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## MARKETS

# Value of Two Alibaba Units Adds Intrigue to IPO



Alibaba's disclosure that its quarterly profit nearly tripled on a one-time gain is putting the spotlight on two of the company's recent acquisitions. Here, Alibaba's headquarters in Hangzhou, Zhejiang Province, China. BLOOMBERG NEWS

By Juro Osawa And Kathy Chu

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HONG KONG—Alibaba Group Holding Ltd.'s disclosure that its quarterly profit nearly tripled on a one-time gain is putting the spotlight on two of the company's recent acquisitions.

The Chinese e-commerce giant, which is expected to go public on the New York Stock Exchange next month in what could be the largest initial public offering in U.S. history, said in a filing with the Securities and Exchange Commission Wednesday that it booked a \$1 billion investment gain in the quarter through June because of recent deals that turned mobile Web browser maker UCWeb Inc. and export services provider OneTouch into wholly owned units.

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These acquisitions forced Alibaba to reassess the value of UCWeb and OneTouch. As a result, the value of Alibaba's previously held equity interests jumped more than 80% for UCWeb to 7.99 billion yuan (US\$1.3 billion) and nearly fifteen-fold for OneTouch to 2.92 billion yuan.

Accounting experts say that putting a value on private assets like UCWeb and OneTouch is tricky and the reassessment is particularly noticeable as it comes just weeks ahead of Alibaba's initial public offering. Bankers say Alibaba could raise more than \$20 billion through its IPO.

"The value of privately held assets is somewhat subjective because there's no liquid market for such assets," said Zhaoyang Gu, director of the School of Accountancy of the Chinese University of Hong Kong.

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Paul Gillis, an accounting professor at Peking University's Guanhua School of Management in Beijing said: "The investment gains are dependent on market performance. I think a prudent investor is probably going to discount that number in calculating future profits."

In its filing, Alibaba attributed the bulk of the two companies' new value to goodwill, noting that the acquisitions will create more opportunities to integrate their services. Alibaba declined to comment Thursday on how it derived the higher valuation.

The higher valuations for UCWeb and OneTouch could however indicate that Alibaba has bigger plans for the two companies as it fully integrates their businesses into its sprawling e-commerce empire, analysts say. UCWeb, in particular, is expected to play a major role in Alibaba's attempt to expand its mobile services. The fact that Alibaba paid a lot more for UCWeb in the latest deal is also an indication of how much it needs the company, they said.

UCWeb, which operates China's most popular mobile browser, also runs a range of other mobile Internet services such as a mobile game platform and mobile search. After making several investments in UCWeb over the past several years, Alibaba in June bought the remaining 34% of the unit it didn't already own.

"UCWeb has what Alibaba wants," said Jefferies analyst Cynthia Meng.

Alibaba, whose Taobao and Tmall shopping sites dominate China's e-commerce, is trying to adapt to a new environment where more Chinese consumers access Internet services through smartphone apps. In the latest filing, Alibaba said UCWeb will help provide Alibaba with access to mobile users.

As for OneTouch, it has been playing a major role in transforming Alibaba.com from a Yellow Pages-like site that helps Chinese exporters find overseas customers, to a broader platform that provides a range of export-related services. A broader range of services could provide Alibaba with a new source of revenue and access to data on international export transactions. Alibaba is also offering rebates and loans to Chinese exporters who use OneTouch's export services.

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