's CEO and COO resigned. By July of 2011, Alibaba.com had refunded nearly $2 million to victims of the fraud.

The Alipay Controversy

In 2011, the Alibaba Group transferred ownership of the Alipay unit from the Group to a company owned by Alibaba Group's chairman Jack Ma. The transfer, disclosed in Yahoo!'s May 11, 2011 10-Q, sent shockwaves not only through Yahoo!'s investors, but also through the entire community of foreign investors in China.

A spokesman for the Alibaba group said that the reason for the transfer was the Group’s beliefs that regulations from the People’s Bank of China (PBoC) would prohibit any online payment company with significant foreign ownership to operate in China. As of May 2011, the PBoC had acknowledged that they were discussing foreign ownership, but had not issued any regulations as yet. Nonetheless, Ma maintained that for Alipay to be in the first group of companies that were issued such a license, the Group had to transfer ownership.

Yahoo! investors were surprised and angry at the disclosure. Many analysts maintained that Yahoo! should have disclosed earlier. One analyst wrote:

If Yahoo! knew of this transaction yet failed to disclose it, for whatever reason, investors could lose faith in other Yahoo! disclosures. If Yahoo! did not know about it, trust issues loom even larger, as one could conclude that other material transactions may have occurred and were not disclosed.  

The issue of when Yahoo! had first been made aware of the ownership transfer was an issue of some dispute. Sources at Alibaba Group maintained that the board of the Alibaba Group, including Yahoo’s
Jerry Yang, had been told of the possible regulations for years. For its part, Yahoo! maintained it was not informed of the move until March of 2011 and that it waited to disclose because compensation for the transfer had not been settled and that the situation was very complex. The sequence of events could remain in contention for some time as a group of Yahoo! investors had already indicated that they were going to sue management and the board for issuing misleading financial statements.

Beyond determining what Yahoo! knew and when did it know it, the transfer raised troubling questions for many investors about Yahoo!’s entire investment in Alibaba. Investors for some time had regarded Yahoo!’s stake in Alibaba as the most valuable asset the company owned. Indeed, some investors described it as Yahoo’s only valuable asset. In a letter to investors, David Einhorn of Greenlight Capital disclosed taking a substantial position in Yahoo!, noting "We would not be surprised if YHOO’s 40% stake in Alibaba Group alone was ultimately worth YHOO’s entire current market value."34

Given the transfer, some wondered if Yahoo! would be able to monetize any of their Chinese investment for its market value. One publication opined, “It appears that Alibaba Group is doing everything it can to get rid of Yahoo Inc. as a shareholder.”35

Another analyst argued, “The casual 10-Q disclosure of the fact of Alipay’s ownership transfer to a third party and the claims that management learned almost six months post factum are troubling signs that Yahoo does not have full control of the situation.”36

In the wake of the disclosure, Yahoo!, Softbank and Alibaba.com issued a joint statement:

Alibaba Group, and its major stockholders Yahoo! Inc. and Softbank Corporation, are engaged in and committed to productive negotiations to resolve the outstanding issues related to Alipay in a manner that serves the interests of all shareholders as soon as possible.

Analysts noted that such negotiations usually take place before not after a major financial decision is made.38 During a meeting with analysts in May, Yahoo management was characterized as being “tense and defensive” about the transfer, refusing to answer questions about how the transfer came about.39 In all, Yahoo! stock lost 15% of its value in the weeks following the disclosure.

The Alibaba Group’s actions highlighted the uncertainty of doing business in China. In commenting about the transfer, one lawyer told Bloomberg “Western businesses come into China and they want to know what the rules are. There’s the technically correct answer, there’s the practical answer, and then the third one is, ‘Who cares anyway?’ Sometimes the answer is ‘Who cares anyway?’ until you get busted.”40

In the same story, the Chairman of the U.S. Chamber of Commerce was quoted as saying, “There are cases where in actuality the government is operating on internal guidance that foreign companies don’t have access to or discover after the fact. Or the guidance is communicated to them in the approval process orally and you ask, ‘Where’s that in the law?’”41

A businessman with substantial investments in China noted that Yahoo!’s experience scared investors in all manner of joint ventures with Chinese companies:

It’s very concerning. You wonder if you are getting your share of the money or whether they’re using the infrastructure of the business to do commercial activity that benefits them personally. It’s going to be a big problem for China, because capital will stop going there if they think they’re being cheated.
Ma criticized in China

Chinese businessmen seemed to be as concerned with the Alibaba Group’s transfer as their U.S. counterparts. Articles critical of Ma appeared in the domestic Chinese press. A Forbes writer Eric Jackson related:

In China, during my meetings, I was surprised that over 90% of the executives also had negative perceptions of Ma’s actions. The Chinese tend to be more informed and less emotional than Americans in assessing what happened. Ma is seen as someone who is very smart, very ambitious, and very powerful. Most assume no actions he takes are by mistake. People tend to believe removing Alipay from the corporate group was deliberate, with the goal of furthering Ma’s own agenda (namely removing or significantly reducing the foreign partners in order to increase the shareholdings of the management team). Several people expressed concerns to me that these actions could have negative consequences for them, as Americans grow less trusting of Chinese companies.

For his part, Ma tried to put a good face on the situation, claiming that the actions were “100% legal” and that Alibaba was “100% transparent.” He argued that when the matter was resolved there would be a “significant” payout to the Alibaba Group for the Alipay transfer. Ma also suggested that an IPO for Taobao.com was not far off.

In the beginning of July 2011, Ma gave an exclusive interview to China Entrepreneur Magazine. In an account of the interview, Jackson noted that Ma explained that in August 2010, the Alibaba Group had transferred Alipay from the Group to a Caymans-based Variable Interest Entity (VIE), meaning that while Alipay was not directly part of the Alibaba Group, Yahoo! and Softbank still indirectly owned the unit.

Then in January of 2011, the People’s Bank of China asked the Alibaba Group to declare if they had a VIE connected to Alipay. Ma explained that through “special private communications” he was told that if the Group had a continuing relationship with Alipay, Alipay would not receive a government license. Ma then argued he had limited time to choose between three courses of action:

1. Keep the VIE and hope the government changed its mind but risk having them shut down Alipay;
2. Maintain the VIE but lie; or
3. Terminate the VIE to comply with the government.

He chose the latter but claims Softbank’s Masayoshi Son wanted him to do #2 and lie.

Ma admitted that he had made a unilateral decision to transfer Alipay out of the VIE and control of the Alibaba Group, but that he was forced to do so since the board couldn’t come to a decision. According to Jackson, Ma said:

I admit that this decision isn’t the most perfect one, but it’s the only answer. I’m not saying I’m correct, I’m just saying I think I’ve done what I believe to be right… This matter [of transferring Alipay] wouldn’t have even been approved with ten times the time. Why? It has to do with the ass-brains of these two [Son and Yang]. Son wants to benefit Softbank and Yahoo wants to benefit Yahoo, and they don’t care who’s going to take responsibility for this company… Every time we have a board meeting there are minutes taken, so they [Son and Yang] can say to their shareholders: ‘This is Ma’s responsibility, don’t blame me.’ In reality, it’s giving me more pressure and bargaining chips in negotiations… Before, this fireball was in my hands, and they said nothing. I was falling all over the place, not knowing what to do, and now I’ve given it to them.

Meanwhile, investors in Yahoo were jumping ship. Einhorn announced that he unloaded Greenlight’s entire stake in Yahoo!. He wrote investors “The value of the Chinese assets came into doubt as the CEO of the Chinese unit ‘hived off’ a valuable subsidiary into a corporation that he personally controls. This wasn’t what we signed up for. We exited with a modest loss.”

As negotiations between Alibaba Group, Softbank’s Son and Yahoo’s Yang dragged on into July 2011, Ma was faced with an immediate problem and a long-range concern. In the short-term, he had to deal with
the Alipay situation in a manner that was perceived as fair and equitable for all the parties involved. In the long term, he had to figure out a way to deal with his foreign partners in the Alibaba Group so that problems like this wouldn’t keep cropping up.

This case has been made possible thanks to the generous support provided by the David H. Li ’94 Fund.

This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

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Endnotes

1 Yale School of Management, ’11.
2 Yale School of Management, ’12.
3 Yale School of Management, ’11.
4 Yale School of Management, ’12.
5 Director of Case Research, Yale School of Management
6 Professor of Finance, Yale School of Management
8 From Page 87 of Alibaba 2007 Prospectus
9 According to data from iResearch


John Letzing, “Bartz likens Yahoo to Fairchild, a Valley icon; CEO dismisses ‘commotion about loveless marriage’ with Alibaba” September 21, 2010, MarketWatch.

John Letzing, Yahoo in no rush to add Alibaba board member; CFO says no need to ‘upset balance’ among Yang, Execs. “February 16, 2011 MarketWatch


Benjamin Pimentel, “Yahoo investors expected to focus on Alibaba” MarketWatch, May 24, 2011


Exhibit 1: Internet Users in China

Source: China Internet Network Information Center (CNNIC)

Exhibit 2: Internet Penetration Rate in China

Source: China Internet Network Information Center (CNNIC)
Exhibit 3: Number of SMEs Involved with E-commerce in China 1997-2009

Source: B2B.TOOCLE.COM

Exhibit 4: Total Revenue from E-commerce Transactions in China

Source: B2B.TOOCLE.COM
Exhibit 5: Yahoo! Market Capitalization 1996 -2010 (in $billion)

Source: CRSP database
Exhibit 6: Yahoo! 2010 10k Disclosure about the Alibaba Group (from pg 75-77)

Equity Investment in Alibaba Group. On October 23, 2005, the Company acquired approximately 46 percent of the outstanding common stock of Alibaba Group, which represented approximately 40 percent on a fully diluted basis, in exchange for $1.0 billion in cash, the contribution of the Company’s China-based businesses, including 3721 Network Software Company Limited (“Yahoo! China”), and direct transaction costs of $8 million. Another investor in Alibaba Group is SOFTBANK. Alibaba Group is a privately-held company. Through its investment in Alibaba Group, the Company has combined its search capabilities with Alibaba Group’s leading online marketplace and online payment system and Alibaba Group’s strong local presence, expertise, and vision in the China market. These factors contributed to a purchase price in excess of the Company’s share of the fair value of Alibaba Group’s net tangible and intangible assets acquired resulting in goodwill.

The investment in Alibaba Group is being accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of investments in equity interests on the Company’s consolidated balance sheets. The Company records its share of the results of Alibaba Group and any related amortization expense, one quarter in arrears, within earnings in equity interests in the consolidated statements of income.

The Company’s initial purchase price was based on acquiring a 40 percent equity interest in Alibaba Group on a fully diluted basis; however, the Company acquired a 46 percent interest based on outstanding shares. In allocating the initial excess of the carrying value of the investment in Alibaba Group over its proportionate share of the net assets of Alibaba Group, the Company allocated a portion of the excess to goodwill to account for the estimated reductions in the carrying value of the investment in Alibaba that may occur as the Company’s equity interest is diluted to 40 percent. As of December 31, 2009 and 2010, the Company’s ownership interest in Alibaba Group was approximately 44 percent and 43 percent, respectively.

In the initial public offering (“IPO”) of Alibaba.com on November 6, 2007, Alibaba Group sold an approximate 27 percent interest in Alibaba.com through the issuance of new Alibaba.com shares, the sale of previously held shares in Alibaba.com, and the exchange of certain Alibaba Group shares previously held by Alibaba Group employees for shares in Alibaba.com, resulting in a gain on disposal of interests in Alibaba.com. Accordingly, in the first quarter of 2008, the Company recorded a non-cash gain of $401 million, net of tax, within earnings in equity interests representing the Company’s share of Alibaba Group’s gain, and the Company’s ownership interest in Alibaba Group increased approximately 1 percent from 43 percent to 44 percent.

As of December 31, 2010 the difference between the Company’s carrying value of its investment in Alibaba Group and its proportionate share of the net assets of Alibaba Group is summarized as follows (in thousands):

| Carrying value of investment in Alibaba Group | $ 2,280,602 |
| Proportionate share of Alibaba Group stockholders’ equity | 1,652,344 |
| Excess of carrying value of investment over proportionate share of Alibaba Group’s stockholders’ equity(*) | $ 628,258 |

(*) The excess carrying value has been primarily assigned to goodwill.

The amortizable intangible assets included in the excess carrying value have useful lives not exceeding seven years and a weighted average useful life of approximately five years. No amount has been allocated to in-process research and development. Goodwill is not deductible for tax purposes.

The following table presents Alibaba Group’s U.S. GAAP financial information, as derived from the Alibaba Group financial statements (in thousands):
Operating data:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$456,808</td>
<td>$730,336</td>
<td>$1,298,229</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$317,139</td>
<td>$534,974</td>
<td>$986,455</td>
</tr>
<tr>
<td>Loss from operations (1)</td>
<td>$(236,017)</td>
<td>$(39,460)</td>
<td>$(14,355)</td>
</tr>
<tr>
<td>Net income (loss) (2)</td>
<td>$1,909,009</td>
<td>$(19,932)</td>
<td>$42,463</td>
</tr>
<tr>
<td>Net income (loss) attributable to Alibaba Group (2)</td>
<td>$1,870,093</td>
<td>$(57,346)</td>
<td>$(10,743)</td>
</tr>
</tbody>
</table>

Balance sheet data:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2009</th>
<th>September 30, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$3,191,097</td>
<td>$4,399,571</td>
</tr>
<tr>
<td>Long-term assets</td>
<td>$2,308,099</td>
<td>$2,436,976</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$1,559,974</td>
<td>$2,660,043</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>$24,082</td>
<td>$58,679</td>
</tr>
<tr>
<td>Non-voting participating redeemable securities</td>
<td>$1,733</td>
<td>$860</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>$223,783</td>
<td>$338,419</td>
</tr>
</tbody>
</table>

(1) The loss from operations of $236 million and $14 million for the years ended September 30, 2008 and 2010, respectively, are primarily due to Alibaba Group’s impairment loss on goodwill and intangible assets for which the Company has no basis in its investment balance.

(2) The net income of $1.9 billion for the twelve months ended September 30, 2008 is primarily due to Alibaba Group’s sale of an approximate 27 percent ownership in Alibaba.com from Alibaba.com’s IPO.

Since acquiring its interest in Alibaba Group, the Company has recorded, in retained earnings, cumulative earnings in equity interests of $308 million and $350 million, respectively as of December 31, 2009 and 2010.

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the years ended December 31, 2009 and 2010, these transactions were not material.

Source: Computstat International Equities
Exhibit 8: Alibaba.com Users and Membership

Source: Alibaba’s 2007, 2008, and 2009 Annual Statements

Exhibit 9: Alibaba.com Revenues, Profits and Profitability

Source: Alibaba’s 2007, 2008, and 2009 Annual Statements
Exhibit 10: Geographic distribution of international registered users of Alibaba.com as of 12/31/2008

Source: Alibaba 2008 Annual Statement


Source: data from www.analysys.com.cn
Exhibit 12 – Selected Financial and Other Information, Alibaba Group, 2007 – 2010

<table>
<thead>
<tr>
<th>In Thousands of CNY (except for per share items)</th>
<th>12 months ending 2010-12-31</th>
<th>12 months ending 2009-12-31</th>
<th>12 months ending 2008-12-31</th>
<th>12 months ending 2007-12-31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>5,557,586.00</td>
<td>3,874,728.00</td>
<td>3,004,127.00</td>
<td>2,162,757.00</td>
</tr>
<tr>
<td>Interest income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net interest income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net fee income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net trading income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other operating income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total operating income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net insurance claims incurred</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net operating income before loan impairment charges and provisions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total impairment charges and provisions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net operating income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>1,712,936.00</td>
<td>1,213,911.00</td>
<td>1,380,907.00</td>
<td>1,149,444.00</td>
</tr>
<tr>
<td>Non-operating/Exceptional items</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Associates</td>
<td>-6,479.00</td>
<td>-37,492.00</td>
<td>-16,087.00</td>
<td>0</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>1,706,457.00</td>
<td>1,176,419.00</td>
<td>1,364,820.00</td>
<td>1,149,444.00</td>
</tr>
<tr>
<td>Taxation</td>
<td>236,445.00</td>
<td>163,393.00</td>
<td>210,317.00</td>
<td>181,649.00</td>
</tr>
<tr>
<td>Profit/(loss) after taxation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Minority Interests</td>
<td>548</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Preference share dividend</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,469,464.00</td>
<td>1,013,026.00</td>
<td>1,154,503.00</td>
<td>967,795.00</td>
</tr>
<tr>
<td>Total Dividend</td>
<td>950,538.00</td>
<td>888,261.00</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retained profit/(loss)</td>
<td>518,926.00</td>
<td>124,765.00</td>
<td>1,154,503.00</td>
<td>967,795.00</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>4,626,570.00</td>
<td>3,340,290.00</td>
<td>2,603,476.00</td>
<td>1,882,644.00</td>
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<tr>
<td>Depreciation</td>
<td>187,190.00</td>
<td>119,382.00</td>
<td>80,669.00</td>
<td>59,016.00</td>
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<tr>
<td>Interest Paid</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Interest Capitalized</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Turnover Growth (%)</td>
<td>43.43</td>
<td>28.98</td>
<td>38.9</td>
<td>58.58</td>
</tr>
<tr>
<td>Net Profit Growth (%)</td>
<td>45.06</td>
<td>-12.25</td>
<td>19.29</td>
<td>340.03</td>
</tr>
<tr>
<td>Taxation Rate (%)</td>
<td>13.86</td>
<td>13.89</td>
<td>15.41</td>
<td>15.8</td>
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<tr>
<td>EPS (HKD)</td>
<td>0.34</td>
<td>0.23</td>
<td>0.26</td>
<td>0.21</td>
</tr>
<tr>
<td>Diluted EPS (HKD)</td>
<td>0.34</td>
<td>0.23</td>
<td>0.26</td>
<td>0.21</td>
</tr>
</tbody>
</table>

Source: Alibaba.com 2010 Annual Statement