

POLITECNICO DI MILANO

Scuola di Ingegneria Industriale e dell'Informazione

Corso di Laurea Magistrale in Ingegneria Gestionale



A Giant Crocodile From China Case Study of Alibaba Group

Relatore: Prof. Giancarlo Giudici

Tesi di Laura Magistrale di:

MA YI Matr.834319

LIU HANG Matr.838306

Anno Accademico 2015-2016

CONTENTS

THE STORY OF ALIBABA AND JACK MA	3
LEARNING ENGLISH.....	3
CONTACT WITH THE INTERNET.....	3
START UP A BUSINESS	4
FOUND ALIBABA	4
ALIBABA.COM GROUP	5
ORGANIZATIONAL STRUCTURE	7
REVENUE MODEL.....	10
1. <i>On-line marketing service fees</i>	11
2. <i>Trading commission fees</i>	11
3. <i>Else</i>	12
VENTURE CAPITAL	12
IPO IN HONG KONG	14
LIST IN THE U.S.....	17
CORPORATE STRUCTURE	21
ALIPAY.....	22
ECOSYSTEM OF ALIBABA	24
ALIBABA GROUP INVESTMENTS	26
ALIBABA GROUP FUTURE DEVELOPMENT STRATEGY	35
ANALYSIS OF EARNING REPORT	35
WHICH BUSINESS SECTORS LOST?	36
ALIBABA VALUATION.....	38
ACTIVE BUYERS GROWTH SLOW DOWN	38
THE CHALLENGE	39
TEACHING NOTE	40
THE CHALLENGE.....	40
<i>Rural e-commerce</i>	40
<i>Globalization</i>	41
<i>Big data strategy</i>	42
IN THE FUTURE WHICH KIND OF COMPANIES WILL THE ALIBABA GROUP INVEST IN?	43
REFERENCE	47

The story of Alibaba and Jack Ma

“EBay is a shark in the ocean. We are a crocodile in the Yangtze River. If we fight in the ocean, we will lose. But if we fight in the river, we will win.”

-Jack Ma, Chairman and CEO, Alibaba Group

In 1964, Ma was born in Hangzhou, Zhejiang Province, China. China's Cultural Revolution was just beginning. For the next ten years, the country fell into political chaos. Capitalist and intellectuals were punished and sent to the countryside. Families and friends were divided along class lines. China was close to the world and its social turmoil was invisible to most people of the rest of the world.

Learning English

In 1978, Deng Xiaoping, who is the Chinese new leader, opened china's doors to the world. For the first time in years, Chinese and foreigners began the mix again. Back in Hangzhou foreigners were beginning to make their way to the Westlake and it was on the banks of the Westlake, the Jack's life would change. When a teacher told him that she'd seen foreign tourists near the lake, Jack headed down to see for himself. Every morning for the next nine years, Jack rode bicycle to the Hangzhou Hotel where he chatted with foreign visitors and practiced in English.

For Jack, English turned out to be much more than a hobby. Jack has failed in college entrance examination twice. Finally, he became a student of Hangzhou Normal University. After graduated from university, He became an English teacher, making 12 dollars a month at a local university. At the same time, Jack had applied Harvard University for 10 times, but all were rejected.

Ma said he is commonplace. He applied for 30 different jobs before getting into university and got rejected. Even he went to KFC when it came to Hangzhou. 24 people went for the job, 23 were accepted, he was the only guy that be refused.

Contact with the Internet

As Jack was teaching English, Deng Xiaoping's reforms were having dramatic effects on the neighborhood. Factories sprang up as china's low wages in greater openness combined with an export boom. As international trading increased, Jack saw business opportunity and started a translation company with several of his friends. In the beginning of 1995, Jack's translation company started to make a profit. Also in this year, Jack was offered what must have seemed like a dream opportunity, to serve as a translator for a project in the United States.

Jack flew to the US with high hopes but when he arrived in Los Angeles, he discovered that the US partner he was sent to work with was a con man. So he flew to stay with a family he knew. It was there that he was first introduced to the internet. His friend Stuart said “Hey, Jack. This is Internet, you can find whatever you want though the Internet”. Jack was shocked, he searched on

the word “beer”. There were American beers, German beers and Japan beers, but no Chinese beers. Jack was curious to search “China”, the result was no data about “China”. Then he told to Stuart that he wanted to make a Chinese home page and post that inside to see the result. Then he made a “Hope Translation Agency” homepage, it looked very ugly. After 2 hours he received five emails from USA, Japan and Germany. This is the moment when Ma realized that the Internet had something great to offer.

Start up a business

In March 1995, Jack resigned from university. After a month, Jack Ma, his wife and a friend collected \$2000 and started China’s first Internet company. Their company was dedicated to creating websites for companies. He named their company “China Yellow Pages”, a sort of yellow pages for Chinese companies. They offered an online English-language directory of Chinese companies and information. With his website up and running, Jack set out to find companies to advertise on this site.

Jack realized that he needed the cooperation of the government. So he took a plane to Beijing, hoping he could be a partner with the government body responsible for controlling information in the country. But China’s media and communication were strictly controlled, it means partnering with the government on something as new as the Internet was not a small challenge. He introduced what he did and what would be change in the future by Internet to government officer. They wanted to introduce information of China to all over the world.

Jack soon discovered that the government bureaucrats he met with had little interest in partnering with him and felt none of them had heard about the Internet. And they were reluctant to partner with an unknown English teacher, especially in the sensitive area-media and information. Still Jack continued to find the government partner, visiting the National Sports Committee, for which he hoped to create a website to support China’s Olympic bid and let the world understand more about China’s sports.

Jack said to his colleague, “I think it’s very important to enter the international market. If one day we turn on the computer and everything on it is foreign, then it will be too late and we will regret it. It doesn’t matter if I failed or not, at least I’ve passed the concept to others. Even if I don’t succeed, someone will succeed. I hope Chinese can succeed soon, and not just drag on”.

As Jack found out that now it was too early for an internet business in 1995. The customers weren’t ready, the government wasn’t ready and maybe even Jack wasn’t ready. Before long, he gave up on China pages and his dream had to wait.

Found Alibaba

From 1998 to 1999, Jack headed an information technology company established by the China International Electronic Commerce Center, a department of the Ministry of Foreign Trade and Economic Cooperation.

In 1999, Internet fever hit Wall Street. Each day new company went public on NASDAQ, meeting thousands fresh millionaires. And among network companies, e-commerce companies were market darlings. Consumer market places like eBay and Amazon were soon followed by

business to business (b2b marketplaces) like VerticalNet, ARIBA and COMMERCE ONE. They promised to bring the world's businesses online. After their initial public offerings(IPOs) made them worth billions of dollars. Their success inspired hundreds of new business marketplace. Entrepreneurs with one thing in common dreamed cashing out with a big IPO.

With small business began to connect to the Internet, Jack decided it was time to try again. So in 1999, he gathered 17 friends in his apartment, and laid out a plan to compete with the US Internet Titans. They build their own global business marketplace and named it Alibaba.com, hoping small businesses would use the site to say "open sesame" to global trade.

Alibaba.com Group

Alibaba.com is a platform which can help the suppliers to sell their goods all over the world, also buyers can buy goods through this web. In the same year, Alibaba Group launched a China marketplace (currently known as 1688.com) for domestic wholesale trade. By using this B2B model, Alibaba makes revenue from the membership fee, advertising fee, bidding ranking, commission and other else. For the membership fee, the Chinese suppliers pay 40,000RMB or 60000RMB per year in order to get touch with the customers from other country. The other kind of membership fee is focus on the suppliers who do domestic trade. The supplier can use the platform for free, but if customers want to get trust from customers and have priority to publish information, they need to join the "integrity group", the fee is 2300RMB per year. In October of 1999, Alibaba Group raised US\$5 million from a consortium of investors. Then next year Alibaba Group raised US\$20 million from an investor group led by SoftBank. In 2001, Alibaba.com surpassed 1 million registered users.

In 2003, Online shopping website Taobao.com was founded, a platform using the model of C2C. At that time, eBay already started to enter the market of China by purchasing YiQu, which was the earliest C2C company in China. At first, eBay got the biggest share of Chinese C2C market, and signed exclusive advertising agreement with mainstream portals in China. In 2004, Alibaba Group raised \$82 million from several first-tier investors in the largest private equity commitment ever in the Chinese Internet sector. At the same year on July, Aliwangwang, a personal computer-based instant messaging tool that facilitates text, audio and videocommunication between buyers and sellers, was launched on Taobao.com. On December, Alipay, which is a related company of Alibaba Group, was launched as a third-party online payment platform. In order to compete with eBay, Taobao used "free" model, which the seller can use Taobao for free. Under the pressure of basic cost, some sellers left eBay and go to Taobao, more and more Chinese sellers start to enter the area of online e-commerce. In 2005, Alibaba Group formed a strategic partnership with Yahoo! and took over the operations of China Yahoo!. From then on, Taobao got more and more the Chinese market share until eBay decided to leave Chinese market. In 2003, eBay contained 90% of the Chinese market, in 2005, eBay only had 31.46% of the Chinese C2C market share and Taobao got 57.74% share of the Chinese C2C market. In 2008, the market share for eBay was 6.6%, for Taobao was 86%.

In 2007, Alibaba.com completed its initial public offering on the Main Board of the Hong Kong Stock Exchange. But this IPO only concerned about the B2B business of Alibaba group. After several months Alimama was launched, an online marketing technology platform. The business model of Alimama was similar with Alibaba. Websites can list their advertisement place and sell

by using Alimama, on the contrary, customers buy the place for their advertisement. In 2008, Taobao took over Alimama in order to provide more advertising service for sellers in Taobao and support Alibaba by using the huge flow in Taobao.

In order to get profit, Taobao Mall (currently known as Tmall.com), a dedicated platform for third-party brands and retailers, was introduced to complement Taobao Marketplace in 2008. Different from other established B2C website in China, Tmall combine traditional B2C with C2C. The businesses had chance to open their online store at the platform of Tmall. Thanks to the success of Taobao, businesses can get profit from the huge flow and registers. Alibaba got revenue from the service fee, security deposit and inquiry fee.

In 2009, Alibaba Cloud is established in conjunction with Alibaba Group's 10th anniversary celebration in order to growth well. Alibaba Cloud was organized with the R&D of Alibaba and Alisoftware, which was established in 2004, using the model of SaaS(software as a service) in order to provide service fore-commerce and business management. Alibaba cloud is focus on providing a complete internet computing service, including the collection of e-commerce business data, solving the high data quickly and providing the customized data service. In September, Alibaba.com announced the acquisition of HiChina, China's leading Internet infrastructure service provider.

In 2010, Alibaba.com renamed its China marketplace 1688.com. Which “1” in Chinese means “want”, and “6” means “good luck” and “8” means “ be rich” in China. In March, Taobao Marketplace introduced online group buying marketplace “Juhuasuan” which means “very cost-efficient”. In April, Alibaba.com officially launches AliExpress to enable exporters in China to reach and directly transact with consumers around the world. In May, Alibaba Group announced that it would earmark 0.3% of its annual revenue to fund efforts designed to spur environmental awareness and conservation in China and around the world. In July, the Alibaba Partnership was established to ensure the sustainability of Alibaba Group’s mission, vision and values. In July and September, Alibaba.com acquired Vendio and Auctiva, who were providers of e-commerce solutions to U.S. small businesses. In August, the Mobile Taobao App was launched. In November, Alibaba.com announced the acquisition of One-Touch, a provider of one-stop services for exporters in China.

In 2011, Taobao Mall (currently known as Tmall.com) was spun off from Taobao Marketplace as an independent platform. The same year in October, Juhuasuan was spun off from Taobao Marketplace as an independent platform.

In 2012, Alibaba Group established the Alibaba Foundation with a sizeable fund dedicating to social causes. In September, Alibaba Group completed an initial repurchase of shares from Yahoo! in a restructuring of the companies' relationship. Alibaba Group established Cainiao Network together with a consortium of logistics companies.

On June 20th of 2012, Alibaba Group delisted the shares of Alibaba.com, its business-to-business arm, which had traded on the Hong Kong stock exchange for 4 years. But Jack Ma sent an internal e-mail in February to the group’s 25000-odd staff worldwide-said that “Just as IPO was a starting point for Alibaba.com and not the finish line, privatization is not the end but rather a new beginning”. Alibaba.com aims to advance sweeping reforms of its operation after going private to improve the way it serves customers. “This business upgrade will involve broad, complex and large-scale mechanisms, and will undoubtedly have a significant impact on Alibaba.com’s profitability in the next five years”, Jack said in the email.

In 2014, Tmall Global was officially launched as an extension of Tmall.com to enable international brands to offer products directly to consumers in China. In the same year, Alibaba Group went public on the New York Stock Exchange, which was the largest ever. Alibaba’s listing was expected to raise about \$25 billion, putting it within range of the world’s largest IPO. In October, Alibaba Group announced that it would invest RMB10 billion in the next three to five years to build 1,000 county-level “Taobao rural operations centers” and 100,000 village-level “Taobao rural service centers” throughout China. In the same month, Ant Financial Services Group, a related company of Alibaba Group, was formally established. Taobao Travel became an independent platform, named “Alitrip.” Taobao Travel was one extension of Taobao. In 2015, Alibaba Group and Ant Financial Services Group announced the closing of the restructuring of the relationships between the two companies. Six months later, Alibaba Group and Ant Financial Services Group announced that they would set up a joint venture, named Koubei, to capture opportunities within China’s local services market. In July, Alibaba Group announced the foundation of Alibaba Music Group. In September, Alibaba Group establishes the Alibaba Sports Group together with Sina Corporation and Yunfeng Capital.

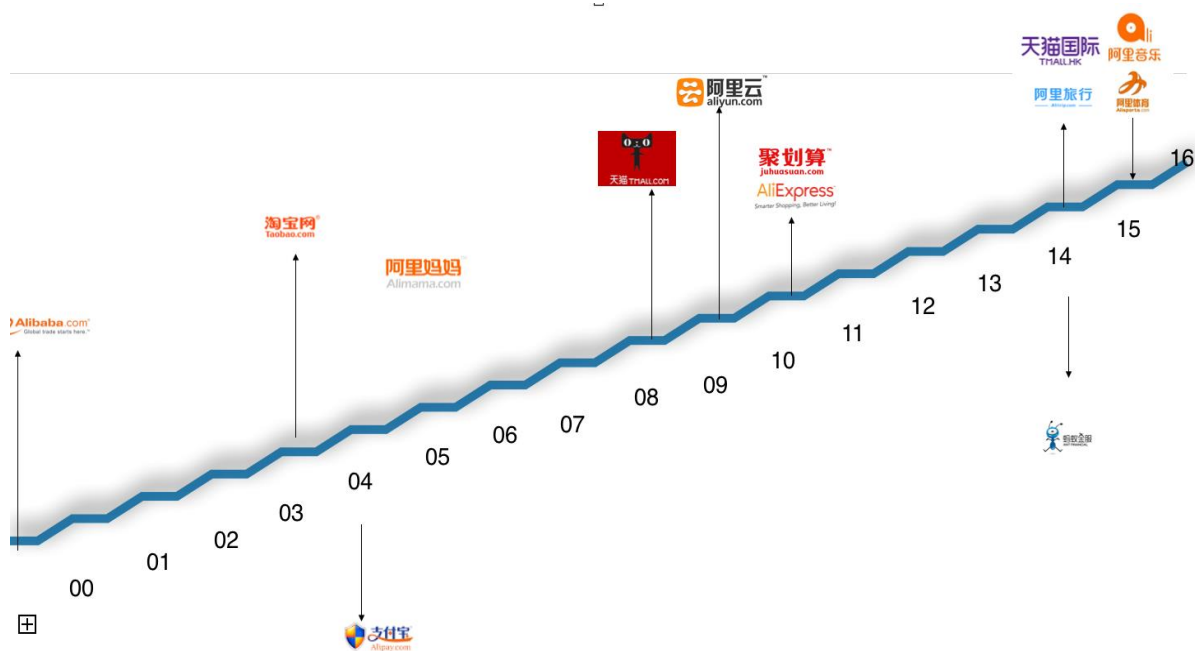


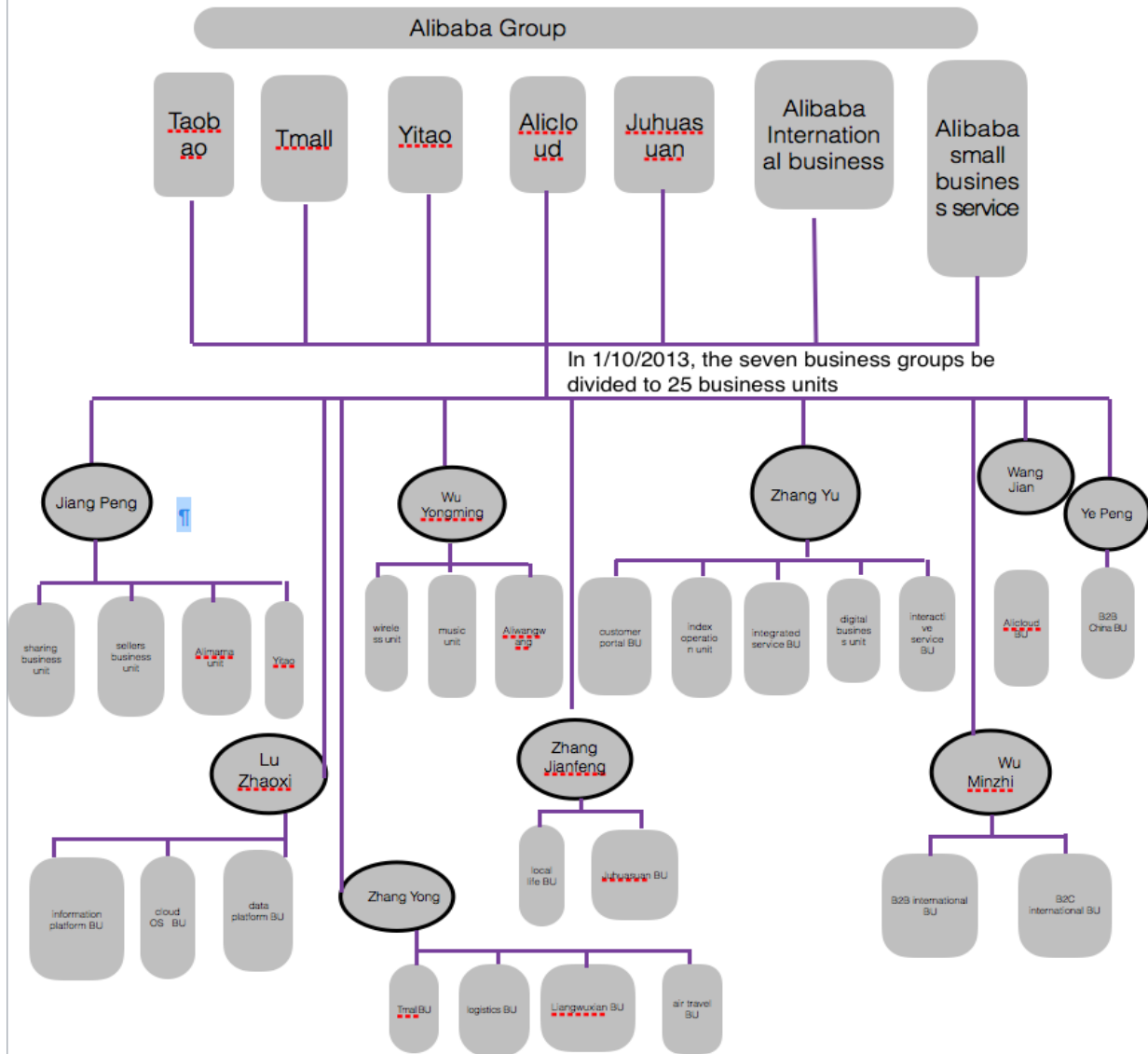
Figure 1. Alibaba Group milestone

Organizational Structure

Until 2007, there were four departments: B2B(Alibaba.com), Taobao, Zhifubao, yahoo China. Each department had one CEO, and they reported their work to Jack Ma directly. In 2008, there were two more businesses for Alibaba. Alisoftware, Alimama, Taobao, Zhifubao, Alibaba B2B company, China yahoo was organized independently and the CEO of each parts reported their work to Ma Yun directly. In 2009, because that Alimama belonged to Taobao, Alibaba is organized by six businesses group. In 2011, six main businesses were Taobao, Yitao, Zhifubao, China yahoo,

Alibaba B2B corporation and Alicloud. In 2012, the six main companies belonging to Alibaba were adjusted to seven business groups. In 2013, there was a big change of the structure. Instead of the seven business groups, there were 25 business units. (see Figure.2)

Figure.2 Alibaba Group Organizational Structure



In recent years, the organizational structure of Alibaba Group is changed frequently. Jack Ma replied, "We always run to get stability, but in the world that full of information, changing is the best way to get stability."

In 2015, Alibaba Group started the "2018 central platform structure" in order to establish an organization of "big central platform, small front desk" which suits for DT(Data Technology) times. On December 7, 2015, Zhang Yong who were the new CEO of Alibaba Group sent a public letter to all employees, he said:

"From now on, we will start 2018 central platform structure, establish "big central platform,

small front desk” organizational structure: As the front desk, front-line business will be more agile, and more quickly adapting to the changing market; the central platform will set whole group’s ability to organize data and ability of product technology, make sure to form a strong support to each front office. For this reason, promote the reform and upgrade of retail e-commerce supplier platform, let the emerging businesses like Cloud Computing, Ali Mama and Cainiao be more independently.”

In this letter, it showed an adjustment of organizational structure. Firstly, the central platform business group had to be established. It contained searching business unit, sharing business unit, data technology and product business unit. The president of central platform was Zhang Jianfeng, he needed to report works to Zhang Yong. Secondly, the retail e-commerce business group of Alibaba would be led by Zhang Yong, business units in this group are Taobao, Taobao mobile, Tmall and Juhuasuan. Forming a “class leadership” responsibility system in Taobao, Taobao mobile and Tmall, young leaders were responsible of these businesses. For Juhuasuan business unit, there was only one leader-Liu Bo. Thirdly, Ali Mama, Cloud Computing and Cainiao would be divided in three independent business groups. The three business groups were in the CEO responsibility system and the management system of finance and human resources, the CEO of each business group was composed by Yu Yongfu, Hu Xiaoming and Dong Wenhong. The organizational structure of B2B did not change. The CEO of Ali Mama, Cloud Computing, Cainiao and B2B needed to report their works to Zhang Yong directly. Fourthly, they set up the Alibaba control unit platform. This department would be responsible for the rules of e-commerce business platform, intellectual property protection, fake impacting, credit speculation and other management issues. Fifthly, they restructured public relations department of Alibaba group. Sixthly, they restructured the commerce department of Alibaba group. This commerce department focused on providing services and tools based on big data for merchants, in order to improve the operating capacity of merchants. As Jack Ma spoke at the Boao Forum of Asia in 2016, he called for the establishment of a new platform on which they are not debating, not having disputes, we are sharing trade."On this platform we are promoting technologies as well as inclusive financing, so all small business companies and young people can enjoy the benefits of trade, so we are connecting the world bythe business deal.”

In October of 2015, the day after Alibaba went public for one year, Jack Ma published a letter to shareholders. In this letter, Jack Ma explained the future structure of Alibaba:

“Our key priorities for the next decade will be globalization, development of the rural economy and big data. In terms of globalization, we will help small to medium-size enterprise around the world expand beyond their borders by leveraging the power of e-commerce, Internet financing, big data, and marketing and logistics platforms. We believe that the experience of Alibaba Group in China can be applied in global businesses, giving all SMEs the opportunity to participate and compete in a transparent and fair marketplace. We further believe that economic globalization will allow consumers all over the world to access a truly global purchasing experience. We have been spent a considerable amount of time to make this dream come true. It may take another one or two decades to complete the mission, but we won’t quit until we live up to our true mission “make it easy to do business everywhere”. The rural population is more than 600 million in China, and the business infrastructure in China’s rural areas is poor. However, with the growing popularity of mobile phones, tremendous changes have taken place in rural areas. Taobao Marketplace and Tmall, in particular, link farmers directly with consumer in urban. We are

renovating rural infrastructure by leveraging mobile Internet technology, big data, logistics and Internet financing. What we do is not only due to the potential tremendous market, but also to close the digital divide, promote information equity and help alleviate poverty through economic opportunity. We are witnessing great changes in China's countryside, and we encourage our shareholders to visit China's rural areas to see what happens in countryside. Maybe what we are doing today is a development model for many developing countries in the future. In the historic moment, Alibaba Group should embrace change and drive change. Over the past six years, Alibaba Group has made a significant strategic investment in cloud computing and big data services. We believe that mankind is departing the IT era and entering a new era of DT (data technology). In the society of tomorrow, data will be the most important means of production, innovation and social development. People and data are inseparable. We must continue to invest in the development of data technology. Alibaba is a data-driven company fundamentally. We firmly believe that we will see substantial returns from the investments we have made in data and related technologies over the past six years and we will continue to invest it in the next years. In its infancy, we are still working on the development of foundation of data and cloud computing in the inclusive economy. The potential of the future is massive."

Revenue model

The best way to understand Alibaba is as a mix of Amazon, eBay and PayPal with a dash of Google thrown in, all with some uniquely Chinese characteristics. Alibaba has different companies to serve different categories of customers, different websites with different domains:

--Alibaba(1688.com in China)-an international Trading Platform for the sale-purchase of wholesale, used extensively for Import & Export

--Taobao-a local website in China, where local shop-keepers & customers do the Business

--Tmall - unlike "Taobao", only the Branded Companies sell off their goods through this website in China.

As the websites are serving different customers with different Domains, they have different Business Models for each of them:

Alibaba - like Amazon & Flipkart, they act as the mediator of the Deals and keep a margin of each & every sale/purchase that is being done through the website. Moreover, they offer annual subscriptions to maintain their Accounts/Online Shops.

Tmall - The model similar to Alibaba is being followed. The company charges these people because they are capable to pay. They are earning so much because of the extensive production of goods in China and a large Customer Base (due to its population).

Taobao - No money is being charged for the maintenance of Accounts and No Commission on any of the sale that is being done. All the sale/purchase is done for free and the sellers get the complete money of their sales. The company earns profit by **advertisement**(like Google Ads). Being the Biggest market-place in the country, Alibaba Group get a large number of Advertisements and earning Huge Profits from there.

The most important business for Alibaba to get profit is the China e-commerce retail, which contains the 76% of total revenues (see Exhibit 3 for revenue breakdown by business). These revenues come from Taobao+Tmall+Juhuasuan.

Taobao focus on C2C marketplace. No money is being charged for the maintenance of Accounts and No Commission on any of the sale that is being done. Even more, on the website of Taobao there is a lesson for teaching customers how to use the platform.

Tmall is based on the model of B2C which the business can use Tmall to sell products. The difference between Tmall and Taobao is that the product sale on Tmall is brand direct shopping, means more reliable and high quality. Users can register Tmall for free but the business company who want to open stores in Tmall need to pay the commission fee.

Juhuasuan is an on-line group marketplace. For the users (buyers), customers go to Juhuasuan to browse the products, when they are interested in one product, they can apply to join the buying group. If there are enough people willing to buy this product under the special price, the trade will be deal. Revenue model is:

1. On-line marketing service fees

On-line marketing service fees contain several parts. First is the Pay-for-performance service. When users search a key word in Taobao or Tmall, sellers bought this service, then the product belongs to sellers will be listed at the top in the search list. Only if the buyer click the advertising and see the product, the fee will be charged. If the sellers want to buy this service, they need to choose the key word. The displayed priority is determined by the fees that sellers paid. Secondly the CPM display fee, which is the traditional advertising fee. For example, sellers buy this service to make their e-store at the first page of website. Taobao and T-mall also get revenues from the marketing commission fees. The sellers can let Taobao to find associations which can help sellers' store become popular. If the sellers decide to trade with the association, then they need to pay the commission fee. The last kind of fee is that websites can display the store at a specific place during a special time. For example, if a seller wants to advise his product by using Juhuasuan, he needs to give the fee to Juhuasuan. "Double 11", which is a special activity for Taobao and Tmall, in this special time, buyers can buy goods with special price. "Double 11" a successful activity, the volume of transaction is huge in recent years. Customers stay at home and just wait the clock goes to 24:00 in the night of 10 November. This activity will bring a lot of customer flows if the store can be shown at that special "double 11" page. Of course, sellers need to spend the special location displaying fee if they want their store displayed in the "Double 11" page.

2. Trading commission fees

The sellers of Tmall and Juhuasuan need to pay the trading commission fees. This kind of fees will be charged according to the amount of trading by the payment of Alipay (like Paypal). For different kinds of product, the commission fee is different. For the products which have low revenue, the sellers need to pay 0.3% of the trading amount as the trading commission fee. For luxury, the sellers need to pay high commission.

3. Else

There are other kinds of fee. Most of these are kinds of revenue come from the Wangpu, which is a platform to show the most popular store in Taobao. If the store wants to be shown at this part, it needs to pay the monthly using fee.

For China e-commerce wholesales (1688.com), it brings 4% of the total revenue for Alibaba. Most of the revenue comes from the membership fee. For the customers, they can use 1688.com for free, but if they want to be a member of “China Trust Pass”, they need to pay the membership fee. Before 2013, there are three kinds of membership fees: normal (1688RMB), limited (2800RMB), standard(3688RMB). But in 2013, the membership fee becomes 3688RMB for all. If the customers (sellers) want to use the service like “business data analysis”, “display management”, they need to pay for the service. Customers (sellers) can also bid for the good display location.

For international e-commerce wholesale, 90% of revenue comes from the membership fee. If customers (suppliers) are member of “Gold Supplier”, they can have a good display location and enjoy some service in order to make their business easier.

For international e-commerce retail (AliExpress.com), the revenue model is the same as Taobao.

For cloud computing and internet infrastructure, it faces the customers come from mobile application developers, on-line game platform, e-commerce and system integrators. The service contains ECS, CDN, SLB, RDS and so on.

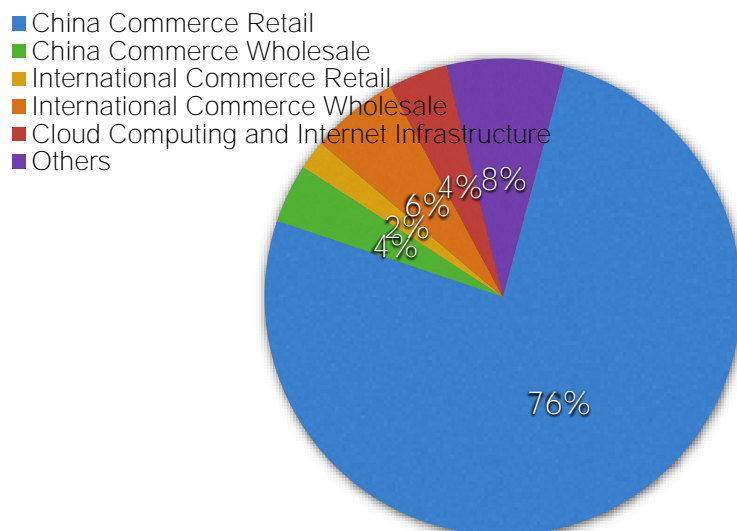


Figure 3. Proportion of revenue parts

Venture Capital

In 1999, Jack Ma used five hundred thousand RMB to create his e-commerce business. This 500,000 RMB came from Jack Ma and his friends. Half a year later, the number of register in alibaba.com reached 41000. Cai Chongxin was the responder of Invest AB at that time and he decided to join Alibaba group. Because of Cai’s influence in wall street, Jack Ma got the

investment from Goldman Sachs. That year, Alibaba got 5 million RMB from Goldman Sachs, Good VC, Invest AB and technology development fund from Singapore. Three months later, Alibaba got 25 million RMB from SoftBank (20 million RMB), Fidelity, Transpac, TDF and Swiss Investment. At that time, the number of registers reached one hundred thousand. Alibaba realized the importance of having talent person, except Cai Chongxin, Jack Ma also introduced Guan Mingsheng(had been working in GE for 16 years) as Chief Operating Officer and Wu Jiong (the inventor of Yahoo's search engine) as Chief Technology Officer. In 2004, SoftBank, Fidelity and GGV invested 82 million RMB in Alibaba. SoftBank invested in 60 million RMB.

When it came to 2005, Yahoo! and alibaba.com formed strategic partnership in China. Under the terms of the agreement, Yahoo! would contribute its Yahoo! China business to alibaba.com and the two companies worked together in an exclusive partnership to grow the Yahoo! brand in China. Additionally, Yahoo! invested \$1 billion in purchasing alibaba.com shares from the company and other shareholders. The agreement gave Yahoo! an approximately 40 percent economic interest with 35 percent voting rights, making it the largest strategic investor in alibaba.com. After purchasing yahoo!China, Alibaba group had the following business units: www.alibaba.com.cn, www.alibaba.com, www.taobao.com, www.alipay.com, www.yisou.com, www.1pai.com.cn, www.3721.com, www.yahoo.com.cn.

■ Alibaba Group ■ SoftBank ■ Fidelity ■ Others

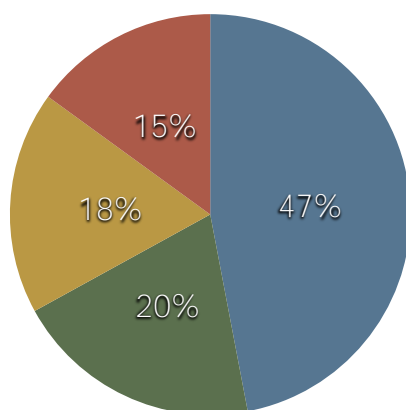


Figure 4. Shareholding structure of Alibaba before YAHOO entered

■ Jack Ma and his management group ■ SoftBank ■ Yahoo

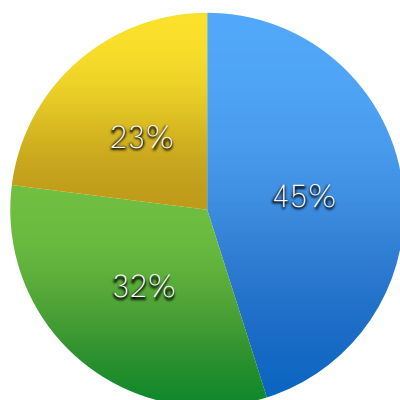


Figure 5. Shareholding structure of Alibaba after YAHOO entered

IPO in Hong Kong

From 2006, Alibaba reorganized its B2B business in order to make B2B business go public (see EXHIBIT N) and alibaba.com Limited was incorporated in the Cayman Islands. The entire issued share capital prior to the Global Offering is held by Alibaba Group. In the chart of the shareholding structure, Alibaba Hangzhou had an important role. Prior to the reorganization, alibaba.com Limited operated its China marketplace through Zhejiang Alibaba E-Commerce Co., Ltd. Since Zhejiang Alibaba E-Commerce Co., Ltd. also operated non-B2B businesses of Alibaba Group, Alibaba Hangzhou was established to hold the licenses and permits necessary for alibaba.com Limited's China marketplace including the license for Internet information service. Why Alibaba needed to incorporate alibaba.com limited in order to realize IPO of the B2B business unit? Because PRC laws and regulations limited foreign investment in businesses providing value-added telecommunications services (including the provision of Internet information services) in China.

In 2007, alibaba.com limited (SEHK STOCK CODE: 1688) commenced trading on the Main Board of The Stock Exchange of Hong Kong Limited. Alibaba.com and its parent company Alibaba Group initially offered a total of 858,901,000 shares under the Global Offering, of which 227,356,500 shares were offered by the Company and 631,544,500 shares were offered by Alibaba Group. An additional 113,678,000 shares were sold by Alibaba Group upon exercise by the International Underwriters of their Over-Allotment Option. The offer price was HK\$13.5 per share, plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction level of 0.004%. The total number of Shares subscribed for or purchased by the Cornerstone Investors was 157,761,000 which was approximately 18.4% of the total number of Offer Shares pursuant to the Offer Price having been determined at HK\$13.50 per Hong Kong Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%) and the reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering. The eight Cornerstone Investors which participated in the Global Offering included Yahoo! Inc., AIG Global Investment Corporation (Asia) Limited, Foxconn (Far East) Limited, Industrial and Commercial Bank of China (Asia) Limited, Cisco Systems International B.V., and entities affiliated with Mr. Peter Kwong Ching Woo (Chairman of The Wharf (Holdings) Limited), the Kwok family (controlling shareholders of Sun Hung Kai Properties Limited) and Mr. Kuok Hock Nien. The total cornerstone investment was HK\$2.1 billion (US\$274 million) and all Cornerstone Investors agreed to a lock-up period of 24 months from the date of listing. See table below.

Cornerstone Investor	Number of Shares	Approximate percentage of total number of Offer Shares (before exercise of the Over-Allotment Option)	percentage of interest in the Company's issued share capital immediately following the Global Offering (before exercise of the Over-Allotment Option)
Yahoo! Inc.	57,481,000	6.6%	1.2%
AIG Global Investment Corporation (Asia) Ltd	17,549,000	2.0%	0.3%
Foxconn (Far East) Limited	17,549,000	2.0%	0.3%
Baldonna Investments Limited	15,042,000	1.8%	0.3%
Finawood Investments Limited	15,042,000	1.8%	0.3%
Honeybush Limited	15,042,000	1.8%	0.3%
Cisco Systems International B.V.	10,028,000	1.2%	0.2%
Industrial and Commercial Bank of China (Asia) Limited	10,028,000	1.2%	0.2%
	<u>157,761,000</u>	<u>18.4%</u>	<u>3.1%</u>

Figure 6. HK IPO preference share subscription

What is the relationship between Alibaba.com and Alibaba Group. Immediately after the completion of the Global Offering, Alibaba Corporation owned 75.0% of this B2B company's outstanding shares if the over-allotment option was not exercised and 72.8% of this B2B company's outstanding shares if the over-allotment option is exercised in full. Alibaba Corporation will continue to be the controlling shareholder immediately after the global offering. For Taobao(www.taobao.com), Alipay, Yahoo!China(www.yahoo.com.cn), Alisoft(www.alisoft.com) and Alimama(www.alimama.com), they were 100% owned by Alibaba group. For Koubei(www.koubei.com), Alibaba group had 53% ownership.

What is the relationship between alibaba.com and Alibaba Hangzhou. According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises issued by the State Council on December 11, 2001 and which became effective on January 1, 2002, foreign investor's ultimate equity ownership in an entity in China providing value-added telecommunication services may not exceed 50% and a foreign investor wishing to acquire any equity interest in a value-added telecommunication business in China must demonstrated good track record and experience in providing value-added telecommunication services overseas. In July 2006, the MII issued the Notice regarding Strengthening Administration of Foreign Investment in Operating Value-Added Telecommunication Businesses, or the MII Notice, which prohibits holders of value-added telecommunication businesses operating licenses from leasing, transferring or selling their licenses to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for illegal operation of telecommunications businesses in China. The MII Notice requires that holders of valued- added telecommunication business operating licenses or their shareholders must directly own the domain names and trademarks used by such license holders in their daily operations. The MII Notice further requires that each license holder must have necessary facilities for its approved business operations and maintain such facilities in the regions covered by its license. In addition, all value- added telecommunication service providers are required to maintain network and Internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to

comply with the requirements in the MII Notice and cure such non-compliance, the MII or its local counterparts have the discretion to take measures against such license holders, including revoking their valued-added telecommunication business operating licenses. For this reason alibaba.com operated its China marketplace website through Hangzhou Alibaba. Hangzhou Alibaba was owned by Jack Ma and Simon Xie, both of whom are PRC citizens and founders of Alibaba corporation. The alibaba.com had contractual arrangements with Alibaba Hangzhou and its shareholders. They called these arrangements “structure contract” and these include the following contracts:

Alibaba.com has an option to acquire all the equity interests in and/or the assets of Alibaba Hangzhou, as and when permitted by PRC laws, at a price capped at the amount of the capital contribution to Alibaba Hangzhou by its shareholders (in the case of an equity interest acquisition) or the net book value (in the case of an assets acquisition), or such other minimum payment as required by law, whichever is higher; An undertaking from Alibaba Hangzhou not to enter into any material business transaction and an undertaking from its shareholders not to approve any resolution relating to the same, without the prior written consent of Alibaba China; Alibaba.com has the right to exercise the rights of shareholders in Alibaba Hangzhou; A pledge in alibaba.com’s favor over the entire equity interests in Alibaba Hangzhou.

Through the “structure contract”, alibaba.com could get the economic risks and benefit of Alibaba Hangzhou and have the power to govern the financial and operating policies as well as, in substance, all of the voting rights of Alibaba Hangzhou as if Alibaba Hangzhou was its wholly-owned subsidiary.

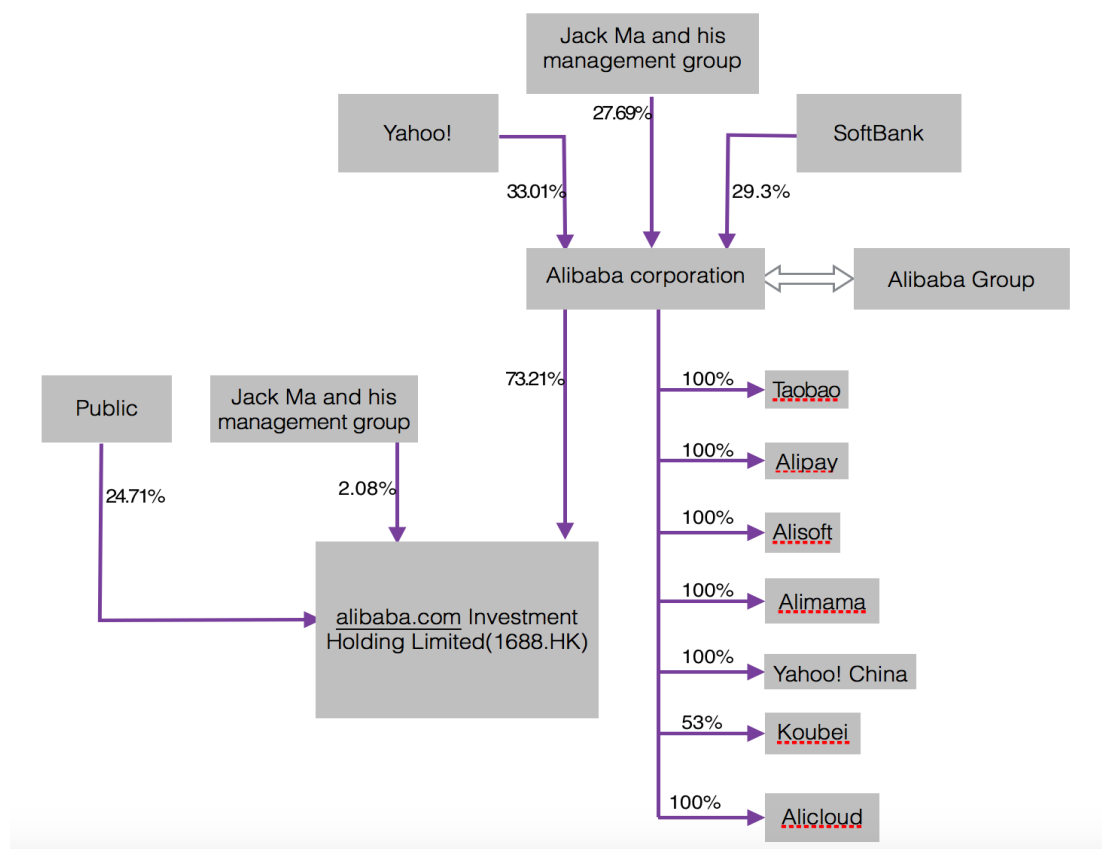


Figure 7. Alibaba Group structure after IPO at HK

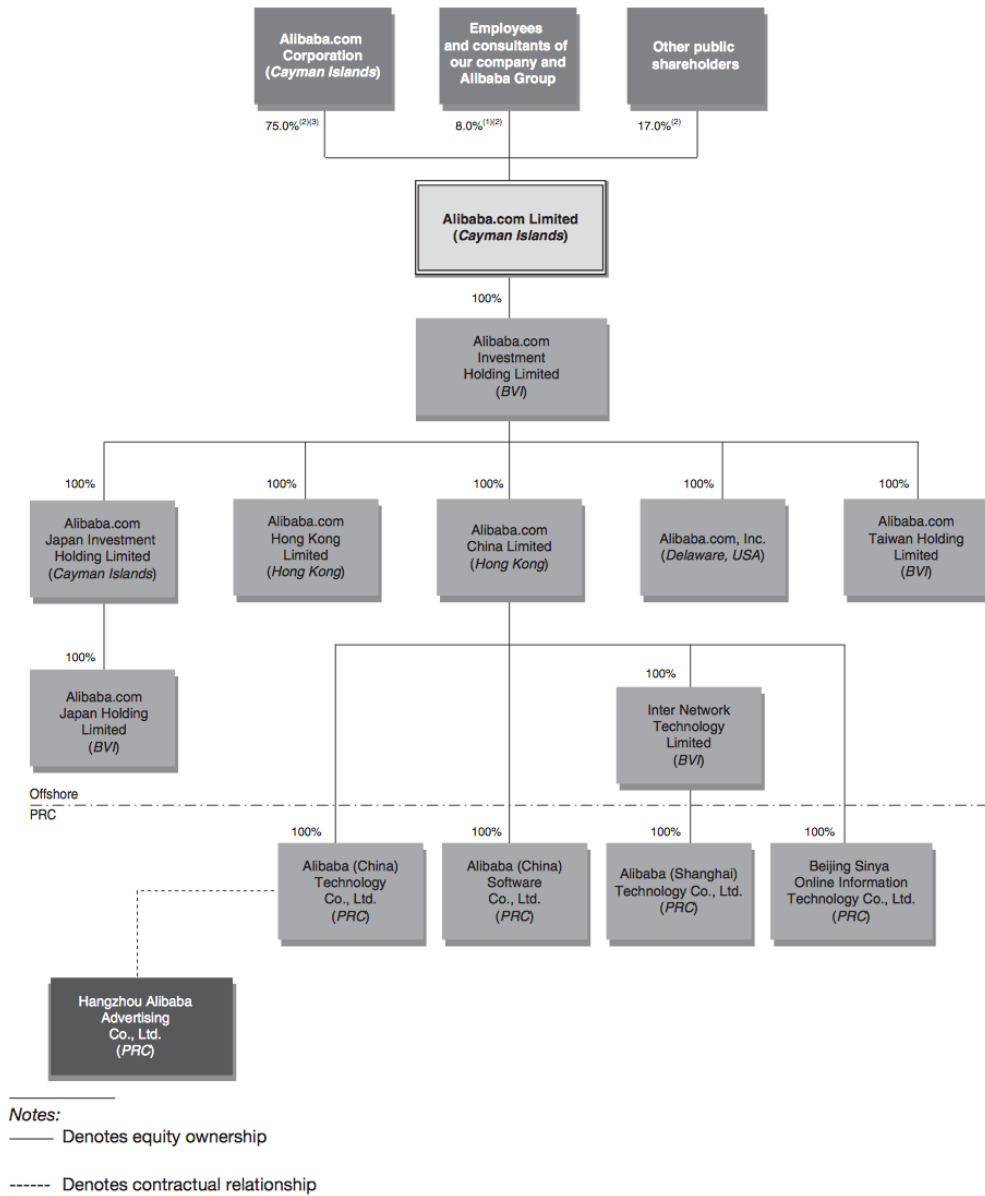


Figure 8. Structure of B2B company(Alibaba.com) after IPO

List in the U.S

On June 20th, 2012, Alibaba Group delisted the shares of Alibaba.com, its business-to-business arm, which are traded on the Hong Kong stock exchange (HKEX). In the next year, Jack MA tried his best to communicate with Hong Kong stock exchange to discuss the list the entire Alibaba Group in HONG KONG. Alibaba had its own partnership to manage the whole company. Alibaba partnership introduced the concept of "partner", and empowered them to nominate the majority of the board directors through the company's articles of association and relevant agreements, so that they obtained the actual control of company in the case of holding a small amount of shares.

The biggest characteristic was that control and stake is irrelevant, call it "ignoring stock rights". But this Alibaba partnership was not legal in HKEX. It means that, the institution of same share with different rights was not permitted in Hong Kong Stock Exchange. No matter how Jack Ma tried hard, finally he gave up the path of going public in HKEX.

On September 19th of 2014, Alibaba Group went public on the New York Stock Exchange, which was the largest ever.

Why Alibaba Group chose New York Stock Exchange(NYSE) to going public, there were three aspects to consider(source: INVESTOPEDIA):

- A. Control: Although it is far from proven, the best hypothesis as to why Alibaba launched in the U.S. is that it allowed founder Jack Ma to maintain control of the company. Alibaba's pre-IPO structure allowed Ma and co-founder Joseph Tsai(Cai Chongxin) to keep control of the company despite not owning a significant percentage of shares. Ma's reported first choice of exchanges, Hong Kong, frowns on control methods not based on majority ownership. The NYSE and the U.S. in general, however, allow companies to use share classes to maintain control of publicly traded companies. Even with foreign companies that plan to hold a majority of shares, the share class structure offers an opportunity to raise capital without giving over any significant power to the new shareholders.
- B. Reputation: There is an element of prestige in being a NYSE listed company, but there is also a very practical advantage to listing in the United States. Companies trading publicly in the U.S. fall under the regulatory supervision of the SEC. Although this often means new processes and more paperwork for foreign companies making the leap, it pays off as investors see the increased scrutiny and transparency as a plus in the long run. If a company is listed in the U.S., it has the implicit SEC stamp of approval until some issue is exposed by the regulator. As a result, investors have more trust when reading the financials and making the investment. Whether this is entirely justified is another matter, but investors all over the world have been investing in U.S. stocks for decades. Alibaba will use that trust to position itself even more clearly as the main rival to Amazon. The U.S. listing will make it even easier for investors looking for exposure to the online marketplaces to pick Alibaba's growth story over Amazon's.
- C. Range of Motion: A U.S. listing will also allow Alibaba a bit more range of motion when it comes to mergers and acquisitions. Having U.S. dollar shares on a U.S. exchange will simplify some of their future acquisitions of U.S. businesses and lessen the scrutiny these deals might have otherwise faced. When an U.S. listed company wants to buy another U.S. listed company, people tend not to notice. That is not always the case when a foreign listed company makes an offer on a U.S. firm.

The consensus seems to be that Alibaba chose the U.S. to keep control of the company. That said, the U.S. listing also provides a boost to the company's reputation and an advantage for M&A activity. Perhaps the most interesting thing about Alibaba's IPO isn't that it listed in the U.S., but that it listed with the NYSE rather than the NASDAQ - a more traditional home for internet companies.

Next we list the shareholding structure before the IPO and the shareholding structure after the IPO.

1. Share holding structure before the IPO

Shareholder's name	Proportion of shareholding
Jack Ma	8.90%
Joseph Tsai(Cai Chongxin)	3.60%
YAHOO!	22.60%
Softbank	34.40%
others	30.50%
Total number of shares before IPO	2.364 billion shares

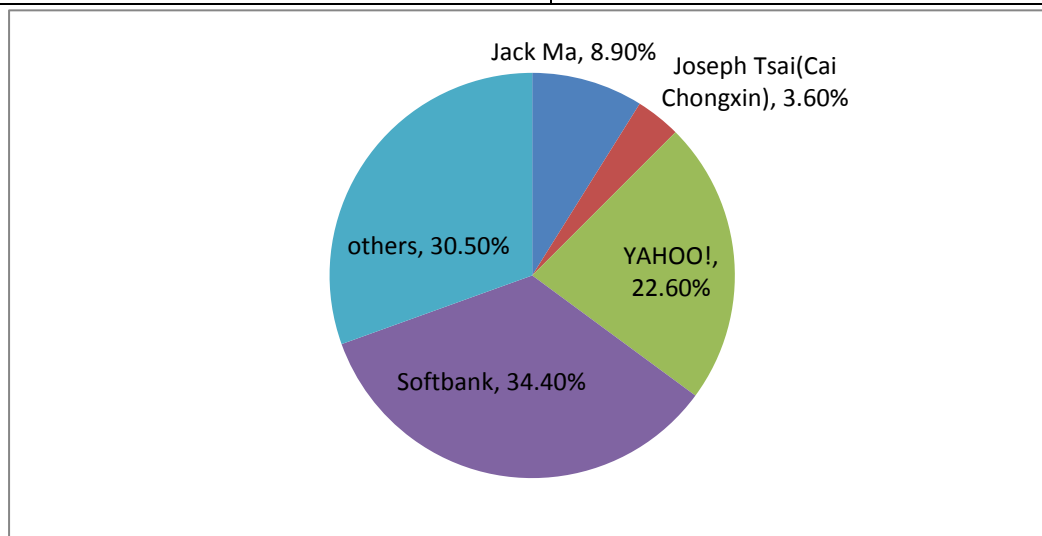


Figure.9 Share holding structure before the IPO

2. Share holding structure after the IPO

Shareholder's name	Proportion of shareholding
Jack Ma	7.80%
Joseph Tsai(Cai Chongxin)	3.20%
YAHOO!	15.56%
Softbank	32.40%
others	41.04%
Total number of shares after IPO	2.513 billion shares

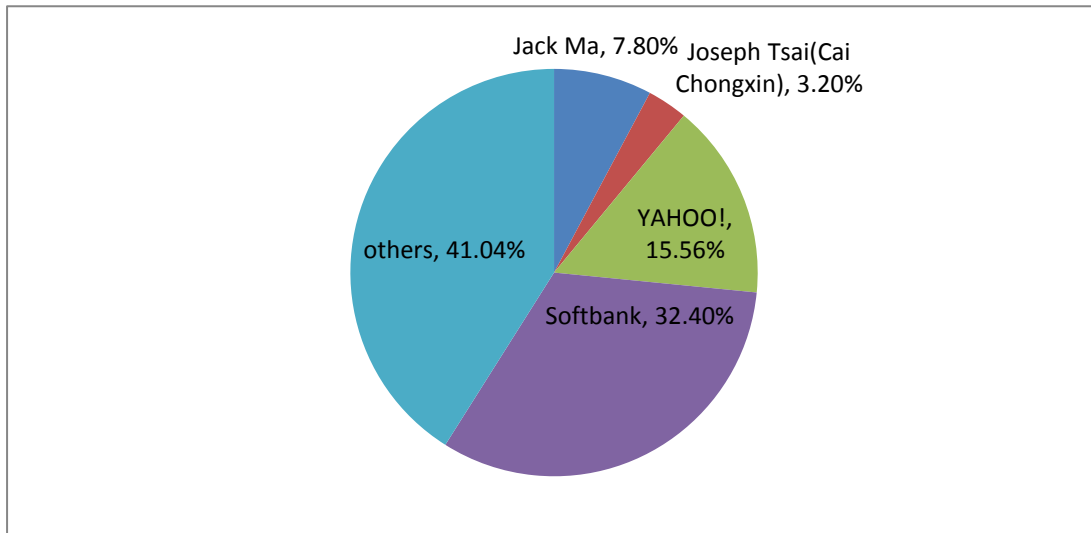


Figure.10 Share holding structure before the IPO

3. The modification of shares in the IPO process

Alibaba issued 320 million shares in IPO: the number of new shares is 123 million, accounting for 38%; shareholders sell 197 million shares. Then the underwriters start over-allotment agreement, this part is 48 million shares, of which 26.14 million shares is new shares, and the rest sold by Yahoo, Jack Ma, Cai Chongxin and other shareholders. So finally Alibaba provided a total number of 368 million ADS(American Depositary Shares) to investors, an ADS was equivalent to one ordinary share at an issue price of \$ 68, Alibaba raising \$25.03 billion, becoming the largest IPO ever. But Alibaba Group raised only $(1.23 + 0.26) * 68 = \$10.132$ billion, the rest is cash-out by shareholders, YAHOO!'s part is about \$9 billion.

	New shares(million)	Shareholders selling(million)
Before the over-allotment	123	197
Over-allotment exercise	26	22
Total	149(40.5%)	219(59.5%)
Raising money	$368 * 68 = 25,024$ (\$25.024 billion)	

Table.1 The modification of shares in the IPO process

Shareholder	The number of selling shares in the IPO(million)
Jack Ma	12.75
Joseph Tsai(Cai Chongxin)	4.25
YAHOO!	139.57
Softbank	0
others	62

Table.2 The modification of shareholder in the IPO process

The main business units which be contained in IPO are: Taobao, Tmall, Juhuasuan, B2B(alibaba.com, 1688.com), Aliyun, Ali express. (see Figure.12 for Alibaba's key marketplaces and services and core related companies and affiliates in Alibaba's ecosystem) One important thing we should notice is that the Alipay is Alibaba's related company. As we already discuss before, Alipay is not owned by Alibaba and it is owned by Hangzhou Alibaba.



*Alibaba related company ** Alibaba 48% owned affiliate

Figure.11 Main business units contained in IPO

Corporate Structure

Alibaba Group Holding Limited is a Cayman Islands holding company established on June 28, 1999, and it conducts the business in China through its subsidiaries and variable interest entities. Alibaba Group's significant subsidiaries, as that term is defined under Section 1-02 of Regulation S-X under the Securities Act, consist of the following entities:

- Taobao Holding Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands, which is Alibaba Group's wholly-owned subsidiary and the indirect holding company of the PRC subsidiaries relating to Taobao Marketplace and Tmall platform.
- Taobao China Holding Limited, a Hong Kong limited liability company, which is the direct wholly-owned subsidiary of Taobao Holding Limited and the direct holding company of the PRC subsidiaries relating to Taobao Marketplace and Tmall platform and operating entity for the overseas business of Taobao Marketplace and Tmall Global.
- Taobao (China) Software Co., Ltd., a limited liability company incorporated under the laws of the PRC, which is an indirect subsidiary of Taobao Holding Limited and a wholly-foreign owned enterprise, and provides software and technology services for Taobao Marketplace.
- Zhejiang Tmall Technology Co., Ltd., a limited liability company incorporated under the laws of the PRC, which is an indirect subsidiary of Taobao Holding Limited and a wholly-foreign owned enterprise, and provides software and technology services for Tmall platform.
- Alibaba.com Limited, an exempted company incorporated with limited liability under the laws of Cayman Islands, which is Alibaba Group's wholly-owned subsidiary and the indirect holding company of the PRC subsidiaries relating to Alibaba.com, 1688.com and AliExpress businesses.
- Alibaba.com Investment Holding Limited, a company incorporated with limited liability under the laws of the British Virgin Islands, which is the direct wholly-owned subsidiary of Alibaba.com Limited and a lower level holding company of the PRC subsidiaries relating to Alibaba.com,

1688.com and AliExpress businesses.

- Alibaba Investment Limited, a company incorporated with limited liability under the laws of the British Virgin Islands, which is the principal holding company for Alibaba Group’s strategic investments.

PRC legal still restrict foreign ownership and investment in, among other areas, value-added telecommunications services, which include the operations of Internet content providers, or ICPs. Like the IPO in Hong Kong. Alibaba Group needs to create a link between Chinese and global financial market. Alibaba used VIE(Variable Interest Entities) (see figure.9 for the simplified illustration of the ownership structure and contractual arrangement that Alibaba Group have in place for its Variable interest entities). The relevant variable interest entities, which are 100% owned by PRC citizens or by PRC entities owned by PRC citizens, where applicable, hold the ICP licenses and other regulated licenses and operate Taobao, Tmall and other businesses in which foreign investment is restricted or prohibited. Specifically, the variable interest entities(VIE) are generally majority-owned by Jack Ma and minority-owned by Simon Xie. The Alibaba Group hold its material assets in, and conduct its material operations through, wholly-foreign owned enterprises. The wholly-foreign owned and majority-owned enterprises provide technology and other service to customers. Unlike the way it used in Hong Kong IPO, Alibaba Group generate revenue directly through the wholly foreign owned enterprises, which directly capture the profit and associated cash flow from operations without having to rely on contractual arrangements to transfer such cash flow from the variable interest entities to the wholly foreign owned enterprises.

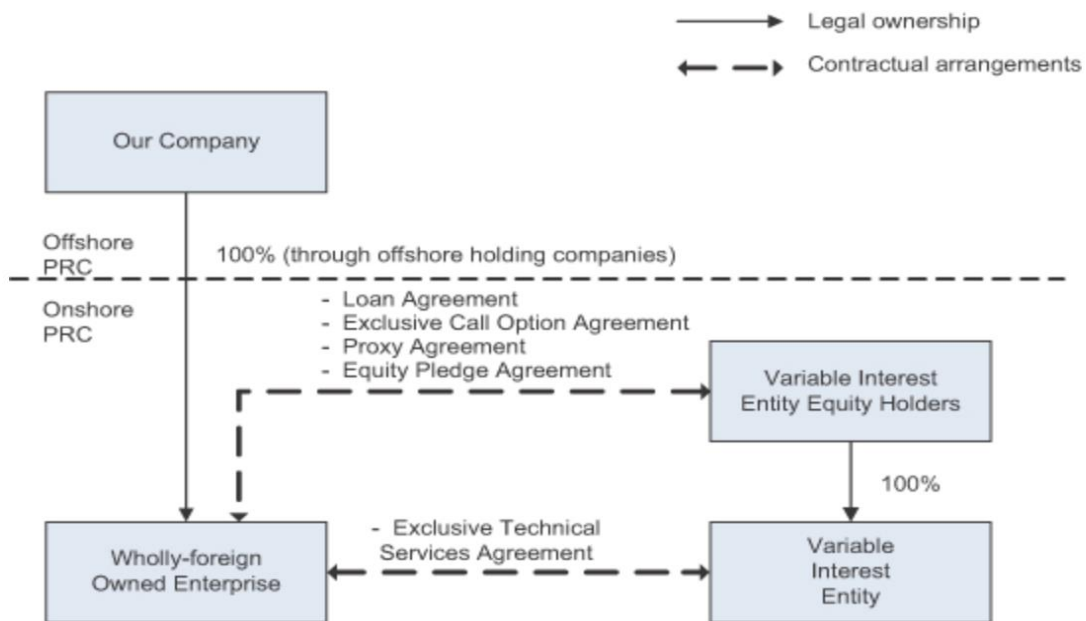


Figure.12 The ownership structure and contractual arrangement that Alibaba Group have in place for its Variable interest entities

Alipay

Alipay is China's leading online payment solution, enabling individuals and businesses to execute

payments online in an easy, safe and secure manner. Alibaba Group founded Alipay, headquartered in Hangzhou, in 2004. Alipay partners with banks to provide an escrow service for payments, which reduces the settlement risks faced by Alipay's customers in their e-commerce transactions. It took Alipay five years to reach the 100 million user milestone at the end of August 2008 and was facilitating up to 2 million transactions per day and had a peak daily transaction volume exceeding RMB 450 million. According to the data from Alibaba, at the end of 2007, the number of users is 60 million. In 2008, Alipay attracted 57 million new registered users. It added another 20 million users in the first two months of 2009. Alipay had a registered user base of over 300 million as of March 2010 and a daily transaction volume exceeding RMB 1.2 billion (US\$176 million) in 5 million transactions.

"Alipay has broad appeal among Internet users and merchants in China because its escrow-based system provides a safe and convenient online payment service which is easily accessible," said Shao Xiaofeng, Alipay's president. "With more than 300 million Internet users in China, e-commerce is expected to grow strongly for many years to come. This will in turn create job opportunities for millions of entrepreneurs and small businesses. Alipay's mission is to enrich the lives of e-commerce users in China by enabling them to transact safely and efficiently within a trustworthy environment."

May 13, 2011, Alibaba published a clarification about Alipay. It showed that the Alibaba Group board discussed at numerous board meetings over the past three years the impending imposition of new regulatory requirements on the online payment industry, including ownership structures, as they were being developed in China, and was told in a July 2009 board meeting that majority shareholding in Alipay had been transferred into Chinese ownership. Jack Ma explained to shareholders that the continued operation of Alipay is essential to the preservation and enhancement of the value of Alibaba Group's businesses such as Taobao, as Alipay is the payments platform for e-commerce in these businesses. Actually in 24 of July 2009, Jerry Yang, Jack Ma, Joseph Tsai and Masatoshi Son, who were the total members of boards, have formed a summary: managers have the right to take actions in order to get the license for Alipay. In order to get the license, Masatoshi Son suggested the way of variable interest entity (VIE). Variable interest entity (VIE) is a term used by the United States Financial Accounting Standards Board (FASB) in FIN 46 to refer to an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights. The importance of identifying a VIE is that a company needs to consolidate such entities if it is the primary beneficiary of the VIE. In other words, let a Chinese company operate Alipay and get the license, then sign a special contract and make the profit of Alipay still owned by Alibaba. Jack Ma also agreed with Masatoshi Son, Zhejiang Alibaba purchased 80% shares of Alipay by using RMB 167 million in June and two months later purchased the rest 30% shares by using RMB 165 million. The first quarter of 2011, Jack Ma decided to close the relationship between Zhejiang Alibaba and Alibaba cooperation in order to get the license of payment without the approval from Alibaba Group's board of directors. "The security of payment data which I understand will not be given up by any country, it is the issue of security, not nation," said by Jack Ma in the press conference. "It is a very difficult but the only responsible decision." The document which Yahoo! delivered to SEC in 10 of May 2011 contains the information about the transferring shareholding, the stock price of Yahoo! decreased 10%. In 29 of July 2011, Alibaba Group, Yahoo!, and SoftBank announced they have

reached an agreement in which Alibaba Group will continue to participate in Alipay's future financial performance, including a future IPO or other liquidity event. The agreement establishes the following:

- The agreement preserves the existing relationship between Taobao and Alipay. Alipay will continue to provide payment processing services to Alibaba Group and its subsidiaries (including Taobao) on preferential terms.
- Alibaba Group will license to Alipay certain intellectual property and technology and provide certain software technology services to Alipay and its subsidiaries. Alipay will pay to Alibaba Group, prior to a liquidity event, a royalty and software technology services fee, which consists of an expense reimbursement and a 49.9% share of the consolidated pre-tax income of Alipay and its subsidiaries.
- Alibaba Group will receive no less than \$2 billion and no more than \$6 billion in proceeds from an IPO of Alipay or other liquidity event. The exact proceeds to Alibaba Group will be determined by multiplying the total equity value of Alipay by 37.5 percent, subject to the foregoing floor and ceiling amounts.

"Over the last few months, we have worked cooperatively with our partners at Yahoo! and Softbank to reach an agreement that serves the interests of all parties," said Jack Ma, Alibaba Group Chairman and CEO. But there is no doubt that this move left investors with the perception that China is too unpredictable of a market and too difficult to navigate.

From the history of Alibaba, we can know that Alipay is an important role for fighting with eBay. Thanks to Alipay, Taobao attracted more users and made eBay give up the market of China. Also thanks to the user base of Taobao, Alipay grows quickly.

Ecosystem of Alibaba

"Our business model is to connect buyers and sellers and enable them to do business. Unlike many e-commerce companies, we do not sell directly to customers and we do not compete against the merchants on our marketplaces or against various service providers, logistics companies or other participants of our ecosystem. Our exclusively third-party platform business model allows us to scale rapidly without the risks and capital requirements of sourcing, merchandising and holding inventory borne by direct sale companies. This business model drives our profitability and strong cash flow, which give us the flexibility to further improve our platform, expand our ecosystem and aggressively invest in people, technology, innovative products and strategically important assets."

—Alibaba Group

Alibaba's business model is an exclusively third-party platform. Most of investors think the structure of Alibaba is too complex. In order to know better about the structure of Alibaba, we need to know one key word: ecosystem. (see Figure 10 for the overview of Alibaba's ecosystem) Buyers and sellers are at the heart of the ecosystem. Buyers and sellers discover, select and transact with each other on the platform. Third-party service providers add value to the platform through service offerings that make it easier for buyers and sellers to do business. The third-party participants in Alibaba's ecosystem include a payment services provider, logistics providers, retail operational partners, marketing affiliates, independent software vendors and various professional service providers. In the statement of Alibaba's IPO, it shows the key elements of

Alibaba's strategy to grow business include: increase active buyers and wallet share, expand categories and offerings, extend their mobil leadership, enhance the success of sellers on a broad basis, enhance data and cloud computing technologies, develop cross-border commerce opportunities.

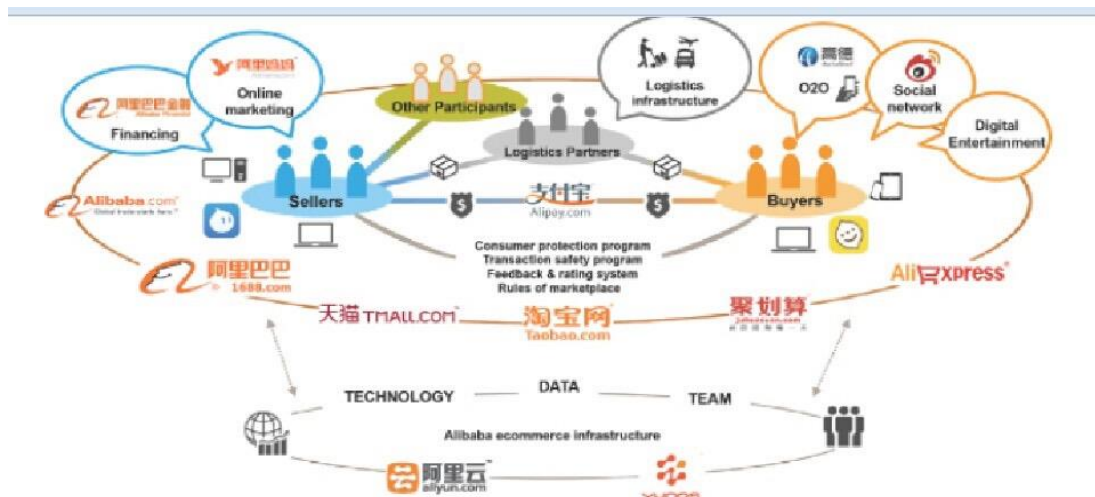


Figure.13 overview of Alibaba's ecosystem

Alibaba does not stop his steps for achieving a strong ecosystem. In 2015, Alibaba invested more than 65 companies by using \$18.3 billion and purchased 8 companies by using \$5 billion. In their "March Quarter 2016 and Full Fiscal Year 2016 Results", we find the strategic investment portfolio of Alibaba(see **Figure.10**). From the portfolio, we try to draw the map of Alibaba. There is no doubt that the e-commerce and finance are the leaders; local life O2O, picture, health and Cloud Computing are the leaders relatively; traveling, game, hardware, education, cars and house are the businesses which need to develop more.

		Market Cap (USD bn)	Shareholding	BABA Holding Value (USD Bn)	
Alibaba Pictures ^{(1) (2)}		5.8	49.5%	2.9	
Alibaba Health ^{(1) (2)}		5.0	38%	1.9	
Ant Financial ⁽³⁾		60.0	33%	19.8	Notional Interest
Cainiao Network ⁽⁴⁾		6.2	47%	2.9	
Koubei ⁽⁵⁾		-	-	0.5	
Weibo ⁽¹⁾⁽⁶⁾		3.8	30%	1.1	
Net Cash Balance as of Mar 31, 2016 ⁽⁷⁾				8.3	
Total Value				37.4	

Figure.14 Strategic investment portfolio of Alibaba

Alibaba Group Investments

Zhang Hongping, head of Alibaba's investment department, had shared the investment philosophy to the public:

"Ali's investment direction can be divided into two parts: one is combining with the Ali's exiting business and do a relatively strong integration, relatively speaking, this part Ali will take the way of Holdings(majority stock right, wholly owned); the other part, Ali will mostly take the way of minority equity investment. Alibaba is a platform which started to make business using the way of making an ecosystem, so we are actually paying attention on the layout of ecosystem and the views of win-win. Through continuous distribution, netting in the mobile internet era, Alibaba will create a new eco-system and established a mobile internet of "without borders", realized the vision of "Taobao is life."

Like most large companies, Alibaba create strategic value and continuous long development by means of investments and M&A. Before the IPO of Alibaba Group, Alibaba purchased a lot of small companies. Most of people thought the reason of purchasing is to make the IPO successful, but after the IPO, Alibaba still on the way of investing.

Next we list the primary investments of Alibaba in last year:

- In 2014, Alibaba Group invested 2.81billions RMB in Shi Ji Network which is a service company for hotel information. After the investment, Alibaba Group will hold 15% shares of Shi Ji information. In 2014, more than 90% of the Chinese hotel information management system used by 5 star hotels is coming from Shi Ji. Why Alibaba Group decided to invest in the Shi Ji Network? Because Alibaba Group would like to make the Ali Trip be stronger. The system of Shi Ji can help Ali Trip and develop the base service ability of traveling. This investment is part of Alibaba Group's "live @ Alibaba" vision to diversify the company's products and services and become central to the everyday lives of consumers. It will also bolster Alibaba Group's online travel market service capabilities through the two companies' collaboration in data and systems.As part of this strategic investment, Taobao Travel and Shiji Information are expected to focus their collaboration on hotel information systems, including direct connection with hotel information systems, booking-related product development, integration with member services platforms and payment settlement through scannable technology.
- In 2015, Alibaba Group spent \$18.3billion to invest in more than 65 firms, spend \$5 billion to purchase 8 companies and spend \$2.5billion to invest in overseas companies (**SEE TABLE1**).
- On January 20th, 2015, Visualead announced that it has secured B-round funding from Alibaba Group Holding Limited. Visualead is an Israeli O2O (Offline to Online) startup and pioneer of "Visual QR Code" technology. "QR Code" is a registered trademark of Denso Wave Incorporated and "Visual QR Code" is a registered trademark of Visualead.Through its patented technology and mobile marketing O2O platform, Visualead helps over 500,000 businesses in over 200 countries connect with their customers both Offline and Online through a fun and effective mobile experience. Visualead's computer vision and machine learning technology turns any image, profile picture, animation, and even video into an engaging and effective Visual QR Code, which can be easily scanned by any QR Code

reader. Visualead can use this funding to develop next generation of O2O technology. For Alibaba Group Holding Limited, it can use Visualead's patents and technology across Alibaba Group's ecosystem. By using QR Code, Taobao.com and Tmall.com can provide innovative tools and solutions to users. In China, QR codes are very popular due to their network connectivity and APP download abilities, and based on Visualead's experience, consumers are up to four times more likely to scan a Visual QR Code than a regular black and white QR Code. Zhang Kuo, director of Alibaba Group's Mashangtao technology service, said "We have already seen O2O as a major area of growth in China. Working with Visualead, a dynamic startup and first-mover in this field is the next logical step as we seek to enhance customer engagement on mobile platforms."

- On January 14, 2015, Alibaba Group has made an investment in AdChina and became the majority shareholder of AdChina. AdChina is China's largest independent digital advertising technology platform. After the investment, AdChina would still operate independently and cooperate with Alimama in order to growth Alibaba's online and mobile marketing ecosystem. With the help of AdChina's TradingOS platform and Alibaba's big data and cloud computation abilities, Alibaba wants to develop an end-to-end data driven digital marketing platform that provides comprehensive online market services and data marketing products to businesses, online media clients and third-party service providers.
- On February 9, 2015, Alibaba Group invested \$590 million in Meizu Technology Corporation Limited for a minority stake in Meizu. Meizu is one of China's leading Smartphone manufacturers. As a result of the investment, Alibaba Group would provide the resources and support in the fields of e-commerce, mobile internet, mobile operating system and data analysis with the aim of developing Meizu's smartphone ecosystem and Meizu would provide the hardware to Alibaba Group.
- On May 14, 2015, Alibaba Group invested in Shanghai YTO Express and got a minority stake of YTO. Shanghai YTO Express is one of China's leading logistics companies and one of the 14 logistics partners that work closely with Cainiao, the logistics affiliate of Alibaba Group.
- On June 4, 2015, Alibaba Group invested \$193.6 million into China Business News(CBN) to create a financial data and information services company that help Chinese small and medium enterprises to tap a rich mine of financial data. China Business News is a leading Chinese financial media company under SMG. "The era of Data Technology is here and it will surpass the Information Technology era. The DT era is about transparency, sharing of information and enabling others. Alibaba is excited about the possibilities of the DT era and how it can bring value to society," said Alibaba Group Founder and Executive Chairman Jack Ma. Alibaba Group expected that this agreement can help Alibaba Group develop DT-era products and services to enrich the lives of Chinese users.
- On June 8, 2015, Aliyun announced the launch of Marketplace Alliance Program(MAP). MAP is a global partnership program that provides enterprises with access to Aliyun's full suite of cloud computing services and international partners. The initial Aliyun's MAP partners include American multinational technology company Intel, Singaporean telecommunications company Singtel, Dubai holding company Meraas Holding, Equinix, Hong Kong telco and information technology company PCCW, French website hosting and closing service provide LINKBYNET, Hong Kong public utility Towngas. These partners are world's leading technology brands. "The new Aliyun program is designed to bring our customers the best cloud

computing solutions by partnering with some of the most respect technology brands in the world. We will continue to bring more partners online to grow our cloud computing ecosystem," said Sicheng (Ethan) YU, vice president, Aliyun. According to IDC's report, public cloud spending globally will grow by 25 percent in 2015 to reach USD \$21 billion, and private cloud IT infrastructure spending will grow 16 percent over the year to USD \$12 billion. This will give a worldwide total cloud spend for 2015 of USD \$32 billion, up 28 percent on 2014's USD \$26.4 billion.

- On June 18, 2015, Alibaba invested JPY 14.5 billion in SoftBank Robotics Holding Corp. ("SBRH") and would hold ownership stake of 20%. SBRH is SoftBank Group's intermediate holding company responsible for its robotics business. Jack Ma, Alibaba Group Founder and Executive Chairman, said, "As we enter the data technology era, robotics will become a critical field that catalyzes technological breakthroughs in numerous sectors such as healthcare, public services, research and at home. Our partnership with SoftBank and Foxconn combines the best hardware and software talent in the industry to pave the way for robotics research and development. We are delighted to play an active role in the emerging field of robotics that with cutting-edge technology and transformative products and services, can positively impact millions of lives."
- On June 23, 2015, Alibaba Group and Ant Financial Services Group invested \$483.3 million and resources to set up a joint venture "Koubei". Both of the two parties would hold Koubei's 50% of the ownership. Koubei is focus on China's local service market. At first, Koubei will focus on the food and beverage segment. Koubei is still a platform company, the business unit like restaurant can publish its news, analysis data about consumers, get more customers; the users can share their opinions about the restaurant, book a table, use mobile payment by Alipay.
- On July 8, 2015, Alibaba Group invested in Mei.com, China's leading flash sales platform for luxury and fashion products. As Daniel Zhang, CEO of Alibaba Group, said "We hope that Mei.com will exert its advantages to create synergy with Tmall.com in providing more premium luxury goods to consumers."
- On July 26, 2015, Alibaichuan, an open mobile platform under Alibaba Group, announced that it would establish a ¥1 billion fund for supporting mobile APP developer. Half part of this fund is used for investing great venture teams and another half of this fund is used for providing short-term debt for ventures.
- On July 29, 2015, Alibaba Group invested \$1 billion to drive Aliyun global growth and on July 30, 2015, Aliyun and academy of sciences signed MoU (Memorandum of Understanding) for quantum computing laboratory. Under the terms of the memorandum of understanding (MoU), the Laboratory will conduct pioneering research in quantum theory with a view to discovering ground-breaking security techniques for e-commerce and data centers, as well as to enhancing computing performance. Jian Wang, who is the CTO of Alibaba Group, said, "This investment in the development and application of quantum computing reflects the scale and clarity of our long-term vision to collaborate with partners in an ecosystem model towards the sustained development of the economy and society. New discoveries in information security and computing capacity based on quantum computing could be as significant in the future as big data technologies are today."
- On August 10, 2015, Alibaba Group invested \$4.63 billion for a 19.99% stake in Suning and

became the second biggest stake holder on Suning. Suning is one of the largest consumer electronics retail chains in China. Capitalizing on Suning's extensive network of offline stores and leveraging Alibaba's edge in data technology, both parties can explore online-to-offline and offline-to-online commerce opportunities that optimize customer needs and preferences. Jack Ma, Executive Chairman of Alibaba Group, said, "Over the past two decades, e-commerce has become an inextricable part of the lives of Chinese consumers, and this new alliance brings forth a new commerce model that fully integrates online and offline." Ma added, "This alliance will benefit consumers and merchants by cultivating an open and transparent integrated ecosystem that will be the backbone of the future economy."

- On September 29, 2015, Alibaba Group and Ant financial made a strategic investment in Paytm. Paytm is India's largest mobile payment and commerce platform. Daniel Zhang, Chief



Figure.15 Alibaba.group investments

Executive Officer of Alibaba Group said, "India is an important emerging market with strong e-commerce potential, and we look forward to partnering with Paytm to deliver innovative products and services to consumers. Supporting the success of local homegrown entrepreneurial companies has long been an important part of Alibaba Group's globalization strategy. This investment will further expand Alibaba Group's global footprint to India's thriving mobile commerce market."

- On October 16, 2015, Alibaba Group acquired all outstanding shares of Youku that it does not already own for \$27.6 per American Depositary Share("ADS", each representing 18 ordinary shares of Youku Tudou) in an all-cash transaction.
- On December 11, 2015, Alibaba Group acquired the South China Morning Post and other media assets of South China Morning Post Group Limited.

The final objectives of Alibaba investments are aligned with Alibaba future growth and make the customer experience better. From recent investments we can see that Alibaba don't just focus on

some few fields, but on the whole fields that concerned with all business areas. Alibaba Group wants to make investments to realize both the strategic objectives and financial returns. Because of the strong competition in e-commerce business, Alibaba have to make investments to improve their business in a more effective way. So investments have a very important role in their future growth.

TABLE.3 ALIBABA GROUP'S INVETMENT IN 2015

	Time	Company	Field	Amount	Round of Fund
Investment	2015.12	Bona Film Group Limited	Entertainment Industry	\$86 million	Strategic Investment
	2015.12	Eleme	O2O	\$1.25 billion	D-Round
	2015.12	Postal Saving Bank of China	Finance	\$45.1 billion	Strategic Investment
	2015.11	Wukuang	e-commerce	more than \$10 million	B-Round
	2015.11	Yunzong Information	O2O	more than \$10 million	B-Round
	2015.11	Tianjin financial asset trading	finance	N/A	Strategic Investment
	2015.11	Hangzhou Anheng Information	service for companies	billions	D-Round
	2015.10	58.com	O2O	\$0.3 billion	A-Round
	2015.10	36kr	Finance	more than \$0.1 billion	D-Round
	2015.9	Jiewo Cloud Bus	Car Traffic	more than \$10 million	Pre-A Round
	2015.9	Dianwoba	O2O	more than \$0.1 billion	C-Round
	2015.9	MySIMAX	Education	\$100 thousand	Angel Investment
	2015.9	Kaxingtianxia	e-commerce	more than \$100 million	C-Round
	2015.9	Artka	e-commerce	more than \$10 million	B-Round

	Time	Company	Field	Amount	Round of Fund
	2015.9	Shanghai Qingke	Hardware	more than \$10 million	B-Round
	2015.8	Suning	e-commerce	\$28.3 billion	Strategic Investment
	2015.8	Weijing	Hardware	\$2 billion	A-Round
	2015.8	Huayi Brothers Media Corporation	Entertainment Industry	\$3.6 billion	Strategic Investment
	2015.8	Shenghuo Banjing	O2O	\$0.3 billion	C-Round
	2015.8	Qufenqi	Finance	\$0.2 billion	D-Round
	2015.8	Shumeng Gongchang	service for companies	\$0.1 billion	A-Round
	2015.8	Qianxun Location	service for companies	more than \$10 million	A-Round
	2015.7	Didi	Car Traffic	\$3 billion	D-Round
	2015.7	Melihui	e-commerce	\$0.1 billion	C-Round
	2015.7	Fanya	service for companies	\$30 million	Strategic Investment
	2015.7	Wanzi Diqu	Traveling	more than \$10 million	B-Round
	2015.6	Chelaile	Car Traffic	\$15 million	B-Round
	2015.6	CNB	Entertainment Industry	\$0.2 billion	Strategic Investment
	2015.6	Yazuo	O2O	more than \$0.1 billion	C-Round
	2015.6	Xiangshang firm	Entertainment Industry	more than \$10 million	A-Round
	2015.6	Yipingtai	Entertainment Industry	more than \$10 million	B-Round
	2015.6	Yuantong Express	Express	more than \$0.1 billion	Strategic Investment
	2015.4	Lirenlizhuang	e-commerce	\$0.1 billion	B-Round

	Time	Company	Field	Amount	Round of Fund
	2015.4	Aiqianggou	e-commerce	more than \$10 million	B-Round
	2015.3	Enlight Media Group	Entertainment Industry	\$2.4 billion	Strategic Investment
	2015.2	Meizu	Hardware	\$0.64 billion	Strategic Investment
	2015.2	Xinpianchang	Entertainment Industry	more than \$10 million	B-Round
	2015.1	Kuaidi Dache	Car Traffic	\$0.6 billion	D-Round
	2015.1	Youyou Yidong	O2O	more than \$10 million	B-Round
	2015.1	Tiyufeng	Entertainment Industry	more than \$10 million	A-Round
Acquirement	2015.1	Baishi Logistic	Express	\$0.55 billion	D-Round
	2015.11	Youku	Entertainment Industry	\$4.67 billion	
	2015.11	Debang Zhengjuan	Finance	more than \$0.1 billion	
	2015.9	Guotaichanqian	Finance	more than \$10 million	
	2015.8	365 translation	Education	more than \$10 million	
	2015.6	Hanghaiyuan Information	service for companies	N/A	
	2015.4	Shumi Foundation	Finance	\$0.199 billion	
	2015.4	Eke Software	Entertainment Industry	\$0.83 billion	
	2015.1	Yichuanmei	Entertainment Industry	N/A	
Abroad Investments	2015.12	ThetaRay	service for companies	\$15 million	C-Round

	Time	Company	Field	Amount	Round of Fund
	2015.12	South China Morning Post	Entertainment Industry	\$0.266 billion	Acquired
	2015.11	Nespick	House Service	\$11 million	A-Round
	2015.9	Paytm	Finance	more than \$0.1 billion	B-Round
	2015.8	Snapdeal	e-commerce	\$0.5 billion	Strategic Investment
	2015.7	Singapore Post	e-commerce	\$0.138 billion	Strategic Investment
	2015.7	Quantum Solutions	Express	\$67.85 million	Strategic Investment
	2015.7	Ouya	Entertainment Industry	\$10 million	Strategic Investment
	2015.6	SBRH	Hardware	more than \$10 million	Strategic Investment
	2015.5	Zulily	e-commerce	\$56 million	Strategic Investment
	2015.5	Lyft	Car Traffic	\$0.15 billion	D-Round
	2015.5	Snapchat	Entertainment Industry	\$0.2 billion	D-Round
	2015.2	Quixey	service for companies	\$60 million	D-Round
	2015.2	Jet.com	e-commerce	\$14 million	D-Round
	2015.1	Visualead	service for companies	\$5 million	B-Round

TABLE.4 Consolidated Statements of Operations Data**Consolidated Statements of Operations Data:**

	Year ended March 31,					
	2011 ⁽¹⁾	2012	2013	2014	2015	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in millions, except per share data)					
Revenue						
China commerce	7,665	15,637	29,167	45,132	62,937	10,153
International commerce	3,433	3,765	4,160	4,851	6,486	1,046
Cloud computing and Internet infrastructure	425	515	650	773	1,271	205
Others	380	108	540	1,748	5,510	889
Total	11,903	20,025	34,517	52,504	76,204	12,293
Cost of revenue	(3,497)	(6,554)	(9,719)	(13,369)	(23,834)	(3,845)
Product development expenses	(2,062)	(2,897)	(3,753)	(5,093)	(10,658)	(1,720)
Sales and marketing expenses	(3,154)	(3,058)	(3,613)	(4,545)	(8,513)	(1,373)
General and administrative expenses ⁽²⁾	(1,724)	(2,211)	(2,889)	(4,218)	(7,800)	(1,258)
Amortization of intangible assets	(144)	(155)	(130)	(315)	(2,089)	(337)
Impairment of goodwill and intangible assets	—	(135)	(175)	(44)	(175)	(28)
Yahoo TIPLA amendment payment ⁽³⁾	—	—	(3,487)	—	—	—
Income from operations	1,322	5,015	10,751	24,920	23,135	3,732
Interest and investment income, net	549	258	39	1,648	9,455	1,525
Interest expense	(4)	(68)	(1,572)	(2,195)	(2,750)	(443)
Other income, net	68	327	894	2,429	2,486	401
Income before income tax and share of results of equity investees	1,935	5,532	10,112	26,802	32,326	5,215
Income tax expenses	(327)	(842)	(1,457)	(3,196)	(6,416)	(1,035)
Share of results of equity investees	—	(25)	(6)	(203)	(1,590)	(257)
Net income	1,608	4,665	8,649	23,403	24,320	3,923
Net income attributable to noncontrolling interests	(425)	(437)	(117)	(88)	(59)	(9)
Net income attributable to Alibaba Group Holding Limited	1,183	4,228	8,532	23,315	24,261	3,914
Accretion of convertible preference shares ⁽⁴⁾	—	—	(17)	(31)	(15)	(2)
Dividends accrued on convertible preference shares ⁽⁴⁾	—	—	(111)	(208)	(97)	(16)
Net income attributable to ordinary shareholders	1,183	4,228	8,404	23,076	24,149	3,896
Earnings per share/ADS attributable to ordinary shareholders:						
Basic	0.49	1.71	3.66	10.61	10.33	1.67
Diluted	0.48	1.67	3.57	10.00	9.70	1.56
Supplemental information:⁽⁵⁾						
Non-GAAP EBITDA	3,009	7,274	16,607	30,731	40,753	6,574
Non-GAAP net income	2,778	6,452	13,869	28,274	34,981	5,643
Non-GAAP diluted EPS	0.95	2.38	5.76	12.09	13.97	2.25
Free cash flow	4,881	8,752	19,745	32,269	48,121	7,763

(1) Financial results of Alipay were consolidated into our financial statements prior to the year ended March 31, 2012. Due to regulatory requirements relating to payment service providers in China, our relationship with Alipay was restructured in 2011. See “Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions” for more details. Since then, as we do not have any ownership interest in, or control over, Alipay, the financial results of Alipay have not been included in our consolidated financial statements starting from the end of fiscal year 2011.

(2) In fiscal year 2014, these expenses included an equity-settled donation expense of RMB1,269 million relating to the grant of options to purchase 50,000,000 of our ordinary shares to a non-profit organization designated by Jack Ma and Joe Tsai.

(3) We entered into the Yahoo TIPLA in October 2005, pursuant to which we paid royalty fees to Yahoo. We and Yahoo amended the existing TIPLA in September 2012, pursuant to which we made a lump sum payment in the amount of US\$550 million.

(4) Upon the completion of our initial public offering in September 2014, all of our then outstanding convertible preference shares were converted into ordinary shares.

(5) See “Non-GAAP Measures” below.

Alibaba Group future development strategy

Analysis of Earning Report

Alibaba.com announced the June quarter Earning report of 2016 on August 11, 2016. Alibaba.com ushered in the most powerful quarter revenue growth since going public, in the same time it uncovered the veil of the loss business sector.

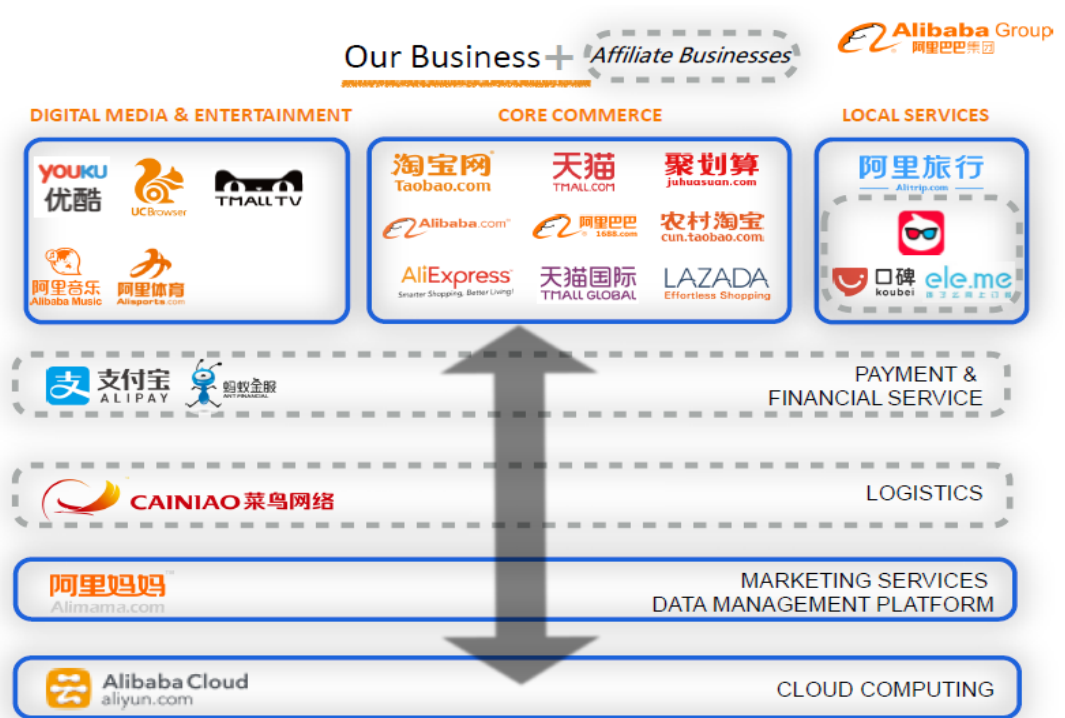


Figure.16 Alibaba.com business

In the first quarter of fiscal year 2017(2016.4.01-2016.6.30), total revenue is ¥32.154 billion

Revenue Growth

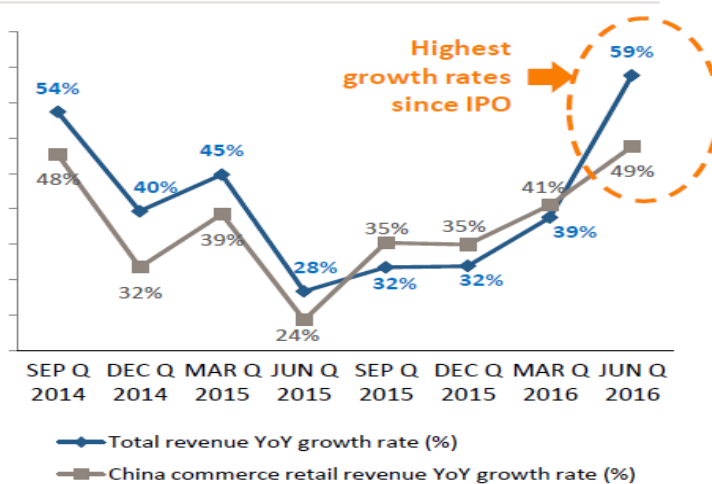


figure.17 revenue growth

(around \$4.838 billion), the total revenue growth is 59% compared with last year in the same quarter(see figure.13 Revenue growth). The net profit is ¥7.142 billion, decrease 77% compared with last year ¥30.816 billion. Based on the Non-GAAP, EBITA is ¥12.187 billion, the growth rate is 28%.

● Total revenue YoY(year over year)

growth of 59% was driven by (i) accelerated revenue growth of China commerce retail(ii) robust growth of Cloud Computing (iii) strong monetization of UCWeb users and (iv) acquisition of Youku.

- Revenue increase in China commerce retail business was primarily driven by online marketing services revenue as a result of deep value proposition that Alibaba.com bring to customers.

China Commerce Retail(taobao.com, Tmall.com and other commerce) Mobile Revenue reached ¥17.514 billion, increase 119%, as the biggest portion in China Commerce Retail Revenue, it accounted for 75%. And Monetization reached 2.80% this quarter, surpassing the non-mobile monetization rate for the first time since the fourth quarter of 2013.

China Retail Commerce: Quarterly Penetration of Mobile Revenue and Mobile GMV

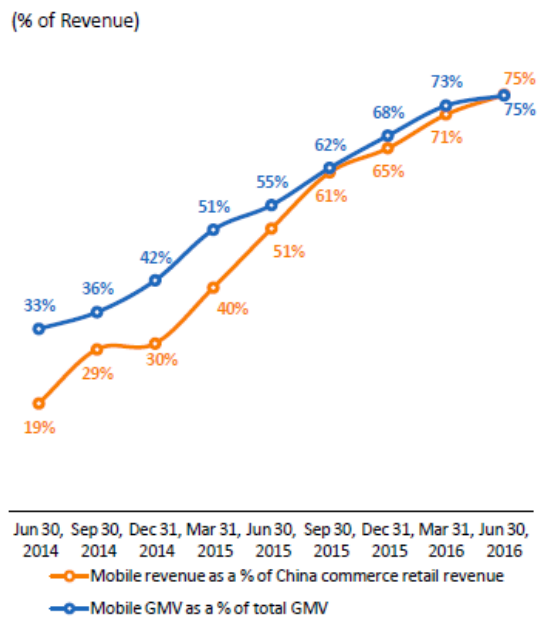


Figure.18 China Retail Commerce

Mobile and Non-Mobile Monetization Rate (China Commerce Retail)

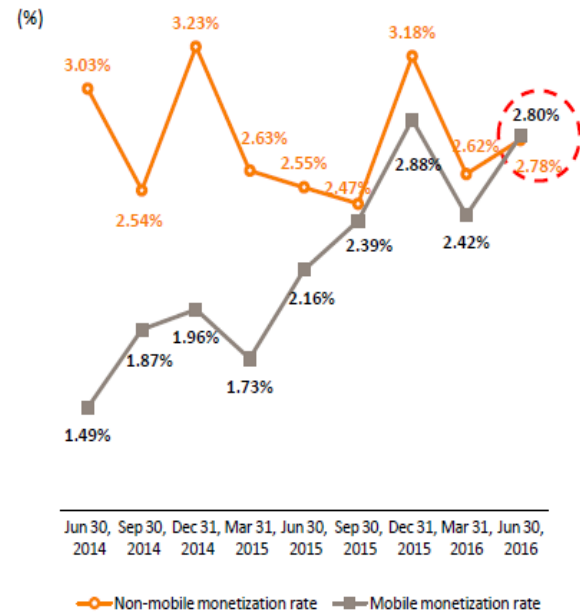


Figure.19 Mobile and Non-mobile Monetization

April of 2016, Alibaba.com purchase Lazada Group, which is a privately owned Singaporean e-commerce company founded by Rocket Internet in 2011. As of 2014, Lazada Group operated sites in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. In this deal, Alibaba’s total investment is about 1 billion dollars to buy the shares of Lazada. Lazada’s net profit is defective about 100 million dollars. Because of the merging Lazada performance into Alibaba’s EBITA, the total amount of core commerce business EBITA profit margin have a small decrease compared with last year.

Which business sectors lost?

The increase in share of losses of equity investees during the quarter ended June 30, 2016 compared to the previous quarter was primarily due to an accounting loss related to dilution of Alibaba Group ownership interest in Weibo (as a result of its issuance of share-based compensation) and an increase in losses of Cainiao Network (relating to its share-based

compensation) and other investees, partially offset by a decrease in loss of Koubei.

In RMB MM unless otherwise stated	Jun Q 2015	Mar Q 2016	Jun Q 2016
Share of results of equity investees:			
- Koubei	-	(762)	(245)
- Youku Tudou	(95)	(152)	-
- Cainiao Network	(59)	(94)	(227)
- Other equity investees	(140)	(102)	(264)
Dilution gains (losses)	79	745	(239)
Others ⁽¹⁾	(192)	(347)	(493)
TOTAL	(407)	(712)	(1,468)

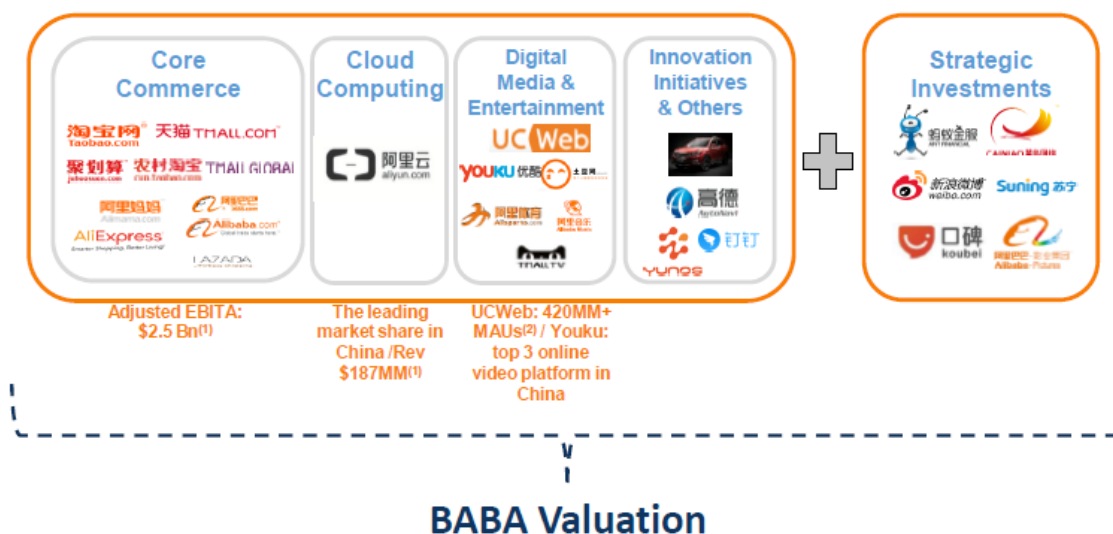
Figure.20 Share of Results of Equity Investees

Results shows that as of June 30, 2016, Alibaba sharing the loss of equity investment company is ¥1.468 billion(\$221 million), increase 106% compared with last quarter ¥712 million. The loss of Koubei part narrowed from ¥762 million to ¥245 million. However, the loss part of Cainiao Network increased to ¥227 million.

In addition, although Alicloud has achieved continuous growth for many years, from the first quarter of this year's operation data point of view, it is still in the state of loss. Alicloud YOY(year over year) Revenue Growth is 156%.

1. Cloud computing segment adjusted EBITA loss narrowed to ¥158 million(\$24 million).
 - Cloud computing paying customers increased 119% YoY to 577k and launched 319 new products and features during the quarter
 - Segment adjusted EBITA margin significantly improved YoY due to robust revenue growth and economies of scale
2. Digital media & entertainment segment in the first quarter loss ¥1.853 billion, after the adjustment EBITA losses is ¥996 million.
 - UCWeb is one of the world's top 3 mobile browsers according to StatCounter, with over 420 million MAUs in June. Alibaba is starting to meaningfully monetize UCWeb's user base through mobile search and mobile media products such as news feeds
 - Segment revenue grew 286% YoY primarily due to consolidation of Youku
3. Innovation initiatives & other business segment operating loss ¥1.572 billion, after the adjustment EBITA loss of ¥887 million.
 - The innovation initiatives and Others segment includes businesses such as the YunOS operating system for mobile devices, cars and Internet of Things, AutoNavi, DingTalk enterprise messaging and others
 - These businesses represent our strategic investments into future growth and are in the initial investment phase.

Alibaba valuation



Note:

1. For the three months ended June 30, 2016; translations of RMB into US\$ were made at RMB6.6459 to US\$1.00.
2. For the month ended June 30, 2016

Figure.21 Alibaba valuation

From the figure above, we can see that Alibaba's valuation is composed by core commerce, cloud computing, digital media & entertainment, innovation initiatives & others and strategic investments. Core commerce (Taobao, Tmall and other core commerce) accounts for the largest part in total revenue. Alibaba Cloud has a leading role in the Chinese cloud computing segment, the revenue of the Alibaba Cloud segment is \$187 million. After the consolidation between Youku and Tudou, the two video industry giants in China, the video segment revenue grew 286%. This huge growth benefits from the connection with Alimama in advertisement revenue. For UCWeb, Alibaba is starting to meaningfully monetize UCWeb's user base through mobile search and mobile media products such as news feeds.

Conclusion: Although these new business arms develop rapidly, Alibaba Group can't make a profit from these businesses in a short time, it is a practical challenge for Alibaba Group.

Active buyers Growth slow down

Although Alibaba's earnings report states that the growth of revenue has increased a lot, behind the fairly good report some development problems have been revealed. Recent years, huge capital focus on e-commerce, some challengers are trying to layout Alibaba's weak sector. The advantages of Alibaba are reduced. JD.com, one of the challengers, announced that JD.com will release 1 billion subsidy in recent months, focus on the retail in the east China district. Rising competition from JD.com could impact Alibaba's market share on B2C and mobile commerce markets. Alibaba as the leader role in the China e-commerce market, the active buyers growth slows down obviously in the former years. In 2015, the growth of active users is 73 million, in each quarter the number is about 18 million, but according to the recent earnings report, annual active buyers reach 434 million, the growth is just 11 million, significantly smaller than last year. It seems to predict that

active users of Alibaba will reach a ceiling in few years. The big issue that Alibaba directly face is that how they can increase the activeness of buyer to facilitate the deal.

Annual Active Buyers

(In Millions)

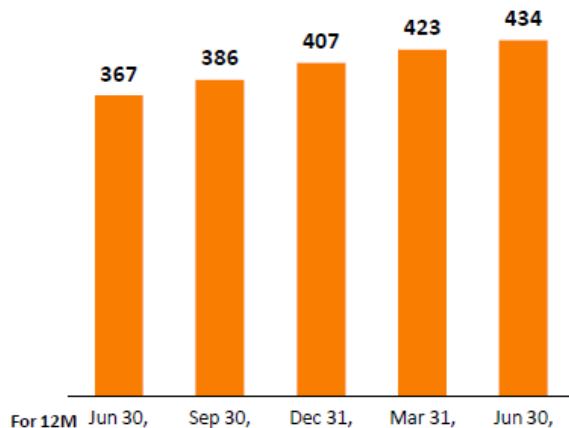


Figure.22 Annual active users

Mobile MAUs

(In Millions)

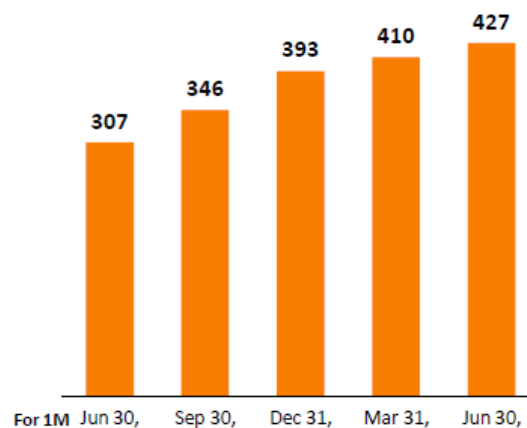


Figure.23 mobile active users

The Challenge

After analysis of Alibaba earning report, loss and valuation, we conclude that Alibaba face the challenges we mentioned above is

- i. Alibaba have some investments and M & A to optimize their core commerce and enlarge their profit, these new business arms develop rapidly, but these investments can't make a profit in a short time, even Alibaba have to invest for sustainable development, how Alibaba make balance between the potential development and sustainable development.
- ii. With rapid growth of revenue in china commerce market, now the data shows that Alibaba active users growth slows down, it means that maybe in several years the active buyers will reach the ceiling if Alibaba don't take actions to develop their potential users. How Alibaba can make their users grow sustainable and improve the activeness.

In the same time, in order to align the future development strategy we should figure out which kind of companies will the Alibaba Group invest in?

Teaching Note

The Challenge

After analysis of Alibaba earning report, loss and valuation, we conclude that Alibaba face the challenges we mentioned above is

- iii. Alibaba have some investments and M & A to optimize their core commerce and enlarge their profit, these new business arms develop rapidly, but these investments can't make a profit in a short time, even Alibaba have to invest for sustainable development, how Alibaba make balance between the potential development and sustainable development.
- iv. With rapid growth of revenue in china commerce market, now the data shows that Alibaba active users growth slows down, it means that maybe in several years the active buyers will reach the ceiling if Alibaba don't take actions to develop their potential users. How Alibaba can make their users grow sustainable and improve the activeness.

We will explain three main future development strategies which can make Alibaba grow at high speed continuously-Rural e-commerce, Globalization, Big data strategy.

Rural e-commerce

Alibaba is China's biggest e-commerce company, holding more than 80% share of the China's e-commerce market. It is also the largest e-commerce firm in the world in terms of gross merchandise volume. Now the annual active users of Alibaba is 434 million, most of them come from urban market. in fact, China's population is 1.37 billion according to the new census figures released in 2016. Rural market is the crucial penetration point from 434 million to 1.37 billion. As China's urban e-commerce market nears saturation, the transaction value of its rural e-commerce market will become the main growth point in the future, rural market in China hold strong growth potential for Alibaba. In the beginning of 2016, Alibaba plans to train a million teenagers in rural area of China to help them launch their own online business. And Alibaba internet finance arm, Ant Financial(Alipay), plans to invest \$155 million to support college graduates who wish to return to their home province to become entrepreneurs. In the same time, Alibaba is taking several measures to tap into rural market growth and maintain its dominant position in the Chinese e-commerce market. It announced a \$1.7 billion investment in distribution centers(like service center) in China covering 100,000 villages. This is a part of rural strategy to ensure that consumers in remote areas of China which are not serviced by courier companies can receive the products ordered online.

What Alibaba do is that not only encourage local people to sell their product online, but also help consumers in rural area of China receive the products ordered online, creating a connection between urban market and rural market, optimizing user experience and increasing Alibaba market share in cities and rural areas. We believe that Alibaba is well poised to capture growth in rural e-commerce in China under the huge population background.

Globalization

Alibaba's China marketplaces include Taobao, Tmall and Juhuasuan. These marketplaces enable Chinese and global merchants to sell merchandise directly to Chinese consumers. Alibaba operates global marketplaces as well, under AliExpress and Alibaba.com. With these platforms, it enables Chinese and global merchants to sell goods directly to consumers across the globe. International commerce still forms a very small part of Alibaba's overall business. Besides operating retail marketplaces, it also allows wholesalers to sell merchandise directly to businesses. With China's economic is slowing in recent years, this will affect Alibaba's growth in a certain degree.

Now Alibaba should expand its business in other areas of the world to make the growth continuously. Not only improve the process for Chinese consumer buying non-Chinese brand from other countries, but also help international online buyers can access the product from China. As we know, the international commerce still form a very small part of Alibaba's overall business, but the potential value in this part is huge because the economic globalization. Now Alibaba have AliExpress (like Amazon.com), in which the consumer out of China can access the product from Chinese company, but the delivery time is very long and delivery cost is a little bit expensive. How can Alibaba make delivery process more effective is a big issue. Customers in China can access the goods from other countries, but there is a problem that not all of the goods on Taobao.com is quality goods, how Alibaba create the trust between the customer and sellers.

- **Luxury market**-In 2015, China's luxury spending reach \$116.8 billion, \$91 billion of it occurred out of china mainland, account for 78%. Luxury market is a big cake in China e-commerce retail, Alibaba can invest in this industry to share the big cake. In Europe, there are many luxury agency, Alibaba can get a good price for luxuries (such as Gucci, Prada, SW and others), after paying the tax going to China, the price still have competition compared with exclusive shop because of tax refund policy of import from Europe. Alibaba can sell these luxury goods easily based on its big customer cluster.

With the growth of purchasing power in China, we think that luxury market is a potential market for Alibaba.

- **Acquiring Lazada**-April of 2016, Alibaba announced that it is acquiring a controlling stake in Lazada, a leading e-commerce platform in Southeast Asia, facilitating Alibaba's expansion



in the region. Lazada currently operates e-commerce platforms in Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam and Alibaba's investment in the company will be around \$1 billion. Because Alibaba seeks growth opportunities outside China, the deal makes sense. Lazada's growing consumer base is in a region with population of more than 550 million, including around 200 million internet users. Alibaba already holds stakes in several e-commerce companies in India and is now looking to directly enter the Indian e-commerce market. As emerging markets witness significant e-commerce growth in future, they will provide a boost to Alibaba's revenues in the long term. E-commerce in southeast Asian countries such as Malaysia, Thailand and Vietnam is at a very nascent stage, with

online commerce accounting for less than 1% of the total retail market. If this number reaches 5% of the total retail market, the Southeast Asian e-commerce market would be \$20 billion in size. With a growing middle class, strong mobile penetration and a younger population, the region has all the ingredients for high growth in e-commerce in future.

Alibaba seeks to establish a strong presence in other emerging economies where e-commerce is underpenetrated, so as to boost Alibaba’s revenues as the Chinese economy matures. As e-commerce forms a significant part of total retail sales in china, growth in e-commerce will slow over the long term. Other emerging economies such as India and Southeast Asia, where e-commerce accounts for less than 5% of total retail sales, will continue to see significant growth.

Alibaba Group aspires to become a global company, its strategy to expand into developing regions will ensure that the company continues to witness high growth in revenues, even as the Chinese economy matures.

Big data strategy

Yu Yongfu said, “In the next 10 years, internet will move from IT(information technology) to DT(data technology), enterprise need to research the conversion between data and business and make the data become the part of business to stimulate the growth of business.”

On 2009 September, Alicloud was established as Alibaba subsidiary company with the 10th anniversary of Alibaba Group. Alicloud aims to build a cloud computing service platform, including e-commerce data mining, e-commerce data processing and data customization. Alicloud has R&D centers and operators in Hangzhou, Beijing, Hong Kong, Singapore and Silicon Valley.

- Data will become the material of product in new DT(data technology)-era
The popularity of the Internet make the data subside naturally at a lower cost, the data becomes material of production, human move from IT to DT. Vast amount of text, videos, images, audios and other data could be analysis and exploit into new value effectively. In order to create value by data, computing is crucial. Computing economy will become the new economy engine instead of oil economy in the future.

From 2010, Alicloud started to provide service to help small and medium company, financial company, scientific research department, government realize the “resource internet”. Until the new earning report release, Alicloud still loss money, but the potential value of cloud computing appearing gradually. In the last fiscal year quarter, cloud computing segment adjusted EBITA



Figure.24 Aliyun.com

loss narrowed to \$24 million, and the revenue growth is 156%(YOY).

Nowadays, Alicloud have 577K paying customers, increased by 119% compared with last year. With the mature of cloud computing segment, Alicloud will become a important growth point in

the future, not only it will provide service to other companies and personal covering every field to make a profit, but also Alibaba core commerce will benefit from it under the analysis of big data.

In the future which kind of companies will the Alibaba Group invest in?

From TABLE 1.ALIBABA GROUP'S INVESTMENT IN 2015, we can get the graph below(figure.22). Alibaba Group was interested in Entertainment, E-commerce, Finance, and Alibaba Group still spent more in the three industries. For Service industry, Alibaba Group invested in several companies but the amount is small. Also we find that Alibaba Group started to pay attention to the O2O industry and Car Traffic industry.

From TABLE1.ALIBABA GROUP'S INVESTMENT IN 2015, we can get that about 1/3 companies who were invested from Alibaba Group got the strategic investment.

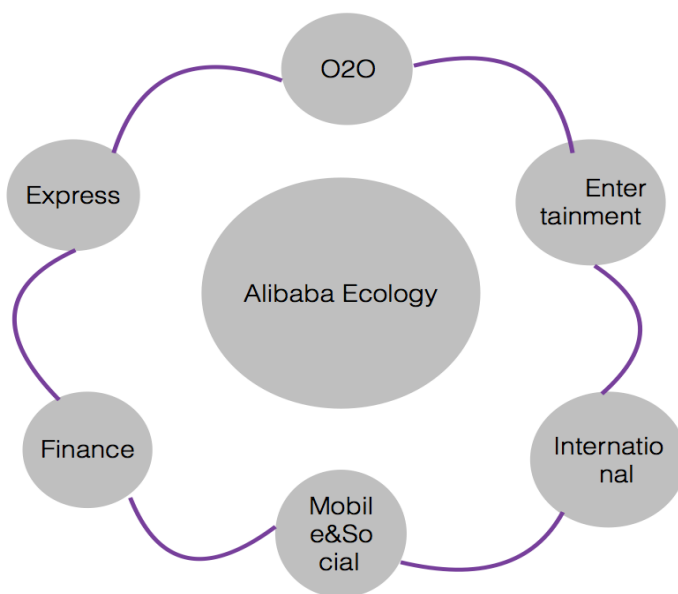


Figure.25 Alibaba investments

Zhang Hongping, head of Ali's investment department, had shared the investment philosophy to the public:

Ali's investment direction can be divided into two parts: one is combining with the Ali's exiting business and do a relatively strong integration; the other part, Ali will mostly take the way of minority equity investment. Ali is a platform which started to make business using the way of making a ecosystem, so we are actually paying attention on the layout of ecosystem and the views of win-win. Through continuous distribution, netting in the mobile internet era, Alibaba will create a new eco-system and established a mobile internet of "without borders", realized the vision of "Taobao is life".

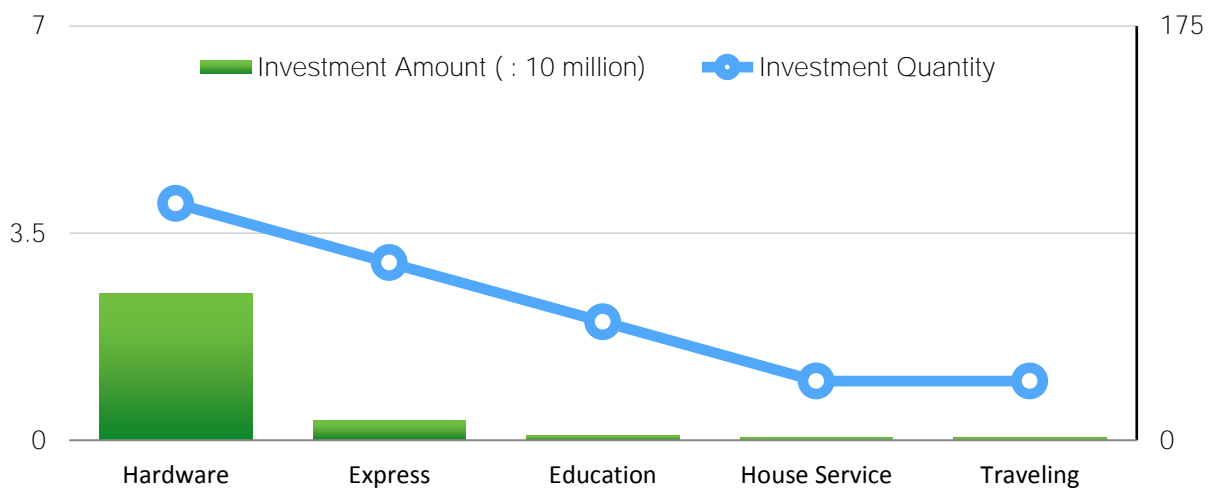
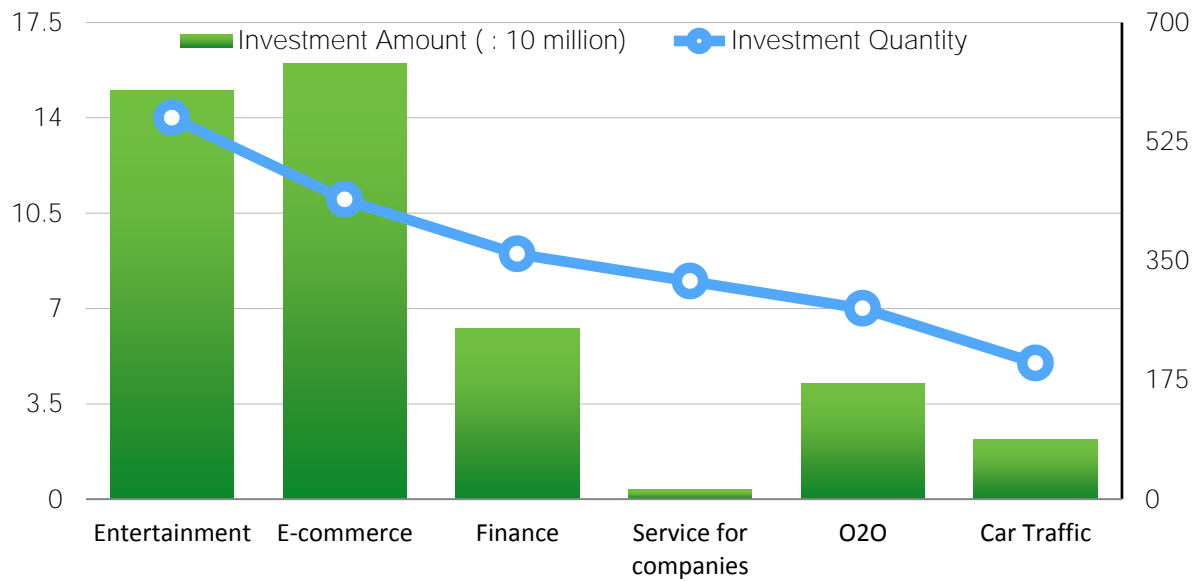


Figure.26 The amount of Alibaba investments

We gathered the data of Alibaba's investments, the chart below shows the total investment amount and investment quantity. See the bar graph below.

According to the future development strategy of Alibaba, we think that these fields investments are essential: Mobile&Social, O2O, Express, Entertainment, Financial field, International market.

- **Mobile&Social:** According to Zhang Hongping, we think that in order to get more clients, Alibaba Group pay attention to the Mobile and social. The competition between BAT(Baidu, Alibaba, Tencent) is pretty intense, and all of them are seizing the mobile terminal flow entrance. Compared with Baidu and Tencent, Alibaba is trying hard on the layout of social and mobile terminal. Baidu, with its dominance of search and peripheral products, gained considerable advantage of user data. Tencent, with its "Wechat" app , "QQ" software and the products of games, has gained huge users. Alibaba even published the product "Laiwang", which is a social network application made by itself. But the output of "Laiwang" is terrible. In 2013, Alibaba Group started to invest in Sina, and in 2014, Alibaba Group acquired UCweb browser. The output of the investment is not bad, this investment brought a stable and huge customer flow to Alibaba.
- **O2O:** Mobile Internet makes the distance between online and offline to be much more

closer, the chance in O2O industry is infinite. In order to close the net of ecosystem, Alibaba Group also tried hard to complete the industry of O2O. Actually, Baidu has “Nuomi”, which is a website that customers can buy something in a group and get a discount, Tencent has “Dazhong Dianping”, which is a website like TripAdvisor. Alibaba Group has “Meituan”, which is a website like Nuomi, the competition between Nuomi and Meituan is still intense, Alibaba Group need to find something irreplaceable. The investment in the industry of car and traffic can also be seen in the industry of O2O. For example, “Kuaidi” is an app like Uber, Alibaba Group invested it in order to combine the Alipay and the credit system with the offline life. From the chart about the investment in 2015, we can get the investment in O2O should not be underestimated.

- **Express:** There is no doubt that Taobao helps the express industry in China be stronger, and in turn stronger express industry helps Taobao become more integrated. In order to make the ecosystem of Alibaba become more impeccable, Alibaba Group invested in express industry and create Cainiao network, which is an express network. In the future, Alibaba Group still layout the express industry, not only for creating the ecosystem of Alibaba, but also for the great prospect of the express industry. From the perspective of internationalization, Alibaba Group may invest more in the express industry.
- **Entertainment:** Jack Ma has said the problem in China is that the pocket of Chinese becomes more and more full, but the brain becomes more and more empty. If the industry of cultural and entertainment can't develop well, China would be an upstart. Actually Integrate Cultural and Entertainment industries have huge potential for growth, more important, Cultural and Entertainment industry can create “fans economy” and this industry will be the contention point of the mobile e-commerce and mobile payment in the future. Actually, Chinese government's eighteen dividend policy to encourage enterprises to carry out the development of cultural industries, it means the enterprises can get some benefit if they develop cultural industries. Alibaba will not miss this chance. But when we look the investment map of Alibaba Group, we can find the map in the cultural and entertainment industry is almost complete. In “Yulebao”, customers can invest new firms, “Youku Tudou” is the video play platform, “AliMusic” is the music play platform, “Huayi Brothers Media Cooperation”, “South China Morning Post” and so on can create content, the system of AliTV and some hardware terminal make this system become more complete. In the future, Alibaba Group may still continue to invest in the cultural and entertainment industry, but the purpose may just get more profit or let the system become more bigger.
- **Financial field:** The purpose for investing in the financial industry is that Alibaba Group want the money of users just flow in the Ali system. The purpose of layout in the O2O industry is that Alibaba want the users go into the Ali system. “Hang Seng electronic” acquisition is an important step Ali financial layout. Because the short-term saving in “Yuebao”, which is an application of Alipay that users can save money in it and get interest, was beyond all imagination at the beginning. Chinese Central Bank starts to limit “Yuebao”. “Heng Sheng electronic” is a very strong technical support for Ali's future arrangement.

- **International:** Compared with the frequent domestic investment layout, Alibaba Group also did not slow down the pace of opening up overseas markets. From the table of the investment in 2015(TABLE 1), we can figure out that the investment ideas are based on the foundation of Alibaba’s industry ecosystem.

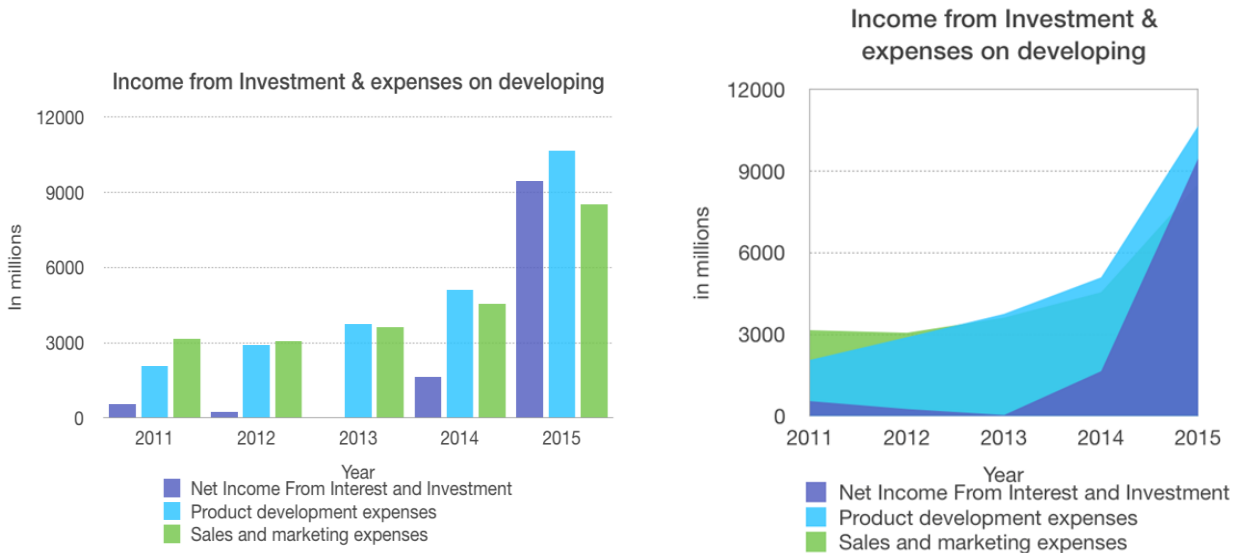


Figure.27 Income from Investment & Expenses on developing

From the TABLE 2 (**CONSOLIDATED STATEMENTS OF OPERATIONS DATA**), we can get the result above. There is no doubt, Alibaba Group will spend more and more money in order to create the ecosystem. In 2015, the income from investment grows quickly, at the same time, the amount for developing product also increase quickly in 2015.

Conclusion:

Jack Ma and his Alibaba always stress that what they do is not a business, but is an ecology; what they construct is not a company, but a social organization. Alibaba is not short of money, but it lack of basic setting function of this ecosystem. When we analysis the investment which Alibaba did, we can figure out that investment decision is around the thinking of complement and enhance the ecosystem. In the future, Alibaba Group will continue to invest more mobile and social industry, O2O industry in order to attract more customers and invest more on the AliCloud and other hardware industry in order to let its ecosystem be stronger in a healthier way.

Reference

- Jack Ma." Speech at the economic club of New York", June 9,2015 at <https://www.youtube.com/watch?v=5Z3eOWhY2i8>
- Dan Blystone. "Understanding Alibaba's Business Model", June 23,2015 at <http://www.investopedia.com/articles/investing/062315/understanding-alibabas-business-model.asp>
- Trefis Analysis. "Alibaba Group Company Overview", at http://www.trefis.com/stock/baba/model/trefis?easyAccessToken=PROVIDER_66a884d50381d255e4e24168964aa1805668a40e
- "The first quarter Financial Report of Fiscal Year 2017", published by Alibaba Group at <http://www.alibabagroup.com/cn/ir/earnings>
- "Annual report of 2016", published by Alibaba Group at <http://www.alibabagroup.com/cn/ir/earnings>
- Zhang Jie. "Alibaba reach the highest revenue", August 13,2016 at <http://finance.sina.com.cn/roll/2016-08-13/doc-ifyxnah3387121.shtml?from=wap>
- Chen Zonghao. " Alibaba Group's future strategy", November 27,2014 at <https://club.1688.com/article/54827943.html>
- " Full story of Alibaba&Jack Ma", July 9,2015 at <https://www.youtube.com/watch?v=M7gU8dGg6lk>
- Luo Feng. "what happened behind the delisting of Alibaba in Hong Kong", September 27,2014 at http://finance.ifeng.com/a/20140927/13152089_0.shtml
- "Aliabab Group Introduction", at <http://www.alibabagroup.com/cn/about/overview>
- Jack Ma-Wikipedia, at https://en.wikipedia.org/wiki/Jack_Ma
- " The History and Milestones of Alibaba Group", at <http://www.alibabagroup.com/en/about/history>
- " Alibaba Businesses overview", <http://www.alibabagroup.com/en/about/businesses>
- " The chinese Dreamer—Story of Jack Ma and Alibaba", August 11,2015 at http://news.xinhuanet.com/zgix/2015-08/11/c_134502137.htm
- "Alibaba chooses NYSE over Nasdaq for listing", June 26,2014 at <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/digital-media/10929180/Alibaba-chooses-NYSE-over-Nasdaq-for-listing.html>