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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F**

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(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_  
Commission file number: 001-35454

**VIPSHOP HOLDINGS LIMITED**

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(Exact Name of Registrant as Specified in Its Charter)

N/A

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(Translation of Registrant's Name Into English)

Cayman Islands

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(Jurisdiction of Incorporation or Organization)

**No. 20 Huahai Street,  
Liwan District, Guangzhou 510370  
People's Republic of China**

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(Address of Principal Executive Offices)

**Donghao Yang, Chief Financial Officer  
Vipshop Holdings Limited  
No. 20 Huahai Street  
Liwan District, Guangzhou 510370  
People's Republic of China  
Telephone: +86 (20) 2233-0000  
Facsimile: +86 (20) 2233-0111**

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(Name, Telephone, Email and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

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Title of Each Class
American depositary shares, each representing 0.2 Class A ordinary shares, par value \$0.0001 per share

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Name of Each Exchange on Which Registered
New York Stock Exchange

\* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 116,395,883 Class A ordinary shares, par value US\$0.0001 per share, and 16,510,358 Class B ordinary shares, par value US\$0.0001 per share, as of December 31, 2018.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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## INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, in this annual report on Form 20-F:

- "active customers" refers to registered members who have purchased from us or our online marketplace platforms at least once during the relevant period;
- "ADSs" refers to our American depositary shares, each of which represents 0.2 Class A ordinary shares;
- "China" or "PRC" refers to the People's Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong, and Macau;
- "cumulative customers" refers to all customers who had purchased products from us at least once during the period from our inception on August 22, 2008 to a specified date;
- "daily unique visitors" or "monthly unique visitors" refers to the number of different IP addresses from which our Vipshop Online Platform is visited during a given day or a given month, respectively;
- a "registered member" refers to any consumer who has registered and created an account with us;
- "Renminbi" or "RMB" refers to the legal currency of China, and "US\$" or "U.S. dollars" refers to the legal currency of the United States;
- "repeat customers" refers to, for a given period, any customer who (i) is an active customer during such period, and (ii) had purchased products from us or our online marketplace platforms at least twice during the period from our inception on August 22, 2008 to the end of such period. Orders placed by a repeat customer during a given period include all orders placed by the customer during such period even if the customer made the first purchase from us in the same period;
- "shares" or "ordinary shares" refers to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares, par value US\$0.0001 per share;
- "total orders" refers to the total number of orders placed during the relevant period, including the orders for products and services sold in our online sales business and on our online marketplace platforms, net of orders returned;
- "Vipshop Online Platform" refers to our Vipshop App mobile application and our *vip.com* website; and
- "we," "us," or "our company" refers to Vipshop Holdings Limited and its subsidiaries and consolidated affiliated entities.

Effective November 3, 2014, we changed our ADS to Class A ordinary share ratio from one ADS representing two ordinary shares to five ADSs representing one Class A ordinary share. The computation of U.S. GAAP and non-U.S. GAAP income per diluted ADS has been adjusted retrospectively for all periods presented to reflect this change.

Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at RMB6.8755 to US\$1.00, the noon buying rate for December 31, 2018 as set forth in the H.10 statistical release of the Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government restricts the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions. On April 12, 2018, the noon buying rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.7039 to US\$1.00.

**PART I.**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

A. *Selected Financial Data*

**Selected Consolidated Financial Data**

The following selected consolidated statements of income data for the three years ended December 31, 2016, 2017, and 2018 and the selected consolidated balance sheet data as of December 31, 2017 and 2018 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes and "Item 5. Operating and Financial Review and Prospects" in this annual report. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

Our selected consolidated statements of income data for the two years ended December 31, 2014 and 2015, and our selected consolidated balance sheet data as of December 31, 2014, 2015, and 2016 have been derived from our audited consolidated financial statements not included in this annual report.

Our historical results do not necessarily indicate results expected for any future periods.

	For the Year Ended December 31,											
	2014		2015		2016		2017		2018			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US\$	%	
(in thousands, except percentages, number of shares, and per share and per ADS data)												
<b>Selected Consolidated Statements of Income Data:</b>												
Product revenues	22,685,111	98.1	39,409,961	98.0	55,281,900	97.7	71,171,653	97.6	81,510,275	11,855,178	96.4	
Other revenues	444,202	1.9	793,251	2.0	1,309,402	2.3	1,740,660	2.4	3,013,673	438,321	3.6	
Total net revenues	23,129,313	100.0	40,203,212	100.0	56,591,302	100.0	72,912,313	100.0	84,523,948	12,293,499	100.0	
Cost of revenues <sup>(1)</sup>	(17,378,044)	(75.1)	(30,306,723)	(75.4)	(42,994,688)	(76.0)	(56,618,471)	(77.7)	(67,454,981)	(9,810,920)	(79.8)	
Gross profit	5,751,269	24.9	9,896,489	24.6	13,596,614	24.0	16,293,842	22.3	17,068,967	2,482,579	20.2	
<b>Operating expenses<sup>(2)</sup></b>												
—Fulfillment expenses <sup>(3)</sup>	(2,268,949)	(9.8)	(3,667,031)	(9.1)	(4,904,526)	(8.7)	(6,899,654)	(9.5)	(7,489,393)	(1,089,287)	(8.8)	
—Marketing expenses	(1,164,149)	(5.0)	(2,089,348)	(5.2)	(2,837,680)	(5.0)	(2,978,621)	(4.1)	(3,240,450)	(471,304)	(3.8)	
—Technology and content expenses	(670,998)	(2.9)	(1,076,520)	(2.7)	(1,563,582)	(2.8)	(1,808,452)	(2.5)	(2,000,894)	(291,018)	(2.4)	
—General and administrative expenses	(967,463)	(4.2)	(1,301,472)	(3.2)	(1,941,146)	(3.4)	(2,447,724)	(3.3)	(2,674,179)	(388,943)	(3.2)	
Total operating expenses	(5,071,559)	(21.9)	(8,134,371)	(20.2)	(11,246,934)	(19.9)	(14,134,451)	(19.4)	(15,404,916)	(2,240,552)	(18.2)	
Other operating income	153,977	0.6	308,431	0.8	358,029	0.6	531,055	0.8	757,062	110,110	0.9	
Income from operations	833,687	3.6	2,070,549	5.2	2,707,709	4.8	2,690,446	3.7	2,421,113	352,137	2.9	
<b>Income before income taxes and share of loss of equity method investees</b>												
Income tax expenses	(245,032)	(1.0)	(457,745)	(1.1)	(601,828)	(1.1)	(626,140)	(0.9)	(566,604)	(82,409)	(0.7)	
Share of loss of equity method investees	(62,716)	(0.3)	(84,063)	(0.2)	(71,489)	(0.1)	(22,280)	(0.0)	(46,999)	(6,836)	(0.1)	
Net income	752,593	3.3	1,508,712	3.8	1,992,767	3.5	1,892,433	2.6	2,133,472	310,301	2.5	
<b>Net loss/(income) attributable to non-controlling interests</b>												
Net income attributable to our shareholders	841,286	3.6	1,589,665	4.0	2,036,817	3.6	1,949,655	2.7	2,128,787	309,620	2.5	
<b>Shares used in calculating earnings per share</b>												
<b>Class A and Class B ordinary shares<sup>(4)</sup>:</b>												
—Basic	113,310,682	—	115,736,092	—	115,958,088	—	117,554,229	—	132,266,157	132,266,157	—	
—Diluted	120,227,584	—	120,168,063	—	125,817,183	—	125,715,833	—	140,083,610	140,083,610	—	
<b>Net earnings per Class A and Class B ordinary share</b>												
Net income attributable to our shareholders—Basic	7.42	—	13.74	—	17.57	—	16.59	—	16.09	2.34	—	
Net income attributable to our shareholders—Diluted	7.00	—	13.23	—	16.86	—	15.94	—	15.61	2.27	—	
<b>Net earnings per ADS<sup>(5)</sup> (1 Class A ordinary share equals 5 ADSs)</b>												
—Basic	1.48	—	2.75	—	3.51	—	3.32	—	3.22	0.47	—	
—Diluted	1.40	—	2.65	—	3.37	—	3.19	—	3.12	0.45	—	

Notes:

- (1) Excludes shipping and handling expenses, and includes inventory write-down that amounted to RMB218.1 million, RMB293.9 million, RMB303.2 million, RMB206.7 million, and RMB440.8 million (US\$64.1 million) for the years ended December 31, 2014, 2015, 2016, 2017, and 2018, respectively.

- (2) Include share-based compensation expenses as set forth below:

	For the Year Ended December 31,					
	2014	2015	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	US\$'000
Allocation of Share-based Compensation Expenses:*						
Fulfillment expenses	(10,822)	(18,665)	(38,428)	(73,235)	(73,151)	(10,639)
Marketing expenses	(17,293)	(19,938)	(38,459)	(40,364)	(41,063)	(5,972)
Technology and content expenses	(103,160)	(126,274)	(183,122)	(206,073)	(203,594)	(29,612)
General and administrative expenses	(94,219)	(138,064)	(215,644)	(347,426)	(353,402)	(51,400)
Total	<u>(225,494)</u>	<u>(302,941)</u>	<u>(475,653)</u>	<u>(667,098)</u>	<u>(671,210)</u>	<u>(97,623)</u>

- \* The share-based compensation expenses for 2014 included RMB225.5 million share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, employees, and consultants. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB29.4 million and RMB598.2 million, and were expected to be recognized over a weighted average period of 1.34 years and 3.20 years on a straight-line basis as of December 31, 2014, respectively. The share-based compensation expenses for 2015 included RMB302.9 million share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB6.9 million and RMB914.0 million, and were expected to be recognized over a weighted average period of 1.02 years and 2.97 years on a straight-line basis as of December 31, 2015, respectively. The share-based compensation expenses for 2016 included RMB475.7 million share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB243 thousand and RMB1.24 billion, and were expected to be recognized over a weighted average period of 0.25 years and 4 years on a straight-line basis as of December 31, 2016, respectively. The share-based compensation expenses for 2017 included RMB667.1 million share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB162.9 million and RMB1.43 billion, and were expected to be recognized over a weighted average period of 3 years and 2.72 years on a straight-line basis as of December 31, 2017, respectively. The share-based compensation expenses for 2018 included RMB671.2 million (US\$97.6 million) share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB131.4 (US\$19.1 million) and RMB1.20 billion (US\$175.0 million), and were expected to be recognized over a weighted average period of 2 years and 2.32 years on a straight-line basis as of December 31, 2018, respectively. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Critical Accounting Policies—Share-based compensation" for details.
- (3) Include shipping and handling expenses, which amounted to RMB1.17 billion, RMB1.71 billion, RMB2.58 billion, RMB3.83 billion, and RMB4.50 billion (US\$654.3 million) for the years ended December 31, 2014, 2015, 2016, 2017, and 2018, respectively.
- (4) Authorized share capital was re-classified and re-designated into Class A ordinary shares and Class B ordinary shares, with each Class A ordinary share being entitled to one vote and each Class B ordinary share being entitled to ten votes on all matters that are subject to shareholder vote.
- (5) Each ADS represents 0.2 Class A ordinary shares, effective November 3, 2014. The computation of net earnings per ADS has been adjusted for all periods presented to reflect this change.

	As of December 31,					
	2014	2015	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	US\$'000
<b>Summary Consolidated Balance Sheet Data:</b>						
Cash, cash equivalents and restricted cash	4,791,151	3,324,384	4,109,577	10,221,992	10,038,472	1,460,035
Total current assets	13,220,454	12,153,276	14,580,872	25,916,138	27,325,637	3,974,350
Total assets	16,951,041	20,035,522	25,094,453	37,982,820	43,562,663	6,335,927
Total liabilities	14,252,973	16,422,255	19,312,649	23,732,244	26,351,870	3,832,719
Total shareholders' equity	2,698,068	3,613,267	5,781,804	14,250,576	17,210,793	2,503,208

B. *Capitalization and Indebtedness*

Not applicable.

C. *Reasons for the Offer and Use of Proceeds*

Not applicable.

D. *Risk Factors*

**Risks Relating to Our Business and Industry**

***If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.***

We have experienced a period of growth and expansion that has demanded, and will continue to demand, significant financial and managerial resources. We plan to further increase our sales through enhancing our brand recognition, growing our customer base, and increasing customer spending on our Vipshop Online Platform.

We intend to continue investing in our warehousing capacity to support our long-term growth. To further improve our nationwide fulfillment capabilities, we have expanded our warehouses in strategic locations in China to strengthen our regional logistics hubs. Moreover, we have leased warehouses outside China. However, we cannot assure you that we will be able to execute our expansion plan as expected. Our rapid expansion requires us to continue to effectively manage our relationships with brand partners and third-party delivery companies to ensure efficient and timely delivery of our products. To continue our business growth, we will also need to allocate significant managerial and financial resources in retaining, training, managing, and motivating our workforce.

We also seek to broaden our product and service offerings through third-party sellers offering their own products and services on our Vipshop Online Platform. The products and services offered by such third-party sellers may differ in category, quality, and value in comparison to those offered directly by us. Such expansion may require us to work with different groups of brand partners and introduce new product and service categories to address the needs of different kinds of customers. We have limited or no experience in some of these newer product and service offerings, such as online sales under third-party proprietary cosmetics brands, and our expansion into these new product and service categories may not achieve broad customer acceptance. These offerings may present new and difficult technological or operational challenges, and we may be subject to claims if customers experience service disruptions or failure or other quality issues with these third-party sellers. In addition, our profitability, if any, in our newer product and service categories may be lower than in our older categories, which may adversely affect our overall profitability and results of operations. Moreover, we cannot assure you that we will be able to recoup our investments in introducing these new product categories.

Furthermore, we have further developed and expanded new business initiatives in Internet finance. We intend to stay focused on consumer financing and supplier financing services that we offer to our customers. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Business and Industry—We have limited experience in operating an Internet finance business, and increasing exposure to credit risks or significant deterioration in the asset quality of our Internet finance business may materially and adversely affect our business, financial condition, and results of operations." and "Item 4.B. Information on the Company—Business Overview—Our Product and Service Offerings—Other Services."

All of these endeavors involve risks. We cannot assure you that we will successfully execute these expansion plans and strategies. We may fail to acquire financial or managerial resources needed for our business growth in a timely and cost-efficient manner, or at all. We cannot assure you that we will be able to manage our growth effectively, and any failure to do so may materially and adversely affect our business and prospects.

***If we are unable to offer branded products at attractive prices to meet customer needs and preferences, or if our reputation for selling authentic, high-quality products suffers, we may lose customers and our business, financial condition, and results of operations may be materially and adversely affected.***

Our future growth depends on our ability to continue to attract new customers as well as to increase the spending and repeat purchase rate of existing customers. Constantly changing consumer preferences have historically affected, and will continue to affect, the online retail industry. Consequently, we must stay abreast of emerging lifestyle and consumer preferences and anticipate product trends that will appeal to existing and potential customers. As we implement our strategy to offer personalized Vipshop Online Platform focusing on deep curation and targeted offerings desired by our customers, we expect to face additional challenges in the selection of products and services. Our ability to offer individually-tailored merchandise is dependent on our IT systems, including our big data and business intelligence system, to collect and provide accurate and reliable information on consumer interests. In addition, we focus on offering only authentic products on our platform, as perception by our existing or prospective customers that any of our products are not authentic, or are of inferior quality, could cause our reputation to suffer. This is particularly important for cosmetics and maternal and baby products. While our representatives generally check the products that we sell to confirm their authenticity, quality, and proper labeling, we cannot assure you that our suppliers have provided us with authentic products or that all products that we sell are of the quality satisfactory to our customers. If our customers cannot find desirable products within our product portfolio at attractive prices, or if our reputation for selling authentic, high-quality product suffers, our customers may lose interest in our platform and thus may visit our platform less frequently or even stop visiting our platform, which in turn may materially and adversely affect our business, financial condition, and results of operations.

***Our business and results of operations may be materially and adversely affected if we are unable to maintain our customer experience or provide high-quality customer service.***

The success of our business largely depends on our ability to provide superior customer experience and high-quality customer service, which in turn depends on a variety of factors, such as our ability to continue to provide reliable and user-friendly Vipshop Online Platform for our customers to browse and purchase our products, reliable and timely delivery of our products, and superior after-sales services. Our sales may decrease if our platform services are severely interrupted or otherwise fail to meet our customer demands. Should we or third-party delivery companies fail to provide our product delivery and return services in a convenient or reliable manner, or if our customers are not satisfied with our product quality, our reputation and customer loyalty could be adversely affected. In addition, we also depend on our call center and online customer service representatives to provide live assistance to our customers. If our call center or online customer service representatives fail to satisfy the individual needs of customers, our reputation and customer loyalty could be adversely affected and we may lose potential or existing customers and experience a decrease in sales. As a result, if we are unable to continue to maintain our customer experience and provide high-quality customer service, we may not be able to retain existing customers or attract new customers, which could materially and adversely affect our business, financial condition, and results of operations.

***Any harm to our brands or failure to maintain our reputation may materially and adversely affect our business and growth prospects.***

We believe that the recognition and reputation of our brands among our customers and brand partners have significantly contributed to the growth of our business. Maintaining and enhancing the recognition and reputation of our brands are critical to our business and competitiveness. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brands and, if

not properly managed, may negatively impact our brands and reputation. These factors include our ability to:

- provide satisfactory user experience as consumer preferences evolve and as we expand into new product categories;
- increase brand awareness among existing and potential customers through various marketing and promotional activities;
- maintain the popularity, attractiveness, and quality of the products we offer;
- maintain the efficiency, reliability, and quality of our fulfillment services; and
- preserve our reputation and goodwill in the event of any negative media publicity on Internet security, product quality, or authenticity issues affecting us or other online retail businesses in China.

A public perception that non-authentic or counterfeit goods are sold on our Vipshop Online Platform, even if factually incorrect, could damage our reputation, reduce our ability to attract new customers or retain our existing customers, and diminish the value of our brands. If we are unable to maintain our reputation, enhance our brand recognition, or increase positive awareness of our platform, products, and services, it may be difficult to maintain and grow our customer base, and our business and growth prospects may be materially and adversely affected.

***If we fail to manage our relationships with, or otherwise fail to procure products at favorable terms from, our existing brand partners, or if we fail to attract new brand partners, our business and growth prospects may suffer.***

We source our products from both domestic and international brand partners. As of December 31, 2016, 2017, and 2018, we worked with over 10,000, 13,000, and 17,000 brand partners, respectively. We depend significantly on our ability to source products from brand partners on favorable pricing terms, typically at a substantial discount to the original sales price. However, our agreements do not ensure the long-term availability of merchandise or the continuation of any particular pricing practices. Our contracts with our brand suppliers typically do not restrict our brand partners from selling products to other buyers. We cannot assure you that our current brand partners will continue to sell products to us on commercially acceptable terms, or at all. In the event that we are not able to purchase merchandise on favorable pricing terms, our revenues, profit margin, and earnings may be materially and adversely affected. Our brand partners primarily include brand owners, and to a lesser extent, brand distributors and resellers. If any brand distributor or reseller fails to obtain or maintain appropriate authorization from the relevant brand owner to sell certain products to us, such brand distributor or reseller may cease selling such products to us at any time, which may adversely affect our business and revenues. Furthermore, although we, as an online distributor, are not directly responsible to obtain customs clearance or other relevant permits for the sale of products imported by our brand partners, we are required under the relevant PRC laws to check whether our brand partners who have imported such products have obtained the requisite import-related permits or filings and whether the products have passed the quality inspection before they are sold and distributed in the China market. If any of our brand partners fails to pay the required import tariffs, fails to obtain clearance from the customs or inspection and quarantine bureaus, or fails to meet the product labeling or other mandatory specification requirements, and sells such imported products to us, we may be subject to fines, suspension of business, and confiscation of unlawfully sold products and the proceeds from such sales, depending on the nature and gravity of such liabilities.

If our brand partners cease to provide us with favorable payment terms or return policies, our working capital needs may increase, resulting in negative impact on our cash flows from operating activities, and our operations may be materially and adversely affected. As part of our growth strategy,

we plan to further expand our brand and product offerings and thus need to continue establishing relationships with new brand partners to ensure our access to a steady supply of products on favorable commercial terms. Furthermore, our relationships with some brand partners, particularly international brand partners of apparel products in China, may be adversely affected as a result of our sale of branded products that are directly procured from overseas markets. If we are unable to develop and maintain good relationships with brand partners that would allow us to obtain sufficient amount and variety of quality merchandise on acceptable commercial terms, it may inhibit our ability to offer sufficient products sought by our customers or to offer these products at prices acceptable to them. Negative developments in our relationships with brand partners could materially and adversely affect our business and growth prospects.

***We rely on our invested and in-house last mile delivery capabilities and third-party delivery companies for our product delivery, and if we or these third-party delivery companies fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.***

Leveraging our continued and committed investment in quality delivery companies and build-out of in-house delivery capabilities and warehousing systems with almost nationwide coverage over the years, we now rely primarily on our invested and in-house last mile delivery capabilities and, to a lesser extent, on third-party delivery companies to fulfill our product delivery demand. In 2018, our invested and in-house last mile delivery capabilities handled over 95% of our total orders. Nevertheless, we still maintain cooperation arrangements with a number of third-party delivery companies to supplement our invested and in-house delivery capabilities to deliver our products. Interruptions to or failures in delivery services could prevent the timely or proper delivery of our products. These interruptions may be due to events that are beyond our control or the control of these third-party delivery companies, such as inclement weather, natural disasters, transportation interruptions, or labor unrest or shortage. Moreover, if these third-party delivery companies fail to comply with applicable rules and regulations in China, reputation of our delivery services may be materially and adversely affected. We may not be able to find alternative delivery companies to provide delivery services in a timely and reliable manner, or at all, to replace such third-party delivery companies to the extent necessary. As competition intensifies in the future, we expect that we will be required to further shorten delivery time, which could place increasing pressure on our delivery network. Delivery of our products could also be affected or interrupted by merger, acquisition, insolvency, or government shut-down of our invested and in-house last mile delivery capabilities or the third-party delivery companies we engage to make deliveries, especially those local couriers with relatively small business scales. Furthermore, we may face additional challenges in managing our relationship with third-party delivery companies as a result of maintaining our own in-house delivery operations and capacities.

If our products are not delivered in proper condition or on a timely basis, our business and reputation could suffer. Although we pay delivery companies subsequent to their fulfillment of delivery obligation on a monthly basis, such subsequent payment may not adequately incentivize their timely and proper delivery of goods. Although we typically require delivery companies, especially local couriers, to make cash deposits or guarantee payments securing their due performance of duties as part of our engagement with them, such security deposit may not be sufficient to recover the losses that we sustain as a result of their failure to perform.

***If we do not compete effectively against existing or new competitors, we may lose market share and customers.***

The online discount retail market is rapidly evolving and competitive. Our primary competitors include major B2C e-commerce companies in China that sell a broad range of products and services

online, such as Alibaba and Pinduoduo, and other online discount retail companies in China. We compete with others based on a number of factors, including:

- ability to identify products in demand among consumers and source these products on favorable terms from brand suppliers;
- pricing;
- breadth and quality of product offerings;
- platform features;
- customer service and fulfillment capabilities; and
- reputation among consumers and brands.

Some of our current and potential competitors may have significantly greater resources, longer operating histories, larger customer bases, and greater brand recognition. As the online discount retail market in China is expected to grow, many new competitors and some existing B2C e-commerce companies may enter into this market. In addition, other online retailers may be acquired by, receive investment from, or enter into strategic relationships with, well-established and well-financed companies or investors, which would help enhance their competitive positions. Some of our competitors may be able to secure more favorable terms from brand partners, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies, and devote substantially more resources to their platform and system development than us. In addition, emerging technologies and continuing innovation in mobile Internet may increase the competition in the online retail industry. Increasing competition may negatively affect our business development, online retail, and brand recognition, which may in turn affect our market share and operating margins. We cannot assure you that we will be able to compete effectively against our competitors, and competitive pressure may materially and adversely affect our business, prospects, financial condition, and results of operations.

In addition, we seek to expand into the offline retail business as a supplement to our growth strategy. We cannot guarantee that we will be able to compete successfully with existing offline competitors, including, among others, traditional offline malls that have accumulated considerable customer base and offline stores of other reputable online retailers. We may lack experience in offline store management and may hold insufficient offline operational capabilities. We may not be able to locate desirable sites for our stores. Operating offline stores requires considerable capital and personnel, and we may not be able to generate profits from our offline business to cover the relevant cost within a short period of time. The occurrence of any of the above may adversely affect our business, prospects, financial condition, and results of operations.

***We had incurred net losses and experienced negative cash flow from operating activities in historical periods and may incur net losses in the future.***

We had incurred net losses in historical periods. Although we have achieved net profit since the fourth quarter of 2012, we cannot assure you that we can continue to generate net profits or maintain positive cash flow from operating activities in the future. Our ability to be profitable depends on our ability to grow our business and increase our total net revenues, to optimize our product category mix, to negotiate favorable terms with our suppliers, and to control our costs and operating expenses. Although we have experienced significant revenue growth since our inception, such growth may not be sustainable and we may incur net losses in future periods or fail to maintain positive cash flow from operating activities. We have incurred in the past and expect to continue to incur in future periods share-based compensation expenses and we expect our costs and other operating expenses to continue to increase as we expand our business, either of which will reduce our net income and may result in future losses. If our costs and operating expenses continue to increase without a commensurate

increase in our revenue, our business, financial condition, and results of operations will be adversely affected, and we may need additional capital to fund our ongoing operations.

***We may suffer losses if we are unable to effectively manage our inventory.***

Due to the nature of the flash sales business, we need to manage a large volume of inventory turnover. We depend on our forecasts of demand and popularity for various kinds of products to make decisions regarding product purchases. Our customers may not order products at our expected levels. In addition, any unfavorable market or industry conditions or change in consumer trends and preferences may limit our ability to accurately forecast the inventory levels to meet customer demand.

We generally have the right to return unsold items for most of our products to our brand partners. In order to secure more favorable commercial terms, we may need to continue to enter into supply arrangements without unconditional return clauses or with more restrictive return policies. We may also need to take inventory in certain key product categories in order to achieve higher gross margin and obtain better commercial terms. Furthermore, because products imported to China for our cross-border business are generally not returnable, our inventory may contain an increasing portion of unreturnable products as our cross-border business continues to grow.

We recorded RMB303.2 million, RMB206.7 million, and RMB440.8 million (US\$64.1 million) in inventory write-down in the years ended December 31, 2016, 2017, and 2018, respectively. Such write-downs primarily reflected the estimated net realizable value of damaged or obsolete inventory.

If we fail to manage our inventory effectively in the future, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and write-down, which could materially and adversely affect our business, financial condition, and results of operations. In addition, if we are unable to sell products or if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our brand partners in order to secure the right to return products to our brand partners, our profit margins might be negatively affected. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. If we do not accurately predict product demand, our business, financial condition, and results of operations may be materially and adversely affected.

***If we are subject to higher than expected product return rates, our business, financial condition, and results of operations may be materially and adversely affected.***

Purchases of apparel, fashion accessories, and other items over the Internet may be subject to higher return rates than merchandise sold at physical stores. In order to accommodate our customers and to overcome any hesitance that they may have in shopping with us, we currently implement a unified seven-day product return policy for purchases via our Vipshop Online Platform and refund our customers if they refuse to accept the delivery, which also constitutes a product return. Our product return rates remained stable from 2013 to 2017, and slightly increased in 2018 due to the repositioning of our business focus towards the apparel category and the implementation of our new Super VIP Membership program, which offers free shipping and free return for its paid members. If we are unable to efficiently manage our product return rates within an appropriate range relative to our sales volume, or if our product return rates increase or are higher than expected, our revenues and costs can be negatively impacted. In addition, as we cannot return some products to our brand partners pursuant to our contracts with them, if return rates for such products increase significantly, we may experience an increase in our inventory balance, inventory impairment, and fulfillment costs, which may materially and adversely affect our working capital. As a result, our business, financial condition, and results of operations may be materially and adversely affected.

***We rely on online retail of apparel products for a significant portion of our total net revenues.***

Historically, online retail sales of apparel products accounted for a significant portion of our total net revenues. We expect that sales of these products will continue to grow and represent a significant portion of our total net revenues in the near future. We have increased our offerings to include other product categories, including fashion products, cosmetics, home goods, maternal and baby products, accessories, wellness products, consumer electronic products, and other lifestyle products, as well as Internet finance offerings (including consumer financing and supplier financing services). However, we do not expect the sales of these new products and services to increase to a level that would reduce our dependence on our current line of products and services. Any failure in maintaining or increasing the number of our online retail customers or our sales volumes could result in our inability to retain or capture a sufficient share of the markets that we are targeting. Any event that results in a reduction in our sales of apparel products could materially and adversely affect our ability to maintain or increase our current level of revenue, our profitability and business prospects.

***We have been expanding our logistics network. If we are not able to manage such expansion successfully, our growth potential, results of operations, and business could be materially and adversely affected.***

Our logistics network, currently consisting of regional logistics hubs located in Zhaoqing of Guangdong Province in Southern China, Kunshan of Jiangsu Province in Eastern China, Jianyang of Sichuan Province in Southwestern China, Tianjin in Northern China, Ezhou of Hubei Province in Central China, and Shenyang of Liaoning Province in Northeastern China, as well as local distribution centers, is essential to our business growth. We intend to continue using our available cash and financing options to expand our logistics network to accommodate increasing volumes of customer orders, enhance customer services, provide better coverage across China, invest in IT system and mobile channel, and other general purposes. However, we cannot assure you that our plans to operate our own logistics centers and delivery operations will be successful. The expansion of our logistics network will put pressure on our managerial, financial, operational, and other resources. We cannot assure you that we will be able to locate suitable facilities on commercially acceptable terms in accordance with our expansion plan. Nor can we assure you that we will be able to recruit qualified managerial and operational personnel to support our expansion plan. If we are unable to secure new facilities for the expansion of our logistics operations, or to effectively control expansion-related expenses, our business, prospects, financial condition, and results of operations could be materially and adversely affected.

***Uncertainties regarding the growth and sustained profitability of the online retail market in China, and in particular, the development of the online flash sales business model, could adversely affect our business, prospects, financial condition, and results of operations.***

Substantially all of our total net revenue is generated through an online retail business model, and in particular, an online flash sales business model. While online retail businesses have existed in China since the 1990s, only a limited number of these companies became profitable. The flash sales business model originated in Europe in 2001 and then spread to the United States and later to China. The long term viability and prospects of the online retail industry, particularly companies utilizing an online flash sales business model, and B2C e-commerce business generally in China, remain subject to significant uncertainty. Our business, financial condition, and results of operations will depend on numerous factors affecting the development of the online flash sales business and, more broadly, the online retail and e-commerce businesses in China, which may be beyond our control. These factors include the general economic conditions in China, the growth of Internet usage, the confidence in and level of e-commerce and online spending, the emergence of alternative retail channels or business models, the success of marketing and brand building efforts by e-commerce and flash sales companies, and the

development of payment, logistics, after-sale, and other services associated with e-commerce and flash sales.

***The proper functioning of our IT systems is essential to our business. Any failure to maintain the satisfactory performance, security, and integrity of our Vipshop Online Platform and systems will materially and adversely affect our business, reputation, financial condition, and results of operations.***

Our IT systems mainly include technology infrastructure supporting the user interface of our Vipshop Online Platform, as well as our customer service, enterprise resource planning, warehouse and logistics management, product information management, business intelligence, and administration management systems. The satisfactory performance, reliability, and availability of our IT systems are critical to our success, our ability to attract and retain customers, and our ability to maintain a satisfactory customer experience and level of customer service.

Our servers may be vulnerable to computer viruses, user traffic boom that exceeds the capacity of our servers, physical or electronic break-ins, and other disruptions, which could lead to system interruptions, website slowdown or unavailability, delays in transaction processing, loss of data, or the inability to accept and fulfill customer orders. We can provide no assurance that we will not experience such unexpected interruptions. We can provide no assurance that our current security mechanisms will be sufficient to protect our IT systems from any third-party intrusions, viruses or hacker attacks, information or data theft, or other similar activities. Any such future occurrences could damage our reputation and result in a material decrease in our revenue. We did not have material system failure in 2018.

Additionally, we intend to continue using our available cash and financing options to upgrade and improve our IT systems and cybersecurity to support our business growth. For the year ended December 31, 2018, we spent RMB244.5 million (US\$35.6 million) to maintain our IT and cybersecurity protections. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies. In particular, our systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all. If our existing or future IT systems do not function properly, it could cause system disruptions and slow response times, affecting data transmission, which in turn, could materially and adversely affect our business, financial condition and results of operations.

***If we fail to successfully adopt new technologies or adapt our Vipshop Online Platform and systems to changing customer needs or emerging industry standards, our business, financial condition, and results of operations may be materially and adversely affected.***

To remain competitive, we must continue to enhance and improve the responsiveness, functionality, and features of our Vipshop Online Platform. The online retail industry is characterized by rapid technological evolution, changes in end user requirements and preferences, frequent introductions of new products and services embodying new technologies, and the emergence of new industry standards and practices that could render our existing proprietary technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire, or license leading technologies useful in our business, enhance our existing services, develop new services and technologies that address the increasingly sophisticated and varied needs of our existing and prospective customers, and respond to technological advances and emerging industry standards and practices, such as mobile Internet, on a cost-effective and timely basis. The development of mobile applications, websites, and other proprietary technology entails significant technical and business risks. We can provide no assurance that we will be able to use new technologies effectively or adapt our platform, proprietary technologies, and transaction-processing systems to meet customer requirements or emerging industry standards. If we are unable to accurately project the need for such system expansion or upgrade or to adapt our systems in a cost-effective and timely manner in response to changing market conditions or customer

requirements, whether for technical, legal, financial, or other reasons, our business, prospects, financial condition, and results of operations could be materially and adversely affected.

***We have limited experience in operating an Internet finance business, and increasing exposure to credit risks or significant deterioration in the asset quality of our Internet finance business may materially and adversely affect our business, financial condition, and results of operation.***

Over the past few years, we have participated in the emerging Internet finance sector in China. We have launched consumer financing and supplier financing services. Operating in this highly-regulated and fast-changing business sector involves new risks and challenges. Our lack of familiarity with the Internet finance sector may make it difficult for us to anticipate the demands and preferences in the market and develop financial service products that meet our customers' requirements and preferences. We may not be able to successfully identify new product and service opportunities or develop and introduce these opportunities to our customers in a timely and cost-effective manner, or our customers may be disappointed in quality of our services.

The development of our Internet finance business is capital intensive. For certain financial service products, we have committed and will continue to commit our own capital, which had and may continue to have a negative impact on our cash flow. To supplement such capital requirement, one of our subsidiaries operating our Internet finance business offered asset-backed securities, or ABSs, listed on Shanghai Stock Exchange in China, and also offered asset-backed notes, or ABNs, listed on Shanghai Clearing House in China. As of December 31, 2018, the aggregate carrying amount of these ABSs and ABNs was RMB969.0 million (US\$140.9 million). Although we plan to continue to use any future ABS and ABN offerings in China to alleviate the dependence of our Internet finance business on our own cash flow, we may require additional cash resources due to further developments or changing business conditions and there can be no assurance that we will continue to complete additional ABS or ABN offerings in China or obtain access to other financing options in appropriate amounts or on acceptable terms, or at all.

Additionally, our accounts receivable increased over 2018 due to the credit we extended for our financial service products, in turn increasing our exposure to bad debts. Although default rate remained low since we launched these services, the risk of nonpayment of loans is inherent in the financing business and we are subject to credit risk resulting from defaults in payment for loans by our customers and suppliers. Credit risks may be exacerbated in microcredit and consumer financing because there will be relatively limited information available about the credit histories of consumers. We cannot assure you that our monitoring of credit risk issues and our efforts to mitigate credit risks through our credit assessment and risk management policies are or will be sufficient to result in lower delinquencies. Furthermore, our ability to manage the quality of our loan portfolio and the associated credit risks will have significant impact on the results of operations of our Internet finance business. Deterioration in the overall quality of loan portfolio and the increasing exposure to credit risks may occur due to a variety of reasons, including factors beyond our control, such as a slowdown in the growth of the global or Chinese economies or a liquidity or credit crisis in the global or Chinese finance sectors, which may materially and adversely affect our businesses, operations or liquidity of our suppliers and consumers or their ability to repay or roll over their debt. Any significant deterioration in the asset quality of our Internet finance business and significant increase in associated credit risks may materially and adversely affect our business, financial condition and results of operations.

***Our wide variety of accepted payment methods subject us to third-party payment processing-related risks.***

We accept payments using a variety of methods, including our Vipshop Payment service, cash on delivery, and payment through third-party online payment services, such as Tenpay. For certain payment methods, including credit and debit cards processed via our Vipshop Payment service, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our

profit margins. We may also be subject to fraud, customer data leakage, and other illegal activities in connection with the various payment methods we offer, including online payment and cash on delivery options. Although we depend less and less on third parties to provide payment processing services due to our customers' increasing use of Vipshop Payment, we continue to offer the various payment methods for the convenience and flexibility of our customers. For example, although we offer the cash on delivery payment option primarily on our in-house last mile capabilities, we still engage some third-party delivery companies for our cash on delivery payment option. If the service quality of these third-party delivery companies deteriorates, certain customers who prefer their services may become dissatisfied with us in general. We may also be subject to various rules, regulations, and requirements, regulatory or otherwise, governing electronic fund transfers and online payment, which could change or be reinterpreted to make it difficult or impossible for us to comply with. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic fund transfers, or facilitate other types of online payments, and our business, financial condition, and results of operations could be materially and adversely affected.

***The security of operations of our own and other third-party online payment services may materially and adversely affect our business.***

Currently, we accept payments through our own Vipshop Payment service and other third-party online payment services, such as Tenpay. In 2018, approximately 93% of our total orders were collected through online payment services, and our Vipshop Payment service was used to process a significant portion of our total orders. We expect that an increasing amount of our sales will be conducted over the Internet as a result of the growing use of online payment services. In all these online payment transactions, secured transmission of confidential information such as customers' credit card numbers and personal information over public networks is essential to maintain consumer confidence.

We do not have control over the security measures of our third-party online payment vendors, and security breaches of the online payment services that we use could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of all of the online payment services that we use. If a well-publicized Internet or mobile network security breach were to occur, users concerned about the security of their online financial transactions might become reluctant to purchase on our Vipshop Online Platform even if the publicized breach did not involve the online payment services or other methods used by us. In addition, there may be billing software errors that would damage customer confidence in these online payment services. If any of the above with respect to any third-party online payment vendors were to occur and damage our reputation or the perceived security of the online payment services we use, we might lose customers and customers might be discouraged from purchasing on our platform, which may adversely affect our business.

***Our growth and profitability depend on the level of consumer confidence and spending in China.***

Our business, financial condition, and results of operations are sensitive to changes in overall economic and political conditions that affect consumer spending in China. The retail industry, including the online retail sector in general and the flash sales business in particular, is highly sensitive to general economic changes. Online purchases tend to decline significantly during recessionary periods and substantially all of our total net revenue is derived from online retail sales in China. Many factors outside of our control, including inflation and deflation, interest rates, volatility of equity and debt securities markets, taxation rates, employment and other government policies can adversely affect consumer confidence and spending. The domestic and international political environments, including military conflicts and political turmoil or social instability, may also adversely affect consumer

confidence and reduce spending, which could in turn materially and adversely affect our business, financial condition, and results of operations.

***We may incur liability for counterfeit or unauthorized products sold or information posted on our platforms.***

We have been and may continue to be subject to allegations that some of the items sold on our platforms are counterfeit or unauthorized from the relevant brand owners. As of December 31, 2016, 2017, and 2018, we worked with over 10,000, 13,000, and 17,000 brand partners, respectively, via our Vipshop Online Platform. We cannot assure you that measures we have adopted in the course of sourcing such products to ensure their authenticity or authorization and to minimize potential liability of infringing third parties' rights will be effective. Any inadvertent sales of counterfeit, non-authentic or unauthorized items, or public perception of such incidents, could harm our reputation, impair our ability to attract and retain customers, and cause us to incur additional costs to respond to any incident of this nature. If counterfeit products, unauthorized products, or products, images, logos or any other information that otherwise infringe third parties' rights are sold or posted on our platform, we could also face infringement claims. We have occasionally received claim letters alleging our infringement of third-party rights. In December 2015, we received various consumer complaints about non-authentic Maotai liquor purchased during our annual promotion and confirmed that one of our vendors supplied non-authentic Maotai liquor sold on our platform. We discontinued cooperation with the vendor and voluntarily paid over RMB40 million to compensate the customers who had purchased such non-authentic Maotai liquor. We cannot assure you that in the future, we will not be required to allocate significant resources and incur material expenses regarding such claims. We may need to pay substantial amount of compensation to settle similar claims without involving in any legal proceedings, and could be required to pay substantial damages or to refrain from the sale of relevant products in the event that a claimant prevails in any proceedings against us. Forms of potential liabilities under PRC law if we negligently participated or assisted in infringing activities associated with counterfeit goods include injunctions to cease infringing activities, rectification, compensation, and administrative penalties. Moreover, our reputation could be negatively affected due to the negative publicity of any infringement claim against us. Any third-party claims may materially and adversely affect our business, prospects, financial condition, and results of operations.

***Failure to protect confidential information of our customers and our network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.***

A significant challenge to e-commerce and communications is the secure transmission of confidential information over public networks. Currently, almost all product orders and, in some cases, payments for products we offer, are made through our Vipshop Online Platform and systems. In such transactions, maintaining security on our platform and systems for the transmission of confidential or private information, such as customers' personal information, payment-related information, and transaction information, is essential to maintain consumer confidence in our platform and systems.

We have adopted rigorous security policies and measures, including use of encryption technology, to protect our proprietary data and customer information. However, advances in technology and hacker skills, new discoveries in the field of cryptography, or other events or developments could result in a compromise or breach of the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining such confidential or private information we hold as a result of our customers' visits on our platform. Such individuals or entities obtaining our customers' confidential or private information may further engage in various other illegal activities using such information. In addition, we have limited control or influence over the security policies or measures adopted by third-party providers of online payment services through which some of our customers may elect to make payment for purchases on our platform. Furthermore, our third-party delivery companies may also violate their confidentiality obligations and disclose or use information about our customers illegally. Although we do not believe that we will be held responsible for any such illegal activities, any negative publicity on our platform's safety or privacy protection mechanism and policy could materially and adversely affect our public image and reputation.

In addition, the methods used by hackers and others to engage in illegal online activities are increasingly sophisticated and constantly evolving. Significant capital, managerial, and other resources may be required to ensure and enhance information security or to address the issues caused by such security failure. Any perception by the public that e-commerce and transactions, or the privacy of user information, are becoming increasingly unsafe or vulnerable to attack could inhibit the growth of online retail and other online services generally, which may also in turn reduce the number of orders we receive and materially and adversely affect our business, financial condition and results of operations.

***We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.***

We regard our trademarks, service marks, domain names, trade secrets, proprietary technologies, and other intellectual property as critical to our business. We rely on a combination of intellectual property laws and contractual arrangements, including confidentiality agreements and license agreements with our employees, brand partners and others, to protect our proprietary rights. As of December 31, 2018, we owned 1,401 registered trademarks, 149 copyrights (including copyrights with respect to 115 software products developed by us relating to various aspects of our operations), and 301 registered domain names that are material to our business, including vip.com and vipshop.com. See "Item 4.B. Information on the Company—Business Overview—Intellectual Property."

It is often difficult to register, maintain, and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality agreements and license agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in protecting or enforcing our intellectual property rights could materially and adversely affect our business, financial condition and results of operations.

***Future strategic alliances or acquisitions may materially and adversely affect our business, financial condition, and results of operations.***

We may pursue selected strategic alliances and potential strategic acquisitions that are complementary to our business and operations, including opportunities that can help us promote our brand to new customers and brands, expand our product and service offerings and improve our technology infrastructure. We may also pursue strategic initiatives with brands and platforms in international markets.

Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance or default by counterparties, and increasing expenses in establishing these new alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor the actions of our partners. To the extent a strategic partner suffers any negative publicity as a result of its business operations, our reputation may be negatively affected by virtue of our association with such party.

In addition, although we have no current acquisition plans, we may consider entering into strategic acquisition of other companies, businesses, assets or technologies that are complementary to our

business and operations as part of our growth strategy. For example, in 2014, we acquired, through a series of transactions, a majority stake in Lefeng.com Limited, or Lefeng, an online retail website specialized in selling cosmetics and fashion products in China, from its parent Ovation Entertainment Limited, or Ovation, to strengthen our cosmetics and fashion product expertise. In February 2015, January 2016, and May 2016, we acquired an aggregate of 97.0% of equity interest in Feiyuan Logistics Co., Ltd., or Feiyuan, for a total consideration of approximately RMB255.7 million, to boost our warehousing, transportation, and distribution capabilities in southeast China. In September 2016, we acquired 100% of equity interest in Zhejiang Ebatong Technology Co., Ltd., which is a third-party payment service provider, for a total consideration of RMB428.3 million. Zhejiang Ebatong Technology Co., Ltd. changed its name to Zhejiang Vipshop Payment Co., Ltd. following the completion of acquisition, and developed our Internet payment channel. In December 2017, subsidiaries of Tencent Holdings Limited, or Tencent, and JD.com, Inc., or JD.com, invested in us with an aggregate investment amount of US\$862.3 million in cash. A Tencent subsidiary and JD.com also entered into strategic cooperation framework agreement and business cooperation framework agreement with us, respectively. Under these agreements, Tencent granted us an access interface on Weixin Wallet, and JD.com granted us access interfaces on JD.com's mobile application and JD.com's Weixin Discovery shopping application, to utilize the traffic from such platforms. In March 2018, we agreed to invest up to US\$250 million in a private equity fund focusing on technology-enabled consumer, retail, and related business.

Strategic acquisitions and subsequent integrations of newly acquired businesses would require significant managerial and financial resources and could result in a diversion of resources from our existing business, which in turn could adversely affect our growth and business operations. The costs of identifying and consummating acquisitions may be significant. We may also incur significant expenses in obtaining approvals from shareholders and relevant government authorities in China and elsewhere in the world. Our failure to consummate acquisitions could also require us to pay certain pre-negotiated fees and expenses. Acquired businesses or assets may not generate expected financial results and may have historically incurred and continue to incur losses. In addition, acquisitions could also require the use of substantial amount of cash, issuance of equity or debt securities, incurrence of significant goodwill and related impairment charges, amortization expenses for intangible assets and exposure to potential unknown liabilities of the acquired businesses or assets, including liabilities as the result of historical actions of the acquired businesses. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations. Any such negative developments could materially and adversely affect our business, financial condition, and results of operations.

***Any interruption in the operation of our regional logistics hubs or data centers for an extended period may materially and adversely affect our business.***

Our ability to process and fulfill orders accurately and to provide high-quality customer service depends on the efficient and uninterrupted operation of our current regional logistics hubs and our self-owned servers located in data centers operated by major PRC Internet datacenter providers. Our regional logistics hubs and data centers may be vulnerable to damage caused by fire, flood, power loss, telecommunications failure, break-ins, earthquake, human errors, and other events. We have developed a disaster tolerant system which includes real-time data mirroring, daily off-line data back-up and redundancy and load balancing. However, we do not carry business interruption insurance. The occurrence of any of the foregoing risks could materially and adversely affect our business, prospects, financial condition, and results of operations.

***We may be subject to product liability claims if people or properties are harmed by the products we sell.***

We sell products manufactured by third parties, some of which may be defectively designed or manufactured. As a result, sales of such products could expose us to product liability claims relating to

personal injury or property damage and may require product recalls or other actions. Third parties subject to such injury or damage may bring claims or legal proceedings against us as a product retailer or as a marketplace service provider. Currently, we maintain third-party liability insurance and product liability insurance in relation to products we sell for any product liability claims based on property damage or personal injury. We also maintain public liability insurance. However, any material product liability claim beyond our coverage or litigation could materially and adversely affect our business, financial condition, and results of operations. Even unsuccessful claims could result in the use of funds and managerial efforts in defending them and could negatively impact on our reputation.

***We have limited insurance coverage, which could expose us to significant costs and business disruption.***

Risks associated with our business and operations include, but are not limited to, damage to properties due to fire, explosions and other accidents, business interruption due to power shortages or network failure, product liability claims, transportation damages, losses of key personnel, and risks posed by natural disasters including storms, floods, and earthquakes, any of which may result in significant costs or business disruption. We have maintained insurance coverage we consider necessary and sufficient for our business, and customary for the industry in which we operate, including all risk property insurance covering our equipment, facilities, inventories, and other properties and public liability insurance covering certain premises liability. However, insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance. We cannot assure you that our insurance coverage is sufficient to prevent us from any loss to be sustained or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition, and results of operations could be materially and adversely affected.

***Our business depends on the continuing efforts of our management. If we lose their services, our business may be severely disrupted.***

Our business operations depend on the continuing efforts of our management, particularly the executive officers named in "Item 6.A. Directors, Senior Management and Employees—Directors and Senior Management" in this annual report. If one or more of our management were unable or unwilling to continue their employment with us, we might not be able to replace them in a timely manner, or at all. We may incur additional expenses to recruit and retain qualified replacements. Our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, our management may join a competitor or form a competing company. We can provide no assurance that we will be able to successfully enforce our contractual rights included in the employment agreements we have entered into with our management team, particularly in China, where all these individuals reside. As a result, our business may be negatively affected due to the loss of one or more members of our management.

***If we are unable to attract, train, and retain qualified personnel, our business may be materially and adversely affected.***

We intend to hire and retain additional qualified employees to support our business operations and planned expansion. Our future success depends, to a significant extent, on our ability to attract, train, and retain qualified personnel, particularly management, technical, marketing, and other operational personnel with expertise in the online retail industry. Our experienced mid-level managers are instrumental in implementing our business strategies, executing our business plans and supporting our business operations and growth. Since our industry is characterized by high demand and intense competition for talent, we cannot assure you that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. In addition, our

ability to train and integrate new employees into our operations may also be limited and may not meet the demand for our business growth on a timely fashion, or at all. If we are unable to attract, train, and retain qualified personnel, our business may be materially and adversely affected.

***Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.***

We lease various properties for offices, logistics centers, offline stores, data centers, and customer service centers. We may not be able to successfully extend or renew such leases and may therefore be forced to relocate our affected operations. This could disrupt our operations and result in significant relocation expenses, which could materially and adversely affect our business, financial condition, and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow and such failure in relocating our affected operations could affect our business and operations.

***Our use of leased properties could be challenged by third parties, which may cause interruptions to our business operations.***

Some of our landlords do not have proper ownership certificates for the properties we lease, or have other restrictions on their ownership of the properties. In particular, we have eight offices in Guangzhou as of the date of this report. Some of them are located on land allocated by local government, and the landlord has not obtained the relevant government approvals for leasing the premises. In addition, some of our leased properties were mortgaged by the owners to third parties before we entered into lease agreements with them, and if such owners fail to perform their obligations secured by such properties and the mortgage is enforced by the third parties, we may be unable to continue to lease such properties and may be forced to relocate. Furthermore, a few of our leasehold interests in leased properties have not been registered with relevant PRC government authorities as required by PRC laws. According to PRC laws, rules and regulations, failure to register a lease agreement will not affect its effectiveness between the landlord and the tenant. However, the landlord and the tenant may be subject to administrative fines of up to RMB10,000 each for such failure to register the lease. As of the date of this annual report, we are not aware of any claims or actions being contemplated or initiated by government authorities or any third parties with respect to our leasehold interests in or use of such properties. Currently, we are constructing our new office building in Guangzhou and plan to move into the new office building upon its anticipated completion in 2020. However, we cannot assure you that our use of the leased properties before we move into our new office building will not be challenged by the government authorities or third parties alleging ownership of such properties. In the event that our use of properties is successfully challenged, we may be forced to relocate the affected operations. We can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties. As a result, our business, financial condition, and results of operations may be materially and adversely affected.

***If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately report our results of operations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.***

We are subject to the reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring a public company to include a report of management on the effectiveness of such company's internal control over financial reporting in its annual report on Form 20-F. In addition,

an independent registered public accounting firm for a public company must issue an attestation report on the effectiveness of our internal control over financial reporting for the year ended December 31, 2018, as included in this annual report. As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by SEC, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 using criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2018. In addition, our independent registered public accounting firm attested the effectiveness of our internal control and reported that our internal control over financial reporting was effective as of December 31, 2018. If we fail to achieve and maintain an effective internal control environment for our financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. We may therefore need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements going forward. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports. As a result, any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations, and civil or criminal sanctions.

***Our business, financial condition, and results of operations, as well as our ability to obtain financing, may be adversely affected by the downturn in the global or Chinese economy.***

The global macroeconomic environment is facing challenges. The Chinese economy has shown slower growth since 2012 compared to the previous decade and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. There have also been concerns on the relationship between China and the United States, including those resulting from the ongoing trade dispute between the two countries. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in market volatility. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term.

Economic conditions in China are sensitive to global economic conditions. Our business and operations are primarily based in China and substantially all of our revenues are derived from our operations in China. Accordingly, our financial results have been, and are expected to continue to be, affected by the economy and online retail industry in China. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. Recent changes in U.S. trade policies, including new tariffs on imports from China generally, and reactions by a number of markets including China in response to these U.S. actions, may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between China and the United States. The online retail industry is particularly sensitive to economic downturns, and the macroeconomic environment in China may affect our business and prospects. A prolonged slowdown in the global or Chinese economy may lead to a reduced level of online purchasing activities, which could materially and adversely affect our business, financial condition, and results of operations.

Moreover, a slowdown in the global or Chinese economy or the recurrence of any financial disruptions may materially and adversely impact financings available to us. The weakness in the economy could erode investors' confidence, which constitutes the basis of the credit markets. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China. The recent financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. Any prolonged slowdown in the global or Chinese economy may negatively impact our business, results of operations, and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

***Our results of operations are subject to quarterly fluctuations due to a number of factors that could adversely affect our business and the trading price of our ADSs.***

We experience seasonality in our business, reflecting a combination of seasonal fluctuations in Internet usage and traditional retail seasonality patterns. For example, we generally experience less user traffic and purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, sales in the traditional retail industry are significantly higher in the fourth quarter of each calendar year than in the preceding three quarters. Due to the foregoing factors, our financial condition and results of operations for future quarters may continue to fluctuate and our historical quarterly results may not be comparable to future quarters. As a result, the trading price of our ADSs may fluctuate from time to time due to seasonality.

#### **Risks Relating to Our Corporate Structure and Restrictions on Our Industry**

***Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to online commerce and provision of Internet content in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including shut-down of our Vipshop Online Platform.***

Foreign ownership of Internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates Internet access, provision of online information, and operation of online commerce through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership in PRC companies that provide value-added telecommunication services, including commercial Internet content services and online data processing and transaction processing (operating e-commerce) services. Specifically, foreign investors are not allowed to own more than 50% of the equity interests in any entity operating value-added telecommunication services (except for operating e-commerce), including commercial Internet content provision business. The PRC Ministry of Industry and Information Technology, or MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, or the MIIT Circular, in July 2006. The MIIT Circular reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up foreign-invested enterprises, or FIEs, and obtain value-added telecommunication business operating licenses, or VATS Licenses, to operate any value-added telecommunications business in China. Because commercial Internet content provision is a value-added telecommunication business, FIEs that plan to engage in Internet content provision business must obtain VATS Licenses for Internet content provision business, or the ICP Licenses. Operators of domestic call centers are required to obtain VATS Licenses for operating domestic call center services. Meanwhile, the operators of online platforms that provide access to third-party merchants for sales of their products are also required to obtain VATS Licenses for online data processing and transaction

processing (operating e-commerce) services, or the EDI Licenses. Under the MIIT Circular, a PRC domestic company that holds a VATS License, including the ICP License or EDI License, is prohibited from leasing, transferring, or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites, or facilities, to foreign investors that operate value-added telecommunications business illegally in China.

We are a Cayman Islands company, and our PRC subsidiary, namely Vipshop (China) Co., Ltd., or Vipshop China, is a wholly foreign-owned enterprise, or WFOE, under PRC law. To comply with PRC laws and regulations, we conduct our operations in China, including the operations of our Vipshop Online Platform, through contractual arrangements entered into by our respective consolidated affiliated entities, namely, Guangzhou Vipshop E-Commerce Co., Ltd., or Vipshop E-Commerce, Guangzhou Vipshop Information Technology Co., Ltd., or Vipshop Information, Pin Jun Tong Enterprise Management & Consulting Co., Ltd., or Pin Jun Tong, and Tianjin Pinjian E-Commerce Co., Ltd. (formerly known as "Shanghai Pinjian E-Commerce Co., Ltd."), or Tianjin Pinjian. Because all shareholders of our consolidated affiliated entities are PRC citizens, our consolidated affiliated entities are considered PRC domestic companies under PRC laws. As of the date of this annual report, Vipshop E-Commerce held an EDI License valid until December 2022, which is required for providing platform access to third-party merchants for their sales of products to further develop our business; Vipshop Information held a VATS License valid until July 2020 for domestic call center services. For a detailed description of these licenses and permits, see "Item 4.B. Information on the Company—Business Overview—Regulation." Each of our consolidated affiliated entities is a PRC limited liability company. As a result of these contractual arrangements, we exert control over our consolidated affiliated entities and consolidate their operating results in our financial statements under U.S. GAAP. For a detailed description of these contractual arrangements, see "Item 4.C. Information on the Company—Organizational Structure."

In the opinion of our PRC counsel, Han Kun Law Offices, our current ownership structure, the ownership structure of our PRC subsidiaries and our consolidated affiliated entities, each as described in this annual report, are in compliance with existing PRC laws, rules, and regulations, and the contractual arrangements among (a) Vipshop China, (b) Vipshop E-Commerce, and (c) shareholders of Vipshop E-Commerce as one set and the other three sets concerning our insignificant consolidated affiliated entities, each as described in this annual report, are not in violation of any existing PRC laws, rules, and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. See also "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure and Restrictions on Our Industry—Our business may be significantly affected by the newly enacted PRC Foreign Investment Law." Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to or otherwise different from that of our PRC counsel.

If our ownership structure, contractual arrangements, and businesses of our company, our PRC subsidiaries, or our consolidated affiliated entities are found to be in violation of any existing or future PRC laws or regulations, the relevant government authorities, including CSRC, would have broad discretion in dealing with such violation, including levying fines, confiscating our income or the income of our PRC subsidiaries or our consolidated affiliated entities, revoking the business licenses or operating licenses of our PRC subsidiaries or our consolidated affiliated entities, shutting down our servers or blocking our platform, discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring, restricting or prohibiting our use of proceeds from any securities offerings outside China to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business. Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations.

***We rely on contractual arrangements with our consolidated affiliated entities and their respective shareholders for the operation of our business, which may not be as effective as direct ownership. If our consolidated affiliated entities and their respective shareholders fail to perform their obligations under these contractual arrangements, we may have to resort to arbitration or litigation to enforce our rights, which may be time-consuming, unpredictable, expensive, and damaging to our operations and reputation.***

Because of PRC restrictions on foreign ownership of Internet-based businesses in China, we depend on contractual arrangements with our consolidated affiliated entities, in which we have no ownership interest, through our PRC subsidiaries to partially conduct our operations. These contractual arrangements, governed by PRC laws, are intended to provide us with effective control over our consolidated affiliated entities and allow us to obtain economic benefits from them. Although we have been advised by our PRC counsel, Han Kun Law Offices, that these contractual arrangements are valid, binding, and enforceable under current PRC laws, these contractual arrangements may not be as effective in providing control as direct ownership. For example, our consolidated affiliated entities and their respective shareholders could breach their contractual arrangements with us by, among other things, failing to operate our online retail business in an acceptable manner or taking other actions that are detrimental to our interests. If we held controlling equity interest in our consolidated affiliated entities, we would be able to exercise our shareholder rights to effect changes to its board of directors, which in turn could implement changes at the management and operational level of the consolidated affiliated entities. However, under the current contractual arrangements, if our consolidated affiliated entities or their respective shareholders fail to perform their obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and rely on legal remedies, including arbitration and litigation, under PRC law, which may not be sufficient or effective. In particular, the contractual arrangements relating to Vipshop E-Commerce and the other three consolidated affiliated entities, namely Vipshop Information, Pin Jun Tong, and Tianjin Pinjian, provide that any dispute arising from these arrangements will be resolved by arbitration, and any ruling of such arbitration will be final and binding. The legal framework and system in China, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as the United States. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation, and other legal proceedings remain in China, which could limit our ability to enforce these contractual arrangements and exert effective control over our consolidated affiliated entities. If we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation, and we may not be able to consolidate the financial results of our consolidated affiliated entities into our consolidated financial statements in accordance with U.S. GAAP. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

***The shareholders of our significant consolidated affiliated entity have potential conflict of interest with us, which may adversely affect our business.***

Each shareholder of Vipshop E-Commerce is a shareholder and director of our company. In addition, these shareholders' equity interest in our company will be further diluted as a result of any future offering of equity securities. As a result, conflict of interest may arise as a result of the dual shareholding and governance structure.

Each of these shareholders of Vipshop E-Commerce is also a director of our company, and has a duty of care and a duty of loyalty to our company and to our shareholders as a whole under Cayman Islands law. Under the contractual arrangements with Vipshop E-Commerce and its shareholders, (i) we may replace any such individual as a shareholder of Vipshop E-Commerce at our discretion, and (ii) each of these individuals has executed a power of attorney to appoint Vipshop China or its

designated third party to vote on their behalf and exercise shareholder rights of Vipshop E-Commerce. However, we cannot assure you that these individuals will act in the best interests of our company should any conflict of interest arise, or that any conflict of interest will be resolved in our favor. These individuals may breach or cause Vipshop E-Commerce to breach the existing contractual arrangements. If we cannot resolve any conflict of interest or disputes between us and any of these individuals, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

***We may lose the ability to use and enjoy assets held by our consolidated affiliated entities that are important to the operation of our business if either such entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.***

As part of our contractual arrangements with our consolidated affiliated entities, some of these entities hold certain assets that are important to the operation of our business. If any of our consolidated affiliated entities goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could adversely affect our business, financial condition and results of operations. If any of our consolidated affiliated entities undergoes a voluntary or involuntary liquidation proceeding, the unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

***Our business may be significantly affected by the newly enacted PRC Foreign Investment Law.***

On March 15, 2019, the National People's Congress, or NPC, approved the PRC Foreign Investment Law, which will become effective on January 1, 2020 and replace the trio of existing laws regulating foreign investment in China, namely, the PRC Wholly Foreign-Invested Enterprise Law, the PRC Sino-Foreign Cooperative Joint Venture Enterprise Law, and the PRC Sino-Foreign Equity Joint Venture Enterprise Law, together with their implementation rules and ancillary regulations. The PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is newly enacted, there are substantial uncertainties relating to its interpretation and implementation. For example, the law adds a catch-all clause to the definition of "foreign investment," which includes investments made by foreign investors in China through other means defined by other laws or administrative regulations or provisions promulgated by the PRC State Council, without further elaboration on the scope of "other means." It is possible that future legislations promulgated by the PRC State Council may provide for contractual arrangements as a form of foreign investment and subject to foreign investment restrictions. It is therefore uncertain whether our corporate structure may be deemed as violating the foreign investment restrictions in China. Furthermore, if future legislations prescribed by the PRC State Council mandate further actions to be taken by companies with respect to existing contractual arrangement, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance, and business operations could be materially and adversely affected.

***Our contractual arrangements with our consolidated affiliated entities may result in adverse tax consequences to us.***

We might be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between our PRC subsidiaries and our consolidated affiliated entities were not entered into on an arm's length basis and therefore constitute favorable transfer pricing arrangements. If this

occurs, the PRC tax authorities could request that our consolidated affiliated entities adjust its taxable income, if any, upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by increasing our consolidated affiliated entities' tax expenses without reducing our tax expenses, which could subject our consolidated affiliated entities to late payment fees and other penalties for underpayment of taxes. The PRC Enterprise Income Tax Law, or the EIT Law, requires every enterprise in China to submit annual report of enterprise income tax, or EIT, together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. As a result, our contractual arrangements with our consolidated affiliated entities may result in adverse tax consequences to us.

***If our PRC subsidiaries and consolidated affiliated entities fail to obtain and maintain the requisite assets, licenses, and approvals required under PRC laws, our business, financial condition, and results of operations may be materially and adversely affected.***

Foreign investment and the Internet industry in China are highly regulated by the PRC government, and numerous regulatory authorities of the central PRC government are empowered to issue and implement regulations governing various aspects of the Internet industry. See "Item 4.B. Information on the Company—Business Overview—Regulation." Our PRC subsidiaries and our consolidated affiliated entities are required to obtain and maintain certain assets relevant to their businesses as well as applicable licenses or approvals from different regulatory authorities in order to provide their current services. These assets and licenses are essential to the operation of our business and are generally subject to annual review by the relevant government authorities. Furthermore, our PRC subsidiaries and our consolidated affiliated entities may be required to obtain additional licenses. For instance, as we have launched various Internet finance businesses, we are required to obtain and hold various licenses, permits, or approvals that are required for the provision of those Internet finance services, and we may be required to obtain additional licenses, permits, or approvals in case we further expand our Internet finance businesses in the future. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulation on Internet finance." However, we cannot assure you that we will obtain such licenses, permits, or approvals in a timely manner, or at all, due to complex procedural requirements and policies. If we fail to obtain or maintain any of the required, assets, licenses, or approvals, our continued business operations in the Internet industry may subject it to various penalties, such as confiscation of illegal net revenue, fines, and the discontinuation or restriction of our operations. Any such disruption in the business operations of our consolidated affiliated entities will materially and adversely affect our business, financial condition, and results of operations.

### **Risks Relating to Doing Business in China**

***Changes in China's economic, political, or social conditions or government policies could materially and adversely affect our business and operations.***

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations, and prospects may be influenced to a significant degree by political, economic, and social conditions in China generally and by continued yet slowing economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC

government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing since 2012. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to reduction in demand for our services and adversely affect our competitive position. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

***Uncertainties with respect to the PRC legal system could adversely affect us.***

We conduct our business primarily through our PRC subsidiaries and our consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our significant PRC subsidiary, Vipshop China, is an FIE subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to FIEs. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until some time after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

***We may be adversely affected by the complexity, uncertainties, and changes in PRC regulation of Internet-related businesses and companies.***

The PRC government extensively regulates the Internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the Internet industry. These Internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Issues, risks, and uncertainties relating to PRC regulation of the Internet-related businesses include, but are not limited to, the following:

- We only have contractual control over our Vipshop Online Platform and other platforms in China. We do not directly own our platform through our subsidiaries due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including Internet content provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.
- There are uncertainties relating to the regulation of the Internet-related businesses in China, including evolving requirements for licenses and permits. Some of our licenses, permits, or operations may be subject to challenge by the PRC government, or we may fail to obtain licenses or permits that may be deemed necessary for our operations or we may not be able to obtain or renew certain licenses or permits. If we fail to maintain any of these required licenses or permits, we may be subject to various penalties, including fines and discontinuation of or restriction on our operations. Any such disruption in our business operations may have a material and adverse effect on our results of operations.
- New laws and regulations may be promulgated to regulate Internet-related businesses in China, including online retail businesses and Internet finance businesses. Additional licenses or permits may be required for or stricter supervision may be imposed on our Internet-related businesses. If our operations do not comply with these new laws and regulations after they become effective, or if we fail to obtain any licenses or permits required under these new laws and regulations, we could be subject to penalties. We cannot assure you that we will be able to obtain all licenses and permits required for Internet-related businesses in a timely manner, or at all.

The interpretation and application of existing PRC laws, regulations, and policies and possible new laws, regulations, or policies relating to the Internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of Internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain any new licenses required under any new laws or regulations. There are also risks that we may be found to violate the existing or future laws and regulations given the uncertainty and complexity of China's regulation of Internet-related businesses.

***Regulation and censorship of information disseminated over the Internet in China may adversely affect our business, and we may be liable for content that is displayed on our platforms.***

China has enacted laws and regulations governing Internet access and the distribution of products, services, news, information, audio-video programs, and other content through the Internet. The PRC government has prohibited the distribution of information through the Internet that it deems to be in violation of PRC laws and regulations. If any of our Internet content were deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business, and revocation of required licenses, which could materially and adversely affect our business,

financial condition, and results of operations. We may also be subject to potential liability for any unlawful actions of our customers or users of our platforms or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be prevented from operating our platform in China.

***The audit reports included in this annual report have been prepared by our independent registered public accounting firm whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual report filed with SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within China and, without the approval of PRC authorities, PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it relates to those operations, our independent registered public accounting firm is not currently inspected fully by PCAOB. On December 7, 2018, SEC and PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions SEC and PCAOB will take to address the problem. This lack of PCAOB inspections in China prevents PCAOB from regularly evaluating our independent registered public accounting firm's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Inspections of other firms that PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***If the settlement reached between SEC and the "Big Four" China-based accounting firms, including the PRC affiliate of our independent registered public accounting firm, concerning the manner in which SEC may seek access to audit work papers from audits in China of U.S.-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the United States, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.***

Starting in 2011 all PRC audit firms practicing before SEC, including the PRC affiliate of our independent registered public accounting firm and those of the other "Big Four" networks, were affected by a conflict between U.S. and PRC laws. Specifically, SEC and PCAOB sought to obtain from the PRC accounting firms access to their audit work papers and related documents from audits in China of the operations of certain U.S.-listed companies. The PRC accounting firms were, however, advised by their legal counsels and directed by the relevant PRC authorities that under PRC law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through CSRC.

In December 2012 SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the PRC affiliates of the "Big Four" accounting firms, including the PRC affiliate of our independent registered public accounting firm.

After the first hearing in July 2013, an administrative law judge issued an initial decision in January 2014 in favor of SEC and proposed penalties on the PRC accounting firms including a temporary suspension of their right to practice before SEC, which did not take effect pending review by SEC Commissioner. On February 6, 2015, before a review by SEC Commissioner had taken place, the PRC accounting firms reached a settlement with SEC whereby the proceedings were stayed. Under the settlement, SEC accepts that future requests by SEC for the production of documents will normally be made to CSRC. The PRC accounting firms will receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via CSRC. If they fail to meet specified criteria, SEC retains authority to impose a variety of additional remedial measures on the PRC accounting firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the recently-stayed proceeding against all four firms. SEC also reserves the right to resume those proceedings in circumstances where, notwithstanding the accounting firms' compliance with the procedures in the settlement agreement, SEC does not receive a production of documents which it considers satisfactory (for example, due to action or inaction by the PRC authorities).

If SEC restarts the administrative proceedings, depending upon the final outcome, U.S.-listed companies with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China whose work could contribute to SEC filings, which could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these accounting firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our ADSs may be adversely affected.

If the PRC affiliate of our independent registered public accounting firm were denied, even temporarily, the ability to practice before SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ordinary shares from NYSE or deregistration from SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

***Fluctuations in exchange rates may materially and adversely affect your investment.***

The value of Renminbi against U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in China and by China's foreign exchange policies. The conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. The PRC government allowed Renminbi to appreciate by over 20% against U.S. dollars between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between Renminbi and U.S. dollars remained within a narrow band. As a consequence, Renminbi fluctuated significantly during that period against other freely traded currencies, in tandem with U.S. dollars. Since June 2010, Renminbi has fluctuated against U.S. dollars, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollars, the Euros, the Japanese yen and the British pounds. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a

surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the Renminbi appreciated approximately 7% against the U.S. dollars during this one-year period. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollars in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and U.S. dollars in the future.

All of our total net revenues and most of our expenses are denominated in Renminbi. Any significant revaluation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, an appreciation of Renminbi against U.S. dollars would reduce the amount of Renminbi we would receive if we need to convert U.S. dollars into Renminbi. Conversely, a significant depreciation of Renminbi against U.S. dollars may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. We did not enter into any hedging transactions to hedge our exposure to the risks relating to fluctuations in exchange rates. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

***Governmental control of currency conversion may limit our ability to utilize our revenue effectively and affect the value of your investment.***

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade- and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currencies and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and consolidated affiliated entities to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***We principally rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.***

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including for services of any debt we may incur. Our subsidiaries' ability to distribute dividends is based upon their distributable earnings which are mainly derived from the payments for products and services from our consolidated affiliated entities. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and our consolidated affiliated entities is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entities in China may further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of its board of directors. These reserves are not distributable as cash dividends. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our PRC subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

***PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of our debt and equity offerings to make loans or additional capital contributions to our PRC subsidiaries in China.***

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration or filing with relevant government authorities in China. According to the relevant PRC regulations on FIEs, capital contributions to our PRC subsidiaries are subject to the approval of or filing with the PRC Ministry of Commerce, or MOFCOM, or its local branches and registration with other government authorities in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered or filed with SAFE or its local branches, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount and exceed certain limit based on its net assets pursuant to the Notice of the People's Bank of China on Matters Concerning the Macro-Prudential Management of Fully Covered Cross-Border Financing, or the PBOC Notice No. 9. Any medium- or long-term loan to be provided by us to our consolidated affiliated entities must be approved by the PRC National Development and Reform Commission, or NDRC, and SAFE or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of our debt and equity offerings and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business. Furthermore, pursuant to the PBOC Notice No. 9, after an one-year transition period following its promulgation, SAFE and the People's Bank of China, or PBOC, will determine the cross-border financing regulatory regime for FIEs after evaluating the overall implementation of PBOC Notice No. 9. As of the date of this annual report, neither SAFE nor PBOC had promulgated and made public any legislations in this regard. There are uncertainties relating to the future regime to be adopted and any limitation to be imposed on us when providing loans to our PRC subsidiaries. If a more stringent foreign debt regulatory regime would be imposed, our ability to provide loans to our PRC subsidiaries or our consolidated affiliated entities may be significantly limited, and our business, financial condition, and results of operations may be adversely affected.

Under the current SAFE rules as of the date of this annual report, we are required to apply Renminbi funds converted from the net proceeds we received from our public offerings of equity securities within the business scopes of our PRC subsidiaries. Although SAFE launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of FIEs in 2015 to allow FIEs to settle their foreign exchange capital at their discretion and further relaxed its rules in 2016 to allow FIEs (excluding financial institutions) to go through foreign exchange settlement formalities for their foreign debts at their discretion, the current SAFE rules continue to prohibit FIEs from using Renminbi converted from their foreign exchange capitals for expenditure beyond their business scopes as approved by the PRC government authorities. Moreover, the current SAFE rules continue to prohibit FIEs from using Renminbi converted from their registered capitals to provide loans to persons other than affiliates unless otherwise permitted under its business scope. Any violations of such SAFE rules may result in severe monetary or other penalties. There can be no assurance that SAFE would further relax its rules on the settlement of foreign exchange capitals of FIEs, and our ability to transfer to and use in China the net proceeds from our public offerings of equity securities may continue to be significantly limited, which may adversely affect our business, financial condition, and results of operations. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Foreign Currency Exchange."

***Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.***

Among other things, the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the PRC State Council on August 3, 2008 and amended in September 2018, were triggered. Moreover, the Anti-Monopoly Law, which was promulgated by the Standing Committee of NPC, on August 30, 2007 and became effective on August 1, 2008, requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (for example, during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion and at least two of these operators each had a turnover of more than RMB400 million within China) must be cleared by MOFCOM before they can be completed. We believe that the turnover of acquired business of Lefeng in 2013 is less than RMB400 million within China and have not sought clearance from MOFCOM, but we cannot assure you that MOFCOM will not take a view contrary to ours. In addition, the Circular of the General Office of the State Council on the Establishment of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors that became effective on March 3, 2011, and the Rules on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors issued by MOFCOM that became effective on September 1, 2011, require acquisitions by foreign investors of PRC companies engaged in military-related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***PRC regulations relating to the establishment of offshore holding companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.***

On July 4, 2014, SAFE has promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or SAFE Circular 75, which ceased to be effective upon the promulgation of SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities) to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

Under SAFE Circular 37, PRC residents who make, or have made prior to the implementation of SAFE Circular 37, direct or indirect investments in offshore special purpose vehicles, or SPVs, will be required to register such investments with SAFE or its local branches. In addition, any PRC resident who is a direct or indirect shareholder of an SPV, is required to update its filed registration with the local branch of SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiary of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder of such SPV fails to make the required registration or to update the previously filed registration, the subsidiary of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contribution into its subsidiary in China. On February 28, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investment and outbound overseas direct investment, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

All of our shareholders that we are aware of being subject to the SAFE regulations have completed all necessary registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37 by the end of 2018. We cannot assure you, however, that all of these individuals may continue to make required filings or updates on a timely manner, or at all. We can provide no assurance that we are or will in the future continue to be informed of identities of all PRC residents holding direct or indirect interest in our company. Any failure or inability by such individuals to comply with the SAFE regulations may subject us to fines or legal sanctions, such as restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign exchange-denominated loans from, our company or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we

cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

***Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

In December 2006, PBOC promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE in March 2007. Under these rules, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC resident employees who participate in the employee stock incentive plans, which we adopted in March 2011, March 2012, and July 2014, respectively, have been subject to these regulations since our company became a publicly-listed company in the United States in March 2012. We have been assisting our PRC option grantees to complete the required registrations and procedures on a quarterly basis. If we or our PRC option grantees fail to comply with these regulations, we or our PRC option grantees may be subject to fines and other legal or administrative sanctions. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Stock Incentive Plans."

***We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.***

On February 3, 2015, SAT issued a Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7. In December 2017, Article 13 and Paragraph 2 of Article 8 of SAT Public Notice 7 were abolished. Pursuant to SAT Public Notice 7, as amended, in the event that a non-PRC resident enterprise indirectly transfers equities and other properties of a PRC resident enterprise to evade its obligation of paying EIT by implementing arrangements that are not for reasonable commercial purpose, such indirect transfer shall be re-identified and recognized as a direct transfer of equities and other properties of the PRC resident enterprise. Although SAT Public Notice 7 introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market, it brought challenges to both offshore transferor and transferee (or other person who is obligated to pay

for the transfer) of taxable assets. Where a non-PRC resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an offshore holding company, which is an Indirect Transfer, the non-PRC resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the offshore holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to EIT in China, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold applicable taxes currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties as to the reporting and other implications of past and future private equity financing transactions, share exchange or other transactions involving transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Public Notice 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Public Notice 7. As a result, we may be required to expend valuable resources to comply with SAT Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Although it appears that SAT Public Notice 7 is not intended to apply to purchase and sale of shares of publicly traded companies in the open market, SAT Public Notice 7 may be determined by the tax authorities to be applicable to us in our acquisition of equity interests in companies such as Lefeng and Ovation, and our non-resident shareholders who acquired our shares outside of the open market and subsequently sell our shares in our private financing transactions or in the open market if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-PRC resident investors may become at risk of being taxed under SAT Public Notice 7 and may be required to expend valuable resources to comply with SAT Public Notice 7 or to establish that we should not be taxed under SAT Public Notice 7, which may have a material adverse effect on our financial condition and results of operations or such non-resident shareholders' investments in us.

***It is unclear whether we will be considered a PRC "resident enterprise" under the PRC Enterprise Income Tax Law and, depending on the determination of our PRC "resident enterprise" status, our global income may be subject to the 25% PRC enterprise income tax, which could materially and adversely affect our results of operations.***

Under the EIT Law, which became effective in January 2008 and was amended on February 24, 2017 and December 29, 2018, and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a PRC resident enterprise and will be subject to EIT at the rate of 25% on its global income. The implementation rules of the EIT Law define the term "de facto management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., of an enterprise." On April 22, 2009, SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, which was partially amended by Announcement on Issues concerning the Determination of Resident Enterprises Based on

the Standards of Actual Management Institutions issued by SAT on January 29, 2014, and further partially amended by Decision on Issuing the Lists of Invalid and Abolished Tax Departmental Rules and Taxation Normative Documents issued by SAT on December 29, 2017. SAT Circular 82, as amended, provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Further, SAT Circular 82 states that certain Chinese-controlled enterprises will be classified as "resident enterprises" if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders' meetings; and half or more of the senior management or directors having voting rights. In addition, SAT issued the Bulletin on Promulgation of the Administrative Measures for Income Tax of Chinese-Controlled Offshore-Incorporated Resident Enterprises (Trial Implementation) on July 27, 2011, effective from September 1, 2011 and partially amended on April 17, 2015, June 28, 2016, and June 15, 2018, or SAT Bulletin 45, providing more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 clarifies matters including resident status determination, post-determination administration and competent tax authorities. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Tax—PRC Enterprise Income Tax Law and Individual Income Tax Law." Although both SAT Circular 82 and SAT Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the determining criteria set forth in SAT Circular 82 and SAT Bulletin 45 may reflect SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. In addition to the uncertainty regarding how the new resident enterprise classification may apply, it is also possible that the rules may change in the future, possibly with retroactive effect. Although we do not believe that our legal entities organized outside of the PRC constitute PRC resident enterprises, it is possible that the PRC tax authorities could reach a different conclusion. In such case, we may be considered a PRC resident enterprise and may therefore be subject to EIT at 25% on our global income as well as PRC EIT reporting obligations. If we are considered a PRC resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

***Dividends and/or interest payable to our foreign investors and gains on the sale of our ADSs or ordinary shares or notes by our foreign investors may become subject to taxes under PRC tax laws.***

Under the EIT Law, as amended, and its implementation regulations issued by the PRC State Council, a 10% PRC withholding tax is applicable to dividends and/or interest payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China or which have such establishment or place of business but the dividends and/or interest are not effectively connected with such establishment or place of business, to the extent such dividends and/or interest are derived from sources within China. Similarly, any gain realized on the transfer of ADSs or ordinary shares or notes by such investors is also subject to PRC tax at a rate of 10%, subject to any reduction or exemption set forth in relevant tax treaties, if such gain is regarded as PRC-sourced income. If we are deemed a PRC resident enterprise, dividends and/or interest paid on our ordinary shares or ADSs or notes, and any gain realized from the transfer of our ordinary shares or ADSs or notes, would be treated as PRC-sourced income and would as a result be subject to PRC taxation. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Tax—PRC Enterprise Income Tax Law and Individual Income Tax Law." Furthermore, if we are deemed a PRC resident enterprise, dividends and/or interest payable to investors that are non-PRC individual investors and any gain realized on the transfer of ADSs or ordinary shares or notes by investors may be subject to PRC tax at a rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties. It is

unclear whether, if we are considered a PRC resident enterprise, holders of our ADSs or ordinary shares or notes would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas (although we do not expect to withhold at treaty rates if any withholding is required). If dividends and/or interest payable to our non-PRC investors, or gains from the transfer of our ordinary shares or ADSs or notes by such investors are subject to PRC tax, the value of your investment in our ordinary shares or ADSs or notes may be adversely affected.

***The enforcement of the Labor Contract Law and other labor-related regulations in China may adversely affect our business and our results of operations.***

On June 29, 2007, the Standing Committee of NPC enacted the Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012. The Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor union and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the Labor Contract Law, an employer is obliged to sign a non-fixed-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have a non-fixed term, with certain exceptions. The employer must pay severance to an employee where a labor contract is terminated or expires, with certain exceptions. In addition, the government has continued to introduce various new labor-related regulations after the effectiveness of the Labor Contract Law. Among other things, it is required that that annual leave ranging from five to 15 days be made available to employees and that the employee be compensated for any untaken annual leave days in the amount of three times of the employee's daily salary, subject to certain exceptions. As a result of these new regulations designed to enhance labor protection and increasing labor costs in China, our labor costs are expected to increase. In addition, as the interpretation and implementation of these new regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected.

***Our failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.***

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations. We have not made adequate employee benefit payments as required under applicable PRC labor laws, but we have recorded accruals for the underpaid amounts in our consolidated financial statements. Our failure in making contributions to various employee benefit plans and in complying with applicable PRC labor-related laws may subject us to late payment penalties. If we are subject to such penalties in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

***An occurrence of a widespread health epidemic or other outbreaks could materially and adversely affect our business, financial condition and results of operations.***

Our business could be adversely affected by the effects of Influenza A virus subtype H1N1, or the H1N1 virus, Severe Acute Respiratory Syndrome, or SARS, avian influenza or other epidemics or outbreaks on the economic and business climate. A prolonged outbreak of any of these illnesses or other adverse public health developments in China or elsewhere in the world could have a material adverse effect on our business operations. Such outbreaks could significantly impact the online retail

industry and cause a temporary closure of the facilities we use for our operations. Such impact or closures would severely disrupt our operations and adversely affect our business, financial condition and results of operations. Our operations could be disrupted if any of our employees or employees of our partners were suspected of having the H1N1 virus, SARS or avian influenza, since this could require us or our partners to quarantine some or all of such employees or disinfect the facilities used for our operations and may deter our customers or potential customers from purchasing or accepting our products. In addition, our business, financial condition and results of operations could be adversely affected to the extent that an outbreak harms the global or Chinese economy in general, such as wars, acts of terrorism, snowstorms, earthquakes, fire, floods, environmental accidents, power shortage or communication interruptions.

## **Risks Related to Our Ordinary Shares and ADSs**

### ***The market price for our ADSs has fluctuated and may be volatile.***

Since we first listed our ADSs on the New York Stock Exchange, or NYSE, on March 23, 2012, the trading prices of our ADSs have been and may continue to be subject to wide fluctuations. In 2018, the trading prices of our ADSs on NYSE have ranged from US\$4.31 to US\$19.14 per ADS, and the last reported trading price on April 17, 2019 was US\$7.82 per ADS.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly results of operations and changes of our expected results;
- announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital investments;
- additions to or departures of our senior management personnel;
- detrimental negative publicity about us, our competitors or our industry;
- changes in financial estimates by securities research analysts;
- regulatory developments affecting us, our brand partners or our industry;
- changes in the economic performance or market valuations of other Internet, e-commerce or online retail companies in China;
- changes in major business terms between our brand suppliers and us;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional equity securities or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. The securities of some China-based, U.S.-listed companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of the securities of these companies after their offerings may affect the attitudes of investors toward China-based, U.S.-listed companies, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. Furthermore, some negative news and perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure including the use of variable interest entities or other

matters of other China-based, U.S.-listed companies have negatively affected the attitudes of investors towards China-based, U.S.-listed companies, including us, in general in the past, regardless of whether we have engaged in any inappropriate activities, and any news or perceptions with a similar nature may continue to negatively affect us in the future. These market fluctuations may also materially and adversely affect the market price of our ADSs.

***Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no assurance that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

***Substantial future sales or perceived potential sales of our ADSs, ordinary shares, or other equity securities in the public market could cause the price of our ADSs to decline.***

Sales of our ADSs, ordinary shares or other equity securities in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of the date of this annual report, we had 133,101,306 Class A and Class B ordinary shares outstanding, including 92,585,040 Class A ordinary shares represented by ADSs. All ADSs representing our Class A ordinary shares are freely transferable by persons other than our "affiliates" without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act.

Certain holders of our Class A ordinary shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of our ADSs to decline.

***You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.***

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attached to ordinary shares represented by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attached to ordinary shares represented by the ADSs. Upon receipt of your voting instructions, the depositary will vote the underlying ordinary shares in accordance with these instructions. See "Item 10.B. Additional Information—Memorandum and Articles of Association—Ordinary Shares—Voting Rights."

We cannot assure you that you will receive the voting materials in time to instruct the depositary to vote the ordinary shares underlying your ADSs, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will as a result not have the opportunity to

exercise a right to vote. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. Although you may directly exercise your right to vote by withdrawing the ordinary shares underlying your ADSs, you may not be able to do so, on a timely basis or at all, to allow you to vote with respect to any specific matter.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings, and you may not receive cash dividends if it is impractical to make them available to you.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause a registration statement, if filed, to be declared effective. There might not be an exemption from registration under the Securities Act available to us for our rights offering. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

***You may be subject to limitations on transfer of your ADSs.***

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

***You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and substantially all of our directors and officers reside outside the United States.***

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and consolidated affiliated entities. Substantially all of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the

courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2018 Revision), or the Companies Law, and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary responsibilities of our directors are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which provides persuasive, but not binding, authority in a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

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

***Our memorandum and articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.***

Our currently effective amended and restated memorandum and articles of association contain certain provisions that could limit the ability of third parties to acquire control of our company, including a provision that grants authority to our board directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. The provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

***Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.***

Our co-founder, chairman, and chief executive officer, Mr. Eric Ya Shen, has considerable influence over important corporate matters. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to ten votes on all matters that are subject to shareholder vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Due to the disparate voting powers associated with our two classes of ordinary shares, as of March 31, 2019, Mr. Eric Ya Shen beneficially owned approximately 58.7% of the aggregate voting power of our company. As a result, Mr. Eric Ya Shen has considerable influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions, and he may take actions that are not in the best interest of us or our other shareholders. This concentrated control will limit your ability to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our Class A ordinary shares and our ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

***We may be classified as a passive foreign investment company for United States federal income tax purposes, which could subject United States investors in the ADSs or Class A ordinary shares to significant adverse United States income tax consequences.***

Depending upon the market price of our ADSs and the nature of our assets and income over time, we could be classified as a "passive foreign investment company," or PFIC, for United States federal income tax purposes. Although the law in this regard is unclear, we treat our consolidated affiliated entities (and their subsidiaries) as being owned by us for United States federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we combine these entities' operating results in our consolidated financial statements. If it were determined, however, that we are not the owner of any of our consolidated affiliated entities (or their subsidiaries) for United States federal income tax purposes, we would likely be treated as a PFIC for the current taxable year or any future taxable year.

Assuming that we are the owner of our consolidated affiliated entities (and their subsidiaries) for United States federal income tax purposes, and based upon our income and assets and the market price of our ADSs, we do not believe that we were a PFIC for the taxable year ended December 31, 2018 and do not anticipate becoming a PFIC in the foreseeable future. While we do not expect to become a PFIC, if, among other matters, our market capitalization declines, we may be a PFIC for the current or future taxable years. The determination of whether we are or will be a PFIC will also depend, in part, on the composition of our income and assets, which will be affected by how, and how quickly, we use our liquid assets. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, we can provide no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we were to be classified as a PFIC in any taxable year, a U.S. Holder (as defined in "Item 10.E. Additional Information—Taxation—United States Federal Income Tax Considerations") would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a non-United States corporation that does not distribute all of its earnings on a current basis. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or Class A ordinary shares. For more information see "Item 10.E. Additional Information—Taxation—United States Federal Income Tax Considerations—Passive Investment Company Considerations."

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards.***

As a non-U.S. company with ADSs listed on NYSE, we are subject to the NYSE corporate governance listing standards. However, Section 303A.11 of the NYSE Listed Company Manual permits a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE rules. As we have chosen, and may from time to time to choose, to follow home country practice exemptions with respect to certain corporate matters, such as the requirement of shareholders' approval for adoption of an equity incentive plan, our shareholders may be afforded less protection under Cayman Islands law than they would under the NYSE rules applicable to U.S. domestic issuers. See "Item 16G. Corporate Governance."

*We incurred increased costs as a result of being a public company, and we cannot predict or estimate the amount of additional future costs we may incur or the timing of such costs.*

As a public company, we have incurred significant accounting, legal and other expenses that we did not incur when we were a private company, including additional costs associated with our public company reporting obligations. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by SEC and NYSE, requires significantly heightened corporate governance practices for public companies, including Section 404 relating to internal control over financial reporting. We ceased to be an "emerging growth company" pursuant to the JOBS Act in 2014, since which we have incurred significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 and the other rules and regulations of SEC.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, any adverse outcome of such cases, including any plaintiff's appeal of a judgment in these lawsuits, could materially and adversely affect our business, financial condition, results of operation, cash flows and reputation. Furthermore, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business, financial condition or results of operations. We were named as a defendant in two putative shareholder class action lawsuits filed in May and June 2015 respectively, which lawsuits were consolidated into one action and subsequently voluntarily dismissed without prejudice by the lead plaintiff on November 24, 2015. These putative shareholder class action lawsuits are described in "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings—Litigation."

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### *A. History and Development of the Company*

##### **Our Company**

We are a holding company incorporated in the Cayman Islands and conduct our business through our subsidiaries and consolidated affiliated entities in China. We started our operations in August 2008 when our founders established Vipshop Information in China. In order to facilitate foreign investment in our company, our founders incorporated Vipshop Holdings Limited, an offshore holding company in Cayman Islands, in August 2010. In October 2010, Vipshop Holdings Limited established Vipshop International Holdings Limited, or Vipshop HK, a wholly-owned subsidiary, in Hong Kong. Subsequently, Vipshop HK established a wholly-owned PRC subsidiary, Vipshop China, in January 2011. Along with the growth of our mobile active customers and mobile service offerings, Vipshop China formed Guangzhou Pinwei Software Co., Ltd., or Pinwei Software, in 2012 as a research and development center to focus on our mobile product and solutions.

To support our regional business expansion, Vipshop China established a number of wholly-owned PRC subsidiaries that focus on warehousing and logistics as well as product procurement over the years since 2011. As of December 31, 2018, we mainly rely on the following six principal subsidiaries of Vipshop China to build up our regional logistics network:

- Vipshop (Kunshan) E-Commerce Co., Ltd.
- Vipshop (Jianyang) E-Commerce Co., Ltd.

- Vipshop (Zhaoqing) E-Commerce Co., Ltd.
- Vipshop (Tianjin) E-Commerce Co., Ltd.
- Vipshop (Hubei) E-Commerce Co., Ltd.
- Chongqing Vipshop E-Commerce Co., Ltd.

Foreign ownership of Internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information, and the operation of online commerce through strict business licensing requirements and other government regulations. We, as a Cayman Islands company, and our PRC subsidiary, Vipshop China, as a WFOE, are both restricted from holding the licenses that are necessary for our online operation in China. To comply with these restrictions, our Vipshop Online Platform is operated by our consolidated affiliated entities in China. As part of our efforts to streamline our contractual arrangements among our consolidated affiliated entities during 2017 and 2018, Vipshop E-Commerce currently holds the primary licenses necessary to conduct our Internet-related operations of Vipshop Online Platform in China. We face risks associated with our corporate structure, as our control over Vipshop E-Commerce is based upon contractual arrangements rather than equity ownership. See "Item 4.C. Information on the Company—Organizational Structure" and "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure and Restrictions on Our Industry."

See "Item 4.C. Information on the Company—Organizational Structure" for a diagram illustrating our corporate structure as of the date of this annual report.

From time to time, we have selectively acquired or invested in businesses that complement our existing business, and may continue to do so in the future to expand and develop our business. See "Item 4.B. Information on the Company—Business Overview—Strategic Investments and Acquisitions" for material strategic investments and acquisitions over the past three years.

On December 29, 2017, we issued 3,955,473 Class A ordinary shares for approximately US\$258.7 million to a JD.com subsidiary and 9,229,437 Class A ordinary shares for approximately US\$603.6 million to a Tencent subsidiary, respectively.

Our principal executive offices are located at No. 20 Huahai Street, Liwan District, Guangzhou, Guangdong 510370, People's Republic of China. Our telephone number at this address is +86 (20) 2233-0000. Our registered office in the Cayman Islands is located at the office of International Corporation Services Ltd., P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc. located at 400 Madison Avenue, 4th Floor, New York, New York 10017. Our website is <http://www.vip.com>.

## B. Business Overview

### Overview

We are a leading online discount retailer for brands in China. We offer high-quality branded products to consumers in China through flash sales mainly on our Vipshop Online Platform. Flash sales represent an online retail format combining the advantages of e-commerce and discount sales through selling a finite quantity of discounted products or services online for a limited period of time. Since our inception in August 2008, we have attracted a large and growing number of consumers and popular brands. We had 331 million registered members and over 138 million cumulative customers, and promoted and sold products for over 29,000 popular domestic and international brands as of December 31, 2018.

Our business model provides a unique online shopping experience for our customers. We offer new sales events daily with a curated selection of popular branded products at deeply discounted prices in limited quantities during limited time periods, creating the element of "thrill and excitement" associated with our unique customer shopping experience. Our strong merchandizing expertise enables us to select the brand composition and product mix of our daily sales events that appeal to our customers, who mostly consist of urban and educated individuals in China who are seeking lifestyle enhancements. We have built a highly engaged and loyal customer base that contributes to our sales growth, while also enabling us to attract new customers primarily through word-of-mouth referrals. A majority of our customers have purchased products from us more than once. Our total number of repeat customers was 34.9 million, 41.2 million, and 46.1 million in 2016, 2017, and 2018, respectively, representing 67.1%, 71.3%, and 76.1%, respectively, of the total number of our active customers during the same periods. Orders placed by our repeat customers accounted for 93.6%, 95.1%, and 96.6%, respectively, of our total orders during the same periods.

We are a preferred online flash sales channel in China for popular domestic and international brands. We believe that well-known and popular brands are attracted to our platform and services because of our ability to monetize large volumes of their inventory in short periods of time, increase consumer awareness of their brands and products, reach potential customers throughout China, and fulfill their demand for customer data analysis and inventory management. Among the brands that have promoted and sold products on our platform, substantially all of them have returned to pursue additional sales opportunities with us.

We strive to optimize every aspect of our operations as we continue to grow our business. We generally have the right to return unsold items for most of our products to our brand partners. Our logistics operations and inventory management systems are specifically designed to support the frequent sales events on our Vipshop Online Platform and handle a large volume of inventory turnover. We primarily use our invested and in-house last mile delivery capabilities and supplement with quality third-party delivery companies to ensure reliable and timely delivery. We offer consumer financing and supplier financing services to facilitate and refine shopping experience of our customers and strengthen cooperative relationship with our suppliers. We have developed our information technology (IT) infrastructure to support the surge of visitor traffic to our platform during the peak hours of our daily flash sales. We believe that our efficient operational and management systems combined with our robust IT infrastructure set a solid foundation for our continuing growth.

In December 2017, we entered into strategic cooperation framework agreement and business cooperation framework agreement with a Tencent subsidiary and JD.com, respectively, to establish a cooperative relationship. Under these agreements, Tencent granted us an access interface on Weixin Wallet, and JD.com granted us access interfaces on JD.com's mobile application and JD.com's Weixin Discovery shopping application, to utilize the traffic from such platforms.

We began our operations in August 2008 and have grown significantly since then. In 2016, 2017, and 2018, we fulfilled approximately 269.8 million, 335.0 million, and 437.4 million customer orders, respectively, and we generated total net revenues of RMB56.59 billion, RMB72.91 billion, and RMB84.52 billion (US\$12.29 billion), respectively. In 2016, 2017, and 2018, we generated net income of RMB1.99 billion, RMB1.89 billion, and RMB2.13 billion (US\$310.3 million), respectively. Our net income in 2016, 2017, and 2018 reflected non-cash share-based compensation expenses in an aggregate amount of RMB475.7 million, RMB667.1 million, and RMB671.2 million (US\$97.6 million), respectively.

#### **Our Flash Sales Model**

Flash sales embody characteristics of value, quality, and convenience that are well suited to brand-conscious consumers in China seeking quality goods at substantial discounts. Through our flash sales

model, we sell limited quantities of deeply discounted branded products online for limited periods of time. We optimize the brand composition and product mix of our daily sales events based on our strong merchandizing expertise. As of December 31, 2018, we have offered diversified product offerings from over 29,000 popular domestic and international brands, including apparel for women, men, and children, handbags and shoes, cosmetics, maternal and baby products, consumer electronic products, home goods, and other lifestyle products. We carefully select well-known and popular mid-level to premium brands and products that appeal to a broad base of consumers with different purchasing powers throughout China. To foster customer confidence of purchasing quality products from our Vipshop Online Platform, we provide limited product quality insurance for our products.

We offer new daily sales events twice a day starting at 10 a.m. and 8 p.m. Beijing time, respectively, and our Vipshop Online Platform experiences a surge of visitor traffic in the ensuing two hours as consumers are eager to purchase popular deals of the day before they are sold out. To provide our customers with a greater opportunity to purchase featured discounted products, each customer is only allowed to purchase limited pieces of the same item, depending on the categories. Unpaid items in the shopping cart will be automatically returned to the available products pool in 20 minutes. Consequently, customers must make quick purchase decisions within a limited period of time, adding to the thrill of the experience.

### **Our Vipshop Online Platform**

Through our user-friendly Vipshop Online Platform, we offer a curated selection of products and services for shoppers of varying age groups and income levels throughout China, so that they may shop branded products online with ease and pleasure. Our Vipshop Online Platform is represented by the Vipshop App and the *vip.com* website.

As of the date of this annual report, our Vipshop App has surpassed our *vip.com* website and become our top portal of the Vipshop Online Platform in terms of the numbers of registered members, daily unique visitors and monthly unique visitors. In 2011, we launched Vipshop App for mainstream mobile operating systems including iOS and Android to increase our customer stickiness and to further enhance customer engagement through mobile devices. Since then we have been regularly upgrading Vipshop App, adding new features and engaging celebrities from time to time to promote our brands and Vipshop App. With the support of our big data and business intelligence system and our cloud computing infrastructure, we have been gradually developing features of our Vipshop App so as to provide our users with personalized recommendations, smarter and more timely replenishment of out-of-stock goods and efficient interface to enhance their shopping experience. As of December 31, 2018, revenues generated by our Vipshop App users accounted for over 90% of our total revenues. We believe that consumers' increasing reliance on mobile Internet through smartphones and other mobile devices presents opportunities for us to further enhance customer experience and increase customer stickiness.

Our Vipshop Online Platform offers many user-friendly features that enhance customer experience and convenience:

- *Browsing.* All visitors to our platform can browse and view our sales events, but a customer must register as a member for free in order to participate in the sales events. Our platform features a variety of different brands and products for each daily sales. For each featured brand, consumers can view a short flash animation to receive background information on a particular brand. In addition, we provide customers with curated descriptions and proprietary photographs of each product shown from multiple angles. Our platform also provides advance previews of upcoming sales of highly sought-after products. We sort our product offerings into different categories, such as "women," "men," "children," "outdoors," "lifestyle," and "accessories" so that our customers can easily find the products they are interested in.

- *Daily Sales Events.* We launch new sales events twice a day at 10 a.m. and 8 p.m. Beijing time, respectively, and typically last for three or more days. Each sale item is available in limited quantities and remains on sale only while supplies last. We thoroughly plan in advance our daily sales events to offer a balanced and complementary mix of brands and products.
- *Ordering.* To order products on our platform, our customers simply click on a button to add an item to their virtual shopping cart. To execute orders, customers click on the "check-out" button and are prompted to supply shipping details and payment details in the case of first-time customers buying from our platform. Repeat customers can access their preferred checkout options after logging on to their Vipshop member accounts. Our members can track the status of their purchases and available credits online through their Vipshop member accounts. Customers can always access our customer service representatives online or by phone for assistance during service time while they are shopping online or after the order is placed.

To diversify our offerings of products and brands that cater to individual preferences, we launched a variety of channels on our Vipshop Online Platform such as a channel designated for promotion of chic and trendy branded products called Vipshop Beauty, a channel designed to sell furniture, upholstery, bed and bath, kitchen, home and consumer electronics products called Vipshop Home, a channel designed to sell maternity, infant and children's products called Vipshop Kids, a channel designated for direct purchase of overseas branded products called Vipshop International, and a channel designated for consumer financing called Vipshop Finance. We believe that the introduction of these channels provides brands meaningful alternatives to monetize their inventory quickly and to increase consumer awareness throughout China.

In addition to our Vipshop Online Platform, we also operate some offline stores in China to supplement our growth strategy. In 2018, sales through these stores were immaterial to our business as a whole.

## **Our Brand Partners**

Since our inception in August 2008, we have attracted a broad and diverse group of brands enabling our Vipshop Online Platform to become the online shopping destination of choice for urban, fashion-oriented and value conscious consumers. Our brand partners include primarily brand owners, and to a lesser extent, brand distributors and resellers. As of December 31, 2016, 2017, and 2018, we worked with over 10,000, 13,000, and 17,000 brand partners, respectively. None of the brands accounted for more than 2% of our total revenues in 2016, 2017, and 2018. To date, substantially all of our brand partners have sought to pursue new sales opportunities with us. We believe that our ability to assist brands in effectively selling their inventory and in fulfilling their demand for marketing, customer data analysis and inventory management will attract new brands and build stronger ties with our existing brand partners.

## **Brand Selection and Procurement**

### ***Brand Selection***

We have implemented a strict and methodical brand selection process. Our merchandizing team, which consisted of over 1,700 members as of December 31, 2018, is responsible for identifying potential qualified brands based on our selection guidelines. We carefully select prospective brand partners, choosing to work only with those that are well-known and offer high-quality or premium products that are popular among consumers in China, and that are willing to provide competitive prices and favorable payment credit and product return terms. We generally select brands that have an established network of stores in major department stores or shopping malls in China. We seek input from our customers in the brand selection process. Through our homepage, consumers can send us suggestions regarding the brands they would like to be able to purchase from us. Once a potential brand is

identified, we conduct due diligence reviews on its qualifications, including whether it holds the proper business operation licenses and safety, sanitary and quality certifications, and trademark registration certificates and license agreements in relation to the branded products. This review process helps to ensure that we maintain a portfolio of brands with high-quality standards and good reputation that can meet our customers' expectations.

We generally enter into supply agreements with brands based on our standard form. We regularly communicate with our brand partners to discuss the dates and specific product offerings for particular sales events, striving to achieve favorable results for all constituents. Due to the short-term nature of each flash sales event, for some brands, we enter into separate agreements for each flash sales event on our Vipshop Online Platform. For other brands with whom we have established long-term relationships, we often enter into supply agreements with them on an annual basis. As we continue to focus on building long-term relationships with our brand partners, we plan to implement framework agreements with our brand partners with supplemental supply orders for each flash sales event.

In each supply agreement, a brand partner grants us authorization to market and sell products of a particular brand on our Vipshop Online Platform and provides us with the official description and logo of the brand. In addition, we require our brand partners that contract with us to observe our anti-bribery and anti-corruption policy.

### ***Product Selection***

Our key management team members have extensive experience in the retail industry with insightful knowledge and understanding of consumers' needs and preferences. Before each flash sales event, we consider and analyze historical data, fashion trends, seasonality and customer feedback to project how many items of a particular product we should offer for the event. To maximize daily sales, we carefully plan our product mix to achieve a balanced and complementary product offering across different categories.

We effectively gather, analyze and use customer behavior and transaction data through our customer relationship management and business intelligence systems. In addition to utilizing our customer data to strategize our upcoming flash sales event to enhance the timeliness and relevancy of our product offerings, we also provide some relevant portions of these data to our brand partners to help them optimize their product development and sales and marketing strategies and further promote additional sales opportunities with us.

### ***Inventory Management***

For brands where we have established long-term relationships, we typically do not pay any deposit on the products we purchase. For other brands, however, we generally pay a deposit ranging from 10% to 100% of the total price for each purchase order.

We generally have the right to return unsold items within a period after the end of a sales event. We typically pay for the purchase order in installments with the last installment paid upon full settlement of the unsold items or returned products we receive from customers. We typically do not have the right to return the unsold products to the brand partners of certain types of products, such as certain sporting goods, cosmetic beauty products and cross-border products. For these products, we have been able to utilize our strong marketing expertise regarding customer preferences to achieve quick inventory turnover.

We have implemented an inventory management system to manage the information related to our procurement plan, quality control upon receipt, stock maintenance, stock deliveries, sales invoicing and sales recording. We use an enterprise resource planning (ERP) system to monitor and actively track

sales data. This system helps us make timely adjustments to our procurement plan and minimize excess inventory.

**Quality Control**

In addition to our brand selection process, we have adopted stringent quality assurance and control procedures for products delivered through our logistics network. We carefully inspect all products delivered to our logistics centers, rejecting or returning products that do not meet our quality standards or the purchase order specifications. We also inspect all products before shipment from our logistics centers to our customers. We believe that our strict brand selection process and quality control procedures enable us to ensure the high-quality level of products sold on our Vipshop Online Platform and increase customer satisfaction.

## Our Product and Service Offerings

### Product Categories

We offer a broad spectrum of apparel, fashion goods, cosmetics, home goods, and lifestyle products from popular domestic and international brands. The following table illustrates our current product categories:

<u>Product Category</u>	<u>Product Description</u>
<i>Womenswear</i>	Women's apparel, featuring a variety of apparel and styles for different age groups, including casual wear, jeans, dresses, outerwear, swimsuits, lingerie, pajamas, and maternity clothes.
<i>Menswear</i>	Men's apparel, featuring a variety of apparel and styles for different age groups, including casual and smart-casual T-shirts, stylish polo shirts, jackets, pants, and underwear.
<i>Footwear</i>	Shoes for women and men designed in a variety of styles, for both casual and formal occasions.
<i>Accessories</i>	Fashion accessories in various styles and materials for women and men, including belts, fashionable jewelry, watches, and glasses complementing our apparel offerings.
<i>Handbags</i>	Purses, satchels, duffel bags and wallets in many colors, styles, and materials.
<i>Children</i>	Apparel, gear and accessories, furnishings and decor, toys and games for boys, girls, infants, and toddlers of all age groups.
<i>Sportswear and sporting goods</i>	Sports apparel, sports gear and footwear for tennis, badminton, soccer, and swimming.
<i>Consumer electronic products</i>	Consumer electronic products, covering a wide range of demands, including computers, mobile handsets, digital cameras, and major home appliances.
<i>Cosmetics</i>	High-quality, affordable skin care and cosmetic products, including cleansers, lotions, face and body creams, face masks, sunscreen, foundations, lipsticks, eye shadows, and nail polish.
<i>Home goods and other lifestyle products</i>	Home goods with an extensive selection of home furnishings, including bedding and bath product, home decor, dining and tabletop items, and small household appliances.
<i>Luxury goods</i>	Internationally-known premium designer apparel, footwear, and accessories.
<i>Gifts and miscellaneous</i>	Snacks, health supplements and occasion-based gifts, such as chocolates, moon-cakes, and tea.

We pay close attention to every aspect of our services to enhance our customers' shopping experience. For each purchase, we arrange items neatly and thoughtfully within each delivery box. Unlike many in-store sales items which have been tried on numerous times, are on display for a lengthy period of time or may have minor defects, each item purchased from our Vipshop Online Platform is new, contains its original tag and packaging, and must pass our strict quality control inspection prior to shipping.

### Pricing

We price products on our Vipshop Online Platform at significant discounts, typically ranging from 20% to 90% off the original retail price, which is one of the key elements in the "thrill and excitement" shopping experience that we create. Our attractive pricing is made possible by cost savings

achieved through volume discounts that we receive, in particular for off-season or slower-moving inventory, and the absence of physical retail space and related overhead costs. We typically negotiate with our brand partners for prices that are competitive with those offered to other discount sales channels.

### **Other Services**

The significant scale of our business allows us to provide a variety of services to create value for our business partners and ultimately benefit our customers. Our Internet finance offerings primarily include consumer financing and supplier financing services.

Our consumer financing service went live during the fourth quarter of 2015, providing our customers with credit solutions to facilitate their shopping with us. Our customers may take advantage of the competitive installment payment options available under Weipin Spend (唯品花 in Chinese), our installment plan.

Our developing supplier financing business targets our suppliers' need of liquidity and facilitates our inventory procurement. Wei Yidai (唯易贷 in Chinese), our microcredit service, efficiently and conveniently provides secured and unsecured financing to our suppliers.

### **Payment, Fulfillment and Return**

#### **Payment**

We provide our customers with the flexibility to choose from a number of payment options. Our payment options include our Vipshop Payment service, cash on delivery, and payment through third-party online payment services, such as tenpay.com. In 2018, our fast-growing Vipshop Payment service was used to process a significant portion of our total orders, so that we continue to depend less on other payment options. Under the cash on delivery option, our in-house last mile delivery capabilities, supplemented by a few third-party delivery service providers, deliver products to customers' designated addresses and collect payment on site. As of December 31, 2018, we had built an extensive distribution network to deliver products and provide our cash-on-delivery payment option to customers in over 370 cities across China. This payment method not only provides our customers with a secure and convenient payment option, but also reduces our operating expenses and payment collection risk as we can combine payment and delivery services by using our in-house last mile delivery capabilities, without incurring additional fees.

#### **Fulfillment**

We have established a logistics network and warehousing capacity with nationwide coverage. We have adopted a flexible logistics model supported by our robust and advanced warehouse management system. As of December 31, 2018, we delivered over 95% of our orders through our invested and in-house last mile delivery capabilities. Meanwhile, we use a mix of top delivery companies with nationwide coverage and quality regional or local couriers to ensure reliable and timely delivery.

##### *Logistics Network and Warehouse Management System*

Our logistics network consists of regional logistics hubs and local distribution centers. Our regional logistics hubs are strategically located in Zhaoqing of Guangdong Province in Southern China, Kunshan of Jiangsu Province in Eastern China (which is within close proximity of Shanghai), Jianyang of Sichuan Province in Southwestern China, Tianjin in Northern China, Ezhou of Hubei Province in Central China, and Shenyang of Liaoning Province in Northeastern China. We maintain local distribution centers to facilitate distribution of standardized and frequently purchased products, and we have established several bonded warehouses in China to support our cross-border business.

Our warehouse management system enables us to closely monitor each step of the fulfillment process from the time a purchase order is confirmed with the brand partners and the product stocked in our logistics centers, up to when the product is packaged and picked up for shipment to a customer. Shipments from brand partners first arrive at one of our regional logistics hubs, depending on demand from each warehouse. At each logistics hub, inventory is bar-coded and tracked through our management information system, allowing real-time monitoring of inventory levels across our logistics network and item tracking at each logistics center. As we offer a curated selection of brands and products for each daily sales, our logistics centers and inventory management systems are specifically designed to support the frequent sales events on our flash sales platform and a large volume of inventory turnover. In 2016, 2017, and 2018, we processed approximately 269.8 million, 335.0 million, and 437.4 million customer orders, respectively.

Since 2013, we have been implementing innovative solutions to further enhance our logistics efficiency. The "just-in-time" method, or JIT, allows some of our suppliers to not load inventories to the warehouse before the relevant products are put up for sale. Instead, the suppliers will load inventories to our warehouses only within a period of time after being notified when orders have been generated. Compared to the traditional bulk load-in and bulk load-out method, JIT enables certain suppliers that have worked with us well to further increase turnover. Moreover, the "third-party logistics" method, or 3PL, allows some of our suppliers to lease vacant space of our warehouses to manage their supplies. The 3PL increases utilization of our warehouses while enabling certain suppliers to manage their supplies more efficiently. The combined JIT and 3PL have been implemented for the majority of our business.

### ***Delivery Services***

We deliver orders placed on our Vipshop Online Platform to all areas in China primarily through our invested and in-house last mile delivery capabilities and, to a lesser extent, through leading reputable third-party delivery companies with nationwide coverage and quality regional and local couriers. As of December 31, 2018, over 95% of our orders were delivered by our invested and in-house last mile delivery capabilities. For luxury goods orders, we deliver the products with an "anti-tampering lock" device to further enhance customer trust. For delivery to smaller cities, we use a combination of our invested and in-house last mile delivery capabilities and third-party delivery companies to achieve greater operational efficiency and ensure timely delivery to our customers. We bundle packages for customers in smaller cities within a particular region and ship in bulk to be then delivered locally to our customers. Our use of reputable national delivery companies and regional and local couriers to supplement our invested and in-house last mile delivery capabilities allows us to maintain operational flexibility and accommodate order demand, thereby ensuring high service quality.

We leverage our large-scale operations, our strong invested and in-house last mile delivery capabilities and reputation to obtain favorable contractual terms from third-party delivery companies. To reduce the risk of reliance on any single delivery company, we typically contract with two or more regional delivery companies in each major city. We regularly monitor and review the delivery companies' performance and their compliance with our contractual terms. We typically negotiate and enter into logistics agreements on an annual basis.

### ***Return Policy***

Due to the limited quantities of each featured flash sales product, we do not normally offer a product exchange service but customers may return products purchased from our platform. We currently offer our customers an unconditional right of return for a period of seven days on sales from our Vipshop Online Platform upon receipt of products. Our customers can return products purchased on our platform within seven days of receipt of the products as long as the products are unused, unwashed, unworn, undamaged and in their original packaging and in original condition. For return of luxury goods, the anti-tampering lock on the product must remain intact.

Once a customer submits a return application request online or by phone, our customer service representatives will review and process the request or contact the customer by email or by phone if there are any questions relating to the request. Upon our receipt of the returned product, we credit the customer's Vipshop member account or original payment method with the purchase price. We believe our hassle-free return policies help to increase customer spending and enhance customer loyalty.

## **Customer Service**

We believe that our emphasis on customer service enhances our ability to maintain a large and loyal customer base and create a positive customer experience, encouraging repeat visits and purchases. We have a dedicated customer service team responsible for handling general customer inquiries and requests, assisting customers with their ordering process, investigating the status of orders, shipments and payments, resolving customer complaints, and providing other after-sales services. Our customers can contact customer service representatives through our customer service e-mail, real-time online chat, or our customer service hotline 15 hours a day, seven days a week. As of December 31, 2018, our customer service center, located in our Guangzhou headquarters, had approximately 1,800 well-trained employees.

We maintain service quality by carefully selecting personnel, providing our customer service representatives with extensive training, and regularly monitoring and evaluating the performance of each representative. Each new customer service representative is required to complete a mandatory training program in Guangzhou, conducted by experienced managers and covering product knowledge, complaint handling, service attitude and communication skills. To facilitate timely resolution of customer complaints, we also train and empower our customer service representatives to resolve complaints and remedy situations within a specified authorized amount determined based on their seniority without having to get approval from their supervisors. To maintain control over the quality of customer services, we do not outsource any of our e-mail, online live chat, or call center customer service operations.

## **Marketing**

Although historically we have not incurred substantial marketing expense and have been able to build a large base of loyal customers with relatively low customer acquisition cost primarily through word-of-mouth referrals and providing our customers with an enjoyable, satisfying, and rewarding shopping experience and using cost-effective marketing means, we intentionally reinvested our profits into marketing to gain market share starting in 2014. Since the second quarter of 2014, we have been increasing marketing expenses to strengthen our brand awareness, attract more mobile users, and expand market share especially within product categories such as apparel, cosmetics, maternal and baby products.

We continued to improve and enhance the element of "thrill and excitement" associated with the customer shopping experience to promote word-of-mouth referrals and repeat customer visits to our Vipshop Online Platform. As part of our viral marketing strategy, we provide various incentives to our existing customers to increase their spending and loyalty. Our customers can earn reward points upon registration and for each purchase they make, and may exchange the reward points for coupons, gifts and lucky draw opportunities on our platform. Our customers may also earn reward points by introducing new members and customers to our platform. In addition, we encourage our customers to share their successful flash sales shopping experiences through social media in China. We offer an "easy-to-share" function that enables our customers to easily share their shopping experiences with us on social networking Internet platforms.

## Technology

Our IT systems are designed to enhance efficiency and scalability, and play an important role in the success of our business. We rely on a combination of internally developed proprietary technologies and commercially available licensed technologies to improve our platform and management systems in order to optimize every aspect of our operations for the benefit of our customers and brand partners.

We have adopted a service-oriented architecture supported by data processing technologies which consists of front-end and back-end modules. Our network infrastructure is built upon self-owned servers located in data centers operated by major PRC Internet data center providers. We are implementing enhanced cloud architecture and infrastructure for our core data processing system to augment our existing virtual private network as we continue to expand our operations in new geographic locations, enabling us to achieve significant internal efficiency through a virtual and centralized network platform.

Our front-end modules, which refer to modules supporting the user-interfaces of our platform, mainly include product display, registered member account management, category browsing, online shopping cart, order processing functions and payment functions. Our front-end modules are supported by our proprietary content distribution network, dynamic and distributed cluster and a core database, providing our customers with quicker access to the product display they are interested in, and facilitating faster processing of their purchases. We have developed our IT systems to handle a surge of visitor traffic to our platform during the peak hours of our twice-per-day sales from 10 a.m. to 12 p.m. and 8 p.m. to 12 a.m. Beijing time, providing our customers with a smooth online shopping experience.

Our back-end modules, which refer to modules supporting our business operations, mainly include customer service, ERP system, warehouse and logistics management, product information management, business intelligence and administration management systems. Our customer service system mainly consists of our customer relationship management system, our audio and online customer service system and our customer data analysis and membership management system. We believe that we are one of the few PRC e-commerce companies to implement an ERP system, which we have customized to integrate our management of brand partners, accounting and product distribution information. Our warehouse and logistics management system primarily consists of our warehouse management system and our track data storage and automated warehouse and logistics operations, which allow us to efficiently manage our inventories, track the products, and deliver the products to our customers on a timely basis. We have designed our product information management system to perform a variety of functions such as products filing, products photographing, products-information compiling, sample products management, online sales scheduling and other functions relating to on-line sales of goods. This system greatly enhances the efficiency of our operations.

Our customer relationship management and business intelligence systems enable us to effectively gather, analyze and make use of internally generated customer behavior and proprietary transaction data. We regularly use this information in planning our marketing initiatives for upcoming flash sales and make profile-based personalized recommendations to enhance our users' shopping experience. We have been working to add more features to our personalized interfaces so that our customers may have unique experience when shopping with us. In addition, we also provide selected data to our brand partners to help them optimize their product development and sales and marketing strategies. Our business intelligence system is an intelligence system built with the proprietary cloud computing infrastructure, providing decision-making intelligence such as dashboards operation, operational analysis, market analysis, sales forecasts and products such as anti-fraud filters, precision marketing, personalized recommendations and other application-oriented intelligent products that facilitate data-driven decision-making and increase our product sales.

Our research and development team has significantly enhanced our cybersecurity efforts against online and offline frauds, risk control and potential cyber-attacks, such as DDoS and spamming. For

example, we have implemented a security response system to deal with online security breaches, as well as a multi-disciplinary risk control program to protect assets and fight against offline fraudulent issues.

We have developed most of the key business modules through our internal IT department. We also license software from reputable third-party providers, such as Manhattan Information System and Oracle, and work closely with these third-party providers to customize the software for our operations. We have implemented a number of measures to protect against failure and data loss. We have developed a disaster tolerant system for our key business modules which includes real-time data mirroring, daily off-line data back-up and redundancy and load balancing.

We believe that our module-based systems are highly scalable, which enable us to quickly expand system capacity and add new features and functionality to our systems in response to our business needs and evolving customers' demands without affecting the operation of existing modules. We have also adopted rigorous security policies and measures, including encryption technology, to protect our proprietary data and customer information.

### **Intellectual Property**

We regard our trademarks, service marks, domain names, trade secrets, proprietary technologies, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions with our employees, partners, service providers, suppliers, and other parties to protect our proprietary rights. As of December 31, 2018, we owned 1,401 registered trademarks, 149 copyrights (including copyrights to 115 software products developed by us relating to various aspects of our operations), and 301 registered domain names that are material to our business, including vip.com and vipshop.com.

### **Competition**

The online flash sales market, as one of the fast-growing categories of the e-commerce market in China, is rapidly competitive and rapidly evolving. Our primary competitors include major B2C e-commerce companies in China that sell a broad range of products and services online, such as Alibaba and Pinduoduo, and other online discount retail companies in China.

We believe we compete primarily on the basis of:

- ability to identify products in demand among consumers and source these products on favorable terms from brands;
- pricing;
- breadth and quality of product offerings;
- platform features;
- customer service and fulfillment capabilities; and
- reputation among consumers and brands.

We believe that our early mover advantage and leading market position help us to compete efficiently against our competitors. However, some of our current and potential competitors may have longer operating histories, larger customer bases, better brand recognition, stronger platform management and fulfillment capabilities and greater financial, technical and marketing resources than we do. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Business and Industry—If we do not compete effectively against existing or new competitors, we may lose market share and customers."

## **Strategic Investments and Acquisitions**

To maintain and strengthen our leading market position in China and to supplement our existing business, we constantly evaluate opportunities for strategic investments in, and acquisitions of, complementary businesses, assets, and technologies and have made such investments and acquisitions from time to time. We have made the following material strategic investments and acquisitions over the past three years.

In February 2015, January 2016, and May 2016, we acquired an aggregate of 96.98% of equity interest in Feiyuan, for a total consideration of approximately RMB255.7 million, to boost our warehousing, transportation, and distribution capabilities in southeast China.

In September 2016, we acquired 100% of equity interest in Zhejiang Ebatong Technology Co., Ltd., which is a third-party payment service provider, for a total consideration of RMB428.3 million. Zhejiang Ebatong Technology Co., Ltd. changed its name to Zhejiang Vipshop Payment Co., Ltd. following the completion of acquisition, and would develop our Internet payment channel.

In March 2018, we agreed to invest in the capacity of a passive investor, up to US\$250 million in a private equity fund, which focuses on technology-enabled consumer, retail, and related business. As of December 31, 2018, the aggregate amount of our committed capital to the fund was RMB126.1 million.

## **Regulation**

This section summarizes all of the significant laws and regulations that materially affect our business and operations and the key provisions of such laws and regulations.

### ***Regulations on Foreign Investment***

#### *PRC Foreign Investment Law*

On March 15, 2019, NPC approved the PRC Foreign Investment Law, which will become effective on January 1, 2020. The PRC Foreign Investment Law is considered to grant national treatment to FIEs, except that FIEs are subject to certain restrictions or prohibitions if they propose to operate in certain industries prescribed on a new version of "negative list" to be released by the PRC State Council. However, as the new version of "negative list" has yet to be issued, it is unclear whether it will differ from the Special Administrative Measures for Entrance of Foreign Investment.

#### *Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2018 Version)*

The Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2018 Version), or the 2018 Negative List, which was promulgated jointly by MOFCOM and NDRC on June 28, 2018 and became effective on July 28, 2018, replaced and partially abolished the Guidance Catalog of Industries for Foreign Investment (2017 Revision) regulating foreign investment in China. Pursuant to the 2018 Negative List, foreign investors should refrain from making investing in any of the prohibited sectors specified in the 2018 Negative List, and foreign investors are required to obtain permits for access to other sectors that are listed in the 2018 Negative List but not classified as "prohibited."

### ***Regulations on Value-Added Telecommunications Services***

The PRC government extensively regulates the telecommunications industry, including the Internet sector. The PRC State Council, MIIT, MOFCOM, the State Administration for Market Regulation, or SAMR (established by merging the State Administration for Industry and Commerce, or SAIC, the General Administration of Quality Supervision, Inspection and Quarantine and the China Food and

Drug Administration according to the 2018 Institutional Reform Plan), National Radio and Television Administration, or NRTA, Publicity Department of the Central Committee of the Communist Party of China, or the Publicity Department of the CCCPC, and other relevant government authorities have promulgated an extensive regulatory scheme governing telecommunications, online sales, and e-commerce. However, China's telecommunications industry and Internet-related industry continue to develop and evolve. As a result, new laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have, and will require us to address new issues that arise from time to time. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the telecommunications, online sales and e-commerce. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

*Licenses for Value-Added Telecommunication Services*

On September 25, 2000, the PRC Telecommunications Regulations, or the Telecom Regulations, were issued by the PRC State Council as the primary governing law on telecommunication services. The Telecom Regulations set out the general framework for the provision of telecommunication services by PRC companies. Under the Telecom Regulations, it is a requirement that telecommunications service providers procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between "basic telecommunications services" and "value-added telecommunications services." A "Catalog of Telecommunications Business" was issued as an attachment to the Telecom Regulations to categorize telecommunications services as basic or value-added, and was updated to classify the information services such as content service, entertainment and online games services as value-added telecommunications services. The Telecom Regulations were amended in July 2014 in accordance with the Decision of State Council on Amending Certain Administrative Regulations (Order No. 653) and further amended in February 2016 in accordance with the Decision of State Council on Amending Certain Administrative Regulations (Order No.666). On December 28, 2015, MIIT released the Catalog of Telecommunication Business (2015 Revision), or the 2015 Telecom Catalog, which took effect on March 1, 2016. Under the 2015 Telecom Catalog, both the online data processing and transaction processing business (i.e. operating e-commerce) and Internet information business, continue to be categorized as value-added telecommunication services, and the Internet information business as defined under the 2015 Telecom Catalog includes information release and delivery services, information search and query services, information community platform services, information real-time interactive services, and information protection and processing services.

On July 3, 2017, MIIT issued the Administrative Measures for Telecommunications Business Operating Permit, or the Telecom Permit Measures, which took effect on September 1, 2017, and replaced the administrative measures for telecommunication business operating permit promulgated on March 5, 2009. The Telecom Permit Measures confirm that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and licenses for value-added telecommunications services. The operation scope of the license will detail the permitted activities of the enterprise to which it is granted. An approved telecommunication services operator shall conduct its business in accordance with the specifications recorded on its VATS License. In addition, a VATS License's holder is required to obtain approval from the original permit-issuing authority prior to any change to its shareholders. On February 24, 2015, the PRC State Council has issued the Decisions on Cancelling and Adjusting a Batch of Administrative Approval Items, which, among others, replaced the pre-registration approval requirement for telecommunications business with post-registration approval requirement.

On September 25, 2000, the PRC State Council promulgated the Administrative Measures on Internet Information Services, or the Internet Measures, which was amended in January 2011. Under the Internet Measures, commercial Internet information services operators shall obtain an ICP License, from the relevant government authorities before engaging in any commercial Internet information services operations within China. The ICP License has a term of five years and shall be renewed within 90 days before expiration.

As of the date of this annual report, Vipshop E-Commerce held an EDI License valid until December 2022, which is required for providing platform access to third-party merchants for their sales of products to further develop our business; Vipshop E-Commerce was preparing to apply for an ICP License, which is required for providing commercial Internet information services; Vipshop Information held a VATS License valid until July 2020 for domestic call center services.

#### *Foreign Investment in Value-Added Telecommunication Services*

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises promulgated by the PRC State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, or the FITE Regulations, the ultimate foreign equity ownership in a value-added telecommunications services provider may not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from MIIT and MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. Pursuant to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of FIEs, most of which are Sino-foreign joint ventures engaging in the value-added telecommunication business. Under the 2018 Negative List, value-added telecommunications services continue to be categorized as restricted industry for foreign investment, and a foreign investor may not hold more than 50% of equity interest in an operator of value-added telecommunications services, except for e-commerce. On June 19, 2015, MIIT issued the Circular on Removing the Restrictions on Equity Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-Commerce) Business to amend the relevant provisions in the FITE Regulations, allowing foreign investors to own more than 50% of equity interest in an operator of "operating e-commerce" business. However, foreign investors are still prohibited from holding more than 50% of equity interest in a provider of other subcategories of value-added telecommunications services.

The MIIT Circular issued by MIIT in July 2006 reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up FIEs and obtain the applicable VATS License to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds a VATS License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local VATS License holder or its shareholders. The MIIT Circular further requires each VATS License holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations.

We are a Cayman Islands company, and our PRC subsidiary, Vipshop China, is our WFOE under PRC law and thus is restricted from providing value-added telecommunication services, including

Internet information services, in China. To comply with the PRC regulations noted above, our Vipshop Online Platform is operated by our consolidated affiliated entities, each of which is currently owned by PRC citizens, namely, Mr. Eric Ya Shen and Mr. Arthur Xiaobo Hong. As part of our efforts to streamline our contractual arrangements among our consolidated affiliated entities during 2017 and 2018, Vipshop E-Commerce currently holds an EDI License to operate our platform in China, and it also has registered and holds all significant domain names.

To conduct our business in China, our PRC subsidiaries have entered into four sets of contractual arrangements with our consolidated affiliated entities, namely, Vipshop Information, Tianjin Pinjian, Pin Jun Tong and Vipshop E-Commerce. For a detailed discussion of our contractual arrangements, please refer to "Item 4.C. Information on the Company—Organizational Structure."

### ***Regulations on Internet Privacy***

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorized disclosure. The Internet Measures prohibit an ICP operator from humiliating or defaming a third party or infringing the lawful rights and interests of a third party. Furthermore, The Decision on Strengthening Network Information Protection promulgated by the Standing Committee of NPC in December 2012 provides that electronic information that is able to identify identities of citizens or is concerned with personal privacy of citizens is protected by law and shall not be unlawfully obtained or provided. ICP operators collecting or using personal electronic information of citizens shall specify purposes, manners and scopes of information collection and use, obtain consent of citizens concerned, and strictly keep confidential personal information collected. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with personal information collected. Technical and other measures are required to be taken by ICP operators to prevent personal information collected from unauthorized disclosure, damage or being lost. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of websites concerned, public security administration punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on Internet privacy. Pursuant to the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT on July 16, 2013, any collection and use of users' personal information must be subject to the consent of the users, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of NPC in August 2015, which became effective in November 2015, any Internet service provider that fails to fulfill obligations to manage information and network security as required by applicable laws and refuses to rectify upon orders from government authorities, will be subject to criminal penalty if such failure (i) causes dissemination of illegal information in large scale; (ii) causes user information leaks resulting in severe consequences; (iii) causes serious loss of evidence to criminal investigations; or (iv) implicates other severe circumstances. Moreover, any individual or entity that (i) sells or provides personal information to others in violation of applicable laws, or (ii) steals or illegally obtains any personal information, in either case implicating severe circumstances, will be subject to criminal penalty. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an Internet user posts any prohibited content or engages in illegal activities on the Internet.

To further regulate cyber security and privacy protection, the PRC Cyber Security Law, which was promulgated on November 7, 2016 and took effect on June 1, 2017, provides that: subject to certain exceptions, (i) to collect and use personal information, network operators must follow the principles of legitimacy, rightfulness, and necessity, disclose their rules of data collection and use, clearly express the purposes, means, and scope of collecting and using the information, and obtain the consent of the

persons whose data is gathered; (ii) network operators can neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered, and must dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators cannot divulge, tamper with, or damage the personal information they have collected, and cannot provide the personal information to others without the consent of the persons whose data is collected. According to the PRC Cyber Security Law, personal information refers to all kinds of information that is recorded electronically or that can otherwise be used to independently identify or be combined with other information to identify natural persons' personal information, including but not limited to natural persons' names, dates of birth, identification numbers, biologically identified personal information, addresses, and telephone numbers. Any Internet information services provider that violates these privacy protection requirements under the PRC Cyber Security Law and related laws and regulations may be ordered to turn in illegal gains generated from unlawful operations and pay a fine of no less than one but no more than ten times of the illegal gains, and may be ordered to cease the relevant business operations when the violation is serious. On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate issued the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, or the Personal Information Interpretations, which became effective on June 1, 2017. The Personal Information Interpretations provides more practical conviction and sentencing criteria for the infringement of citizens' personal information and mark a milestone for the criminal protection of citizens' personal information.

On January 23, 2019, the PRC Office of the Central Cyberspace Affairs Commission and other three authorities jointly issued the Circular on the Special Campaign of Correcting Unlawful Collection and Usage of Personal Information via Apps. Pursuant to this circular, (i) app operators are prohibited from collecting any personal information irrelevant to their services; (ii) information collection and usage policy should be presented in a simple and clear way, and such policy should be consented by the users voluntarily; and (iii) authorization from users should not be obtained by coercing users with default or bundling clauses or making consent a condition of a service. App operators violating these rules can be ordered by authorities to correct their noncompliance within a given period of time, be publicly reported, or ordered to quit its operation or cancel its business license or operational permits. Furthermore, the authorities issuing this circular will initiate a campaign to correct unlawful collection and usage of personal information via apps from January 2019 through December 2019.

### ***Regulations Relating to Distribution of Books and Audio-Video Products***

We are also subject to regulations relating to the distribution of books and audio-video products. Under the latest Administrative Provisions for the Publication Market, which were jointly promulgated in May 2016 by State General Administration of Press, Publication, Radio, Film and Television, and MOFCOM, and became effective in June 2016, any entity or individual engaging in the distribution of publications, including books, newspapers, periodicals, audio-video products and electronic publications, must obtain an approval from the competent press and publication administrative authority and receive the Publication Operation Permit. As of the date of this annual report, each of Vipshop E-Commerce, Vipshop China, Vipshop Jianyang, Vipshop Kunshan, Vipshop Tianjin, Vipshop Hubei, Vipshop Zhaoqing, Vipshop Chongqing, and Vipshop (Shenyang) E-Commerce Co., Ltd., or Vipshop Shenyang, had obtained Publication Operation Permits, valid until December 2021, March 2020, July 2021, March 2020, December 2023, May 2020, December 2020, April 2022, and March 2024, respectively.

Furthermore, according to the Notice on Promoting the Healthy Development of Online Distribution of Publications issued by GAPP on December 7, 2010, any entities engaging in online

publications distribution in China shall apply for the Publications Operation Permit with an "online distribution" notation. However, the Administrative Provisions for the Publication Market provides that an entity that maintains a valid Publication Operation Permit for the retail sale of publications is only required to file notice with a competent press and publication administrative authority within 15 days from starting online publications distribution business. As of the date of this annual report, Vipshop E-Commerce, Vipshop China, Vipshop Jianyang, Vipshop Kunshan, Vipshop Hubei, Vipshop Zhaoqing, Vipshop Chongqing, and Vipshop Shenyang are preparing to add the Publication Operation Permits obtained by these entities with "online distribution" notations. As of the date of this annual report, Vipshop E-Commerce, Vipshop Information, Vipshop Kunshan, Vipshop Zhuhai and Vipshop Zhaoqing had completed the notice filing with competent authorities.

### ***Regulations on E-Commerce***

China's e-commerce industry is at an early stage of development and there are few PRC laws or regulations specifically regulating the e-commerce industry. In May 31, 2010, SAIC adopted the Interim Measures for the Administration of Online Commodities Trading and Relevant Services, or the Online Commodities Measures, which took effective on July 1, 2010. Under the Online Commodities Measures, enterprises or other operators which engage in online commodities trading and other services and have been registered with SAIC or its local branches must make available to the public the information stated in their business licenses or the link to their business licenses online on their websites. The online distributors must adopt measures to ensure safe online transactions, protect online shoppers' rights and prevent the sale of counterfeit goods. The information on trading of commodities released by online distributors shall be authentic, accurate, complete and sufficient. On January 26, 2014, SAIC adopted the Administrative Measures for Online Trading, or the Online Trading Measures, which took effective on March 15, 2014 and repeal the Online Commodities Measures from that day. Under the Online Trading Measures, the consumer is entitled to return the commodities within seven days from the date after receipt of the commodities without giving a reason, except for the following commodities: customized commodities; fresh and perishable commodities; audiovisual products downloaded online or unpackaged by consumers and computer software and other digital commodities; and newspapers and journals that have been delivered. The online commodity operators shall, within seven days upon receipt of the returned commodities, refund the prices paid by consumers for relevant commodities. In addition, operators shall not, by using contract terms or by other manners, set out the provisions that are not fair or rational to consumers such as those that exclude or restrain consumers' rights, relieve or exempt operators' responsibilities, and increase the consumers' responsibilities, and shall not, by using contract terms and by technical means, reach transactions in a forcible manner.

On September 21, 2012, MOFCOM issued the Administrative Measures on Single Purpose Commercial Prepaid Cards (Tentative), or the Single Purpose Cards Measures, which took effect on November 1, 2012 and was amended by the Decision of MOFCOM on Repealing and Revising Certain Regulations and Regulatory Documents on August 18, 2016. Under the Single Purpose Card Measures, among other things and subject to implementing rules adopted by the local branch of MOFCOM, the issuer of single purpose commercial prepaid cards, or the Single Purpose Cards, which are defined as the prepaid cards that can only be redeemed by the card issuer, the group companies under the same ultimate control of the card issuer, or the franchise entities under one single brand same as the card issuer, shall (i) register its card issuance with MOFCOM or its local branches within 30 days, and (ii) adopt sufficient measures to control risks, by means of controlling the total balance of the Single Purpose Cards and providing advance deposit, guarantee insurance, bank guarantee or other commercial guarantee as required. Vipshop E-Commerce issues and sells the Single Purpose Cards to our customers. Vipshop E-Commerce has taken sufficient risk control measures as required and has completed the registration formalities with Guangzhou Municipal Commerce Bureau.

To further regulate the e-commerce industry, on August 31, 2018, the Standing Committee of NPC promulgated the PRC E-Commerce Law, which took effect on January 1, 2019, providing that e-commerce operators must comply with the principles of voluntariness, equality, fairness, and good faith, abide by laws, observe business ethics, equally participate in market competition, perform obligations regarding the protection of consumers' rights and interests, environmental protection, intellectual property protection, and the protection of cyber security and personal information, take charge of the quality of products and services, and receive the supervision of the government and the general public. For example, an operator of an e-commerce platform must (i) comply with the requirements for protection of personal safety and property security and the requirements for environmental protection regarding its sales of goods or provisions of services; (ii) disclose information of goods or services fully, truthfully, accurately, and promptly, and protect consumers' right to know and right to choose; (iii) deliver goods or services to a consumer in accordance with the method and deadline committed or agreed with the consumer, and bear the risks and liability for transportation of goods, except where the consumer separately selects a courier service provider.

### ***Regulation on Internet Finance***

We currently utilize our Vipshop Online Platform to provide various Internet finance services to our customers, and are subject to the regulations applicable to our provision of those services. On July 18, 2015, ten PRC government authorities, including PBOC, CSRC, the China Insurance Regulatory Commission, or CIRC, the China Banking Regulatory Commission, or CBRC, the Ministry of Finance, or MOF; the Ministry of Public Security, MIIT, the Legislative Affairs Office of the State Council, and the State Internet Information Office, jointly issued the Guidance on Promoting the Healthy Development of Internet Finance, or the Internet Finance Guidance. The Internet Finance Guidance refers to Internet finance as a new financial business model in which traditional financial institutions and Internet companies provide financing, payment, investment, and information intermediary services by using Internet technologies and information and communication technologies. In accordance with the Internet Finance Guidance, Internet finance is part of the finance sector, and Internet finance business operators are still required to comply with the regulations in relation to the provision of each sub-category of specific financial services they provide. On April 12, 2016, the General Office of the State Council issued the Notice on Issuing the Implementing Proposals for the Special Rectification of Internet Financial Risks. This notice aims to, among others, impose stricter market entry regulation on Internet finance, strengthen monitoring of funds, encourage whistleblowers with rewards and enhance penalties for violations, and curb unfair competition.

### ***Regulation on Microcredit Services***

We currently offer supplier financing in the form of microcredit services. In 2008, PBOC and CBRC jointly promulgated the Guidance on the Pilot Establishment of Microcredit Companies, which allowed provincial governments to approve the establishment of microcredit companies on a trial basis. Many government authorities at the provincial or equivalent level, including Guangdong and Shanghai, issued local implementing rules on the administration of microcredit companies pursuant to this guidance. The specific local authority that is in charge of supervision of microcredit business in each administrative region may vary, and usually is the financial office of the local government. Any entities intend to engage in microcredit business in certain administrative region must obtain an approval from the local authority that is in charge of supervision over the microcredit business in such administrative region, and a microcredit company is not permitted to conduct microcredit business outside the administrative region where it is approved to conduct the business. Both national and local level regulations also require, among the other things, the sources of funds of a microcredit company to be limited to the capital contributed by its shareholders, donated fund, and loans from no more than two banking financial institutions provided such loans do not exceed 50% of the net capital of such microcredit company. We currently are permitted to engage in microcredit businesses through two subsidiaries of Vipshop China in Guangzhou and Shanghai, respectively.

### *Regulation on Insurance Agency*

We currently offer insurance products on behalf of insurance companies via our Vipshop Online Platform. Pursuant to the Provisions for the Supervision and Administration of Professional Insurance Agencies (Revised in 2015), or the Insurance Agency Provisions, promulgated by CIRC in 2015, only entities that satisfy the criteria specified by CIRC and hold an insurance agency business operating permit may be entrusted as the agents of the insurance companies to engage in insurance business to the extent authorized by the insurance companies and receive commissions from insurance companies. After obtaining the insurance agency business operation permits, the insurance agents are also required to purchase vocational liability insurance or deposit an amount equal to five percent of its registered capital as security deposit. In addition, all insurance agents are required to report to CIRC in relation to the changes in its name, registered address, name of its initiator and major shareholder, major shareholder, registered capital, shareholding structure, legal form, articles of association, and in relation to any merger or consolidation, or establishment or de-registration of any branches. The insurance agency business operating permit has a valid term of three years, and all insurance agents are required to apply for extension thirty days before the term of their respective permit expires. Pursuant to the Circular on Issuing the Interim Measures for the Supervision of Internet Insurance Business promulgated in July 2015 by CIRC, which became effective in October 2015, insurance institutions must manage and take charge of insurance operations of Internet insurance business including sales, underwriting, settlement of claims, surrender, complaints handling, and customer services. Where a third-party network platform operates and develops the foregoing insurance business, the operator thereof must have obtained the relevant qualifications for insurance business operation. We engage in insurance agency business through a subsidiary of Vipshop Information, which holds an insurance agency business operating permit that allows us to sell insurance products on behalf of issuance companies. Our insurance agency business operating permit is valid from January 7, 2019 until January 31, 2022.

### *Regulation on Payment Services of Non-Financial Institutions*

On June 14, 2010, PBOC issues the Administrative Measures for the Payment Services of Non-Financial Institutions, which became effective on September 1, 2010. Under these measures, a non-financial institution must obtain a payment business license, or Payment License, to provide payment services and qualifies as a paying institution. With the Payment License, a non-financial institution may serve as an intermediary between payees and payers and provide some or all of the following services: online payment, issuance and acceptance of prepaid card, bank card acceptance, and other payment services as specified by PBOC. As of the date of this annual report, we provide online payment services to our customers through a subsidiary of Vipshop Information in Zhejiang, which holds the Payment License valid until June 2022.

### *Regulation on Commercial Factoring Services*

MOFCOM issued the Notice on the Pilot Launch of Commercial Factoring in June 2012, launched a commercial factoring pilot program in the Shanghai Pudong New Area and the Tianjin Binhai New Area. The MOFCOM further expanded the list of commercial factoring pilot areas to include Guangzhou, Shenzhen in December 2012, and also Chongqing Liangjiang New Area and certain other areas in August 2013. Pursuant to the notices of MOFCOM, local government of those pilot areas promulgated its own rules to implement the pilot program. Under these notices and local implementing rules, commercial factoring companies may be established in these areas upon the approval of the local counterpart of MOFCOM or other competent authority. The business scope of a commercial factoring company may include the services of trade financing, management of sales ledgers, investigation and assessment of client credit standings, management and collection of accounts receivable and credit risk guarantee. A commercial factoring company is not allowed to conduct other financial business, such as

taking deposits and lending loans, or to specialize in or carry out debt collection. Currently, we provide secured commercial factoring to our suppliers through one subsidiary of Vipshop China in Shanghai and one subsidiary of Vipshop Information in Guangzhou.

### ***Regulation on Courier Services and Road Transportation Services***

The Ministry of Transport has promulgated the Administrative Measures for Courier Market in January 2013, and the Administrative Measures for Courier Service Operation Permit (2018 Revision) in October 2018. Pursuant to these provisions, any entity engaging in courier services must obtain a courier service operation permit from the State Post Bureau or its local counterpart and is subject to their supervision and regulation. The State Post Bureau accepts permit applications for operating courier services across multiple provinces, and provincial post bureaus accept permit applications for operating courier services within a province. An entity engaging in courier services that establishes a branch, business department, or any other non-corporate branch office must file with the relevant post bureaus where such branch is located and obtain the list of branches. The courier service business must be operated within the permitted scope and valid term of the courier service operation permit.

The State Council promulgated the Regulations on Road Transportation in April 2004, which was subsequently amended in September 2012, February 2016 and March 2019. Pursuant to the Regulations on Road Transportation, the Ministry of Transport has promulgated the Provisions on Administration of Road Freight Transportation and Stations in June 2005 and amended subsequently in July 2008, April 2009, March 2012 and April 2016. According to these regulations, anyone engaging in the business of operating road transportation and stations must obtain a road transportation operation permit, and each vehicle used for shipping must have a road transportation certificate.

We operate our national delivery and logistics network primarily through a subsidiary of Pin Jun Tong, namely Pinjun Holdings Co., Ltd., or Pinjun, and its subsidiaries and branches. Currently, most of the subsidiaries of Pinjun have all obtained courier service operation permits that allow us to operate an express delivery network across the country. Vipshop China, Pinjun and most of subsidiaries and branches of Pinjun have also all obtained road transaction operation permits that allow us to provide road freight transportation services.

### ***Regulations on Sales of Food***

Sales of food in China must comply with laws and regulations regarding food hygiene and safety. The amended Food Safety Law implemented an administrative system of food industry, and the China Food and Drug Administration, or CFDA, became the authority in charge of supervision of all food-related business operations, including food production, food distribution and catering services, in China. On August 31, 2015, CFDA issued the Administrative Measures for Food Business Licensing, which was amended and took effect as of November 17, 2017, which, among others, requires an enterprise engaging in food business to obtain a food business operating permit with a term of five years. As of the date of this annual report, each of Vipshop China, Vipshop Information, Vipshop Jianyang, Vipshop Kunshan, Vipshop Tianjin, Vipshop Hubei, Vipshop Zhaoqing, Vipshop E-Commerce, Vipshop (Xi'an) E-Commerce Co., Ltd., and Vipshop Shenyang held a valid food business operating permit.

### ***Regulations on Software Products***

The Computer Software Copyright Registration Procedures, which were issued by the State Copyright Bureau on February 20, 2002 to further implement the Computer Software Protection Regulations promulgated by the PRC State Council, as amended, apply to software copyright registration, license contract registration and transfer contract registration. As of December 31, 2018, we registered 149 copyrights, including 115 software programs in China.

## **Regulations on Trademarks**

Trademarks are protected by the PRC Trademark Law which was adopted in 1982 and subsequently amended in 1993, 2001 and 2013 as well as the Implementation Regulation of the PRC Trademark Law adopted by the PRC State Council in 2002 and subsequently amended in 2014. The Trademark Office under SAMR handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for consecutive ten-year periods upon request by the trademark owner. Trademark license agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use. We have registered 1,200 trademarks in China and 201 trademarks overseas as of December 31, 2018.

Under PRC law, any of the following acts will be deemed as an infringement to the exclusive right to use a registered trademark: (i) use of a trademark that is the same as or similar to a registered trademark for identical or similar goods without the permission of the trademark registrant; (ii) sale of any goods that have infringed the exclusive right to use any registered trademark; (iii) counterfeit or unauthorized production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorization; (iv) change of any trademark of a registrant without the registrant's consent, and selling goods bearing such replaced trademark on the market; or (v) other acts that have caused any other damage to another's exclusive right to use a registered trademark.

According to the PRC Trademark Law, in the event of any of the foregoing acts, the infringing party will be ordered to stop the infringement immediately and may be imposed a fine; the counterfeit goods will be confiscated. The infringing party may also be held liable for the right holder's damages, which will be equal to the losses suffered by the right holder as a result of the infringement, including reasonable expenses incurred by the right holder for stopping the infringement, or the gains obtained by the infringing party if the losses are difficult to be ascertained. If both gains and losses are difficult to be ascertained, the damages may be determined by referring to the amount of royalties for the license of such trademarks, which will be one to three times of the royalties in the case of any serious infringement with malicious intent. If the gains, losses and royalties are all difficult to be ascertained, the court may render a judgment awarding damages no more than RMB3 million. Notwithstanding the above, if a distributor does not know that the goods it sells infringe another's registered trademark, it will not be liable for infringement provided that the seller shall prove that the goods are lawfully obtained and identify its supplier. We source our products from both domestic and international suppliers. Although we have adopted measures in the course of sourcing such products to ensure their authenticity and to minimize potential liability of infringing third parties' rights, we can provide no assurance that such measures are effective. In the event that counterfeit products or products that otherwise infringe third parties' rights are sold on our platforms, we could face infringement claims and might not be able to prove we should be exempted from liabilities. See "Item 3.D. Key Information—Risk Factors—Risks Relating to our Business and Industry—We may incur liability for counterfeit or unauthorized products sold or information posted on our platforms."

### ***Regulations on Domain Names***

The domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by MIIT on August 24, 2017 and became effective on November 1, 2017, which repealed and replaced the Administrative Measures on China Internet Domain Name promulgated on November 5, 2004. MIIT is the major regulatory body responsible for the administration of the PRC Internet domain names, under supervision of which China Internet Network Information Center, or CNNIC, is responsible for the daily administration of CN domain names and Chinese domain names. On September 25, 2002, CNNIC promulgated the CNNIC Implementation Rules of Registration of Domain Name, or the CNNIC Rules, which was renewed on June 5, 2009 and May 29, 2012, respectively. Pursuant to the Administrative Measures on the Internet Domain Names and the CNNIC Rules, the registration of domain names adopts the "first to file" principle and the registrant shall complete the registration via the domain name registration service institutions. In the event of a domain name dispute, the disputed parties may lodge a complaint to the designated domain name dispute resolution institution to trigger the domain name dispute resolution procedure in accordance with the CNNIC Measures on Resolution of the Domain Name Disputes, which was promulgated by CNNIC on May 28, 2012 and amended on September 1, 2014, file a suit to a people's court or initiate an arbitration procedure. We have registered vip.com and other domain names.

### ***Regulations on Foreign Currency Exchange***

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, or the Foreign Exchange Regulations, as amended on August 5, 2008. Under the Foreign Exchange Regulations, Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of SAFE is obtained and prior registration with SAFE is made. Though there are restrictions on the convertibility of Renminbi for capital account transactions, which principally include investments and loans, we generally follow the regulations and apply to obtain the approval of SAFE and other relevant PRC government authorities. However, we may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries and our PRC affiliated entity may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by an FIE of foreign currency into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 requires that the registered capital of an FIE settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within China. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of an FIE settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19, which took effect as of June 1, 2015 and superseded SAFE Circular 142 on the same date. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of FIEs and allows FIEs to settle their foreign exchange capital at their discretion, but continues to prohibit FIEs from using the Renminbi converted from their foreign exchange capitals

for expenditure beyond their business scopes. On June 9, 2016, SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which took effect on the same date. Pursuant to SAFE Circular 16, FIEs (excluding financial institutions) may go through foreign exchange settlement formalities for their foreign debts at their discretion. Violations of such SAFE circulars could result in severe monetary or other penalties. Our ability to transfer to and use in China the net proceeds from our public offerings of equity securities may continue to be significantly limited.

On January 18, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, which took effect on the same day. This circular sets out various measures to tighten genuineness and compliance verification of cross-border transactions and cross-border capital flow, which include without limitation requiring banks to verify board resolutions, tax filing form, and audited financial statements before wiring FIEs' foreign exchange distribution above US\$50,000, and strengthening genuineness and compliance verification of foreign direct investments.

#### ***Regulations on Dividend Distribution***

Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from Vipshop China, which is a WFOE incorporated in China, to fund any cash and financing requirements we may have. The principal regulations governing distribution of dividends of FIEs include the Foreign-Invested Enterprise Law, as amended on October 31, 2000 and September 3, 2016, and the Implementation Rules of the Foreign-Invested Enterprise Law, as amended on April 12, 2001 and on February 19, 2014.

Under these laws and regulations, WFOEs in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, WFOEs in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. WFOEs may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

#### ***Regulations on Offshore Financing***

On July 4, 2014, SAFE issued SAFE Circular 37 to replace SAFE Circular 75 that ceased to be effective on the same date. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities) to register with local branches of SAFE in connection with their direct or indirect offshore investment activities.

Under SAFE Circular 37, (i) an "SPV" refers to an offshore entity directly established or indirectly controlled by PRC residents for the purpose of seeking offshore equity financing or making offshore investment, using legitimate domestic or offshore assets or interests owned by such PRC residents; (ii) "round trip investment" refers to the direct investment in China by such PRC residents through the "SPV," including, without limitation, establishing FIEs and using such FIEs to purchase or control onshore assets through contractual arrangements; and (iii) "control" is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore SPVs or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 requires PRC residents to complete a foreign exchange registration of overseas investment with the competent local branches of SAFE before making capital contribution into an SPV. SAFE Circular 37 further requires filing of amendment to the registration in the event of any changes with respect to the SPV, including basic information changes such as changes in a PRC resident individual shareholder, name of SPV or operation period, and

significant changes such as changes in the capital contributed by PRC residents, share transfer or exchange, merger, division or other material event. On February 28, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. After SAFE Notice 13 becomes effective, application for foreign exchange registration of inbound foreign direct investment and outbound overseas direct investment, including those required under the SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

Moreover, any PRC subsidiary of such SPV is required to urge the PRC resident shareholders of the SPV to update their registration with qualified banks. If any PRC resident shareholder of the SPV fails to make the required registration or to update the previously filed registration, the PRC subsidiaries of the SPV may be prohibited from distributing their profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV also may be prohibited from making additional capital contribution into its PRC subsidiaries.

All of our shareholders that we are aware of being subject to the SAFE regulations have completed all necessary registrations and amendments with the local SAFE branch or qualified banks as required by SAFE Circular 37 by the end of 2018. Please see "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure and Restrictions on Our Industry—PRC regulations relating to the establishment of offshore holding companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us."

### ***Regulations on Stock Incentive Plans***

In December 2006, PBOC promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which became effective on February 1, 2007. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which became effective on February 1, 2007 and was partially amended on May 29, 2016 and, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in employee share ownership plans or share option plans of an overseas publicly-listed company.

Pursuant to the Stock Option Rules, which was promulgated by SAFE in February 2012 and replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE in March 2007, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges based on the stock incentive plans are required to register with SAFE or its local branches. Pursuant to the Stock Option Rules, PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under

the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches.

In March 2011, March 2012, and July 2014, our board of directors and shareholders adopted the 2011 Stock Incentive Plan, or the 2011 Plan, the 2012 Share Incentive Plan, or the 2012 Plan, and the 2014 Share Incentive Plan, or the 2014 Plan, respectively, pursuant to which we may issue stock options to our qualified employees and directors and consultants on a regular basis. After our initial public offering in March 2012, we advised our employees and directors participating in our stock incentive plans to handle foreign exchange matters in accordance with the Stock Option Rules. We have been assisting our PRC option grantees to complete the required registrations and procedures on a quarterly basis. However, we cannot assure you that our PRC individual beneficiary owners and the stock options holders can successfully register with SAFE or in full compliance with the Stock Option Rules. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions."

Further, a notice concerning the individual income tax on earnings from employee share options jointly issued by MOF and SAT and its implementing rules, provide that domestic companies that implement employee share option programs must (i) file the employee share option plans and other relevant documents to the PRC tax authorities having jurisdiction over them before implementing such employee share option plans; (ii) file share option exercise notices and other relevant documents with the PRC tax authorities having jurisdiction over them before exercise by the employees of the share options, and clarify whether the shares issuable under the employee share options mentioned in the notice are the shares of publicly listed companies; and (iii) withhold taxes from the PRC employees in connection with the PRC individual income tax. We have notified the relevant PRC tax authorities of our share incentive plans, and have also withheld and paid such taxes in connection with the PRC individual income tax.

### **Regulations on Tax**

#### *PRC Enterprise Income Tax Law and Individual Income Tax Law*

The major PRC statutes governing EIT consist of the EIT Law promulgated by NPC on March 16, 2007, effective as of January 1, 2008, amended on February 24, 2017 and December 29, 2018, and its implementing rules promulgated by the State Council on December 6, 2007, effective as of January 1, 2008. Under the EIT Law, enterprises are classified as PRC resident enterprises and non-PRC resident enterprises. PRC resident enterprises typically pay an EIT at the rate of 25%. An enterprise established outside of China with its "de facto management bodies" located within China is considered a PRC "resident enterprise," meaning that it can be treated in a manner similar to a PRC domestic enterprise for EIT purposes. The implementing rules of the EIT Law define de facto management body as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

SAT issued SAT Circular 82 on April 22, 2009, which was partially amended by Announcement on Issues concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions issued by SAT on January 29, 2014, and further partially amended by Decision on Issuing the Lists of Invalid and Abolished Tax Departmental Rules and Taxation Normative Documents issued by SAT on December 29, 2017. SAT Circular 82, as amended, provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China, which include all of the following conditions:

(i) the location where senior management members responsible for an enterprise's daily operations discharge their duties; (ii) the location where financial and human resource decisions are made or approved by organizations or persons; (iii) the location where the major assets and corporate documents are kept; and (iv) the location where more than half (inclusive) of all directors with voting rights or senior management have their habitual residence. SAT Circular 82 further clarifies that the identification of the "de facto management body" must follow the substance over form principle. In addition, SAT issued SAT Bulletin 45 on July 27, 2011, effective from September 1, 2011 and partially amended on April 17, 2015, June 28, 2016, and June 15, 2018, respectively, providing more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 clarifies matters including resident status determination, post-determination administration and competent tax authorities. Although both SAT Circular 82 and SAT Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals, the determining criteria set forth in SAT Circular 82 and SAT Bulletin 45 may reflect SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by PRC or foreign individuals.

Due to the short history of the EIT Law and lack of applicable legal precedents, it remains unclear how the PRC tax authorities will determine the PRC tax resident treatment of a foreign company controlled by individuals like us. We do not believe Vipshop Holdings or Vipshop HK meet all the criteria provided by the implementing rules. As holding companies incorporated outside China, neither Vipshop Holdings nor Vipshop HK is controlled by a PRC enterprise or PRC enterprise groups. Their key assets and records, including the resolutions of their respective boards of directors and the resolutions of their respective shareholders, are located and maintained outside China. In addition, we are not aware of any offshore holding companies with a similar corporate structure as ours ever having been deemed a PRC "resident enterprise" by the PRC tax authorities. Therefore, we do not believe Vipshop Holdings or Vipshop HK is a PRC "resident enterprise." If, however, the PRC tax authorities determine that Vipshop Holdings or Vipshop HK is a PRC "resident enterprise" for EIT purposes, we would be subject to EIT at a rate of 25% on our worldwide taxable income as well as PRC EIT reporting obligations. We are actively monitoring the possibility of PRC "resident enterprise" treatment for the applicable tax years and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

The EIT Law and the implementation rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-PRC resident enterprises," and gains derived by such investors, which (i) do not have an establishment or place of business in China or (ii) have an establishment or place of business in China, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within China. The PRC State Council or a tax treaty between China and the jurisdictions in which the non-PRC investors reside may reduce such income tax. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009 by SAT, or SAT Circular 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Based on the Circular on Issues concerning the "Beneficial Owner" in Tax Treaties, or SAT Circular 9, issued on February 3, 2018 by SAT, which became effective on April 1, 2018, a comprehensive analysis shall be conducted based on the factors set out in the present article and in

combination with the actual conditions of specific cases, and certain factors which will negatively affect the determination of an applicant's status as a "beneficial owner" are provided, such as the business activities engaged in by the applicant do not constitute substantive business activities. In August 2015, SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Tax Treaties, or SAT Circular 60, which became effective on November 1, 2015 and partially amended on June 15, 2018. SAT Circular 60 provides that non-PRC resident enterprises are not required to obtain pre-approval from the relevant tax authorities in order to enjoy the reduced withholding tax. Instead, non-PRC resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and include necessary forms and supporting documents in the tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities.

If we are considered a PRC resident enterprise and the competent PRC tax authorities consider dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares income derived from sources within China, such dividends and gains earned by our non-PRC resident enterprise investors may be subject to EIT at a rate of 10% (or other applicable preferential tax rate if any such non-PRC resident enterprises' jurisdiction has a tax treaty with China that provides for a preferential tax rate or a tax exemption).

Moreover, if we are considered a PRC resident enterprise and the competent PRC tax authorities consider dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares income derived from sources within China, such dividends and gains earned by non-resident individuals may be subject to PRC individual income tax at a rate of 20% (or other applicable preferential tax rate if any such non-resident individuals' jurisdiction has a tax treaty with China that provides for a preferential tax rate or a tax exemption).

On February 3, 2015, SAT issued a Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7. In December 2017, Article 13 and Paragraph 2 of Article 8 of SAT Public Notice 7 were abolished by Decision of the State Administration of Taxation on Issuing the Lists of Invalid and Abolished Tax Departmental Rules and Taxation Normative Documents effective on December 29, 2017 and the Circular on Issues concerning Withholding of Enterprise Income Tax for Non-PRC Resident Enterprises, or the SAT Circular (2017) 37, effective on December 1, 2017, respectively. By promulgating and implementing these notices, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-PRC resident enterprise. Pursuant to the SAT Public Notice 7, as amended, in the event that a non-PRC resident enterprise indirectly transfers equities and other properties of a PRC resident enterprise to evade its obligation of paying EIT by implementing arrangements that are not for reasonable commercial purpose, such indirect transfer shall be re-identified and recognized as a direct transfer of equities and other properties of the PRC resident enterprise. The SAT Public Notice 7, as amended, provides clear criteria for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both offshore transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-PRC resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an offshore holding company, which is an Indirect Transfer, the non-PRC resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the offshore holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to EIT, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of

equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, SAT promulgated the SAT Circular (2017) 37, effective on December 1, 2017. Issues concerning withholding of EIT of the China-sourced income, which refers to income obtained from sources within China by non-PRC resident enterprises that (a) do not have an establishment or place of business in China or (b) have an establishment or place of business in China, but the relevant income is not effectively connected with the establishment or place of business in China, shall be subject to the SAT Circular (2017) 37. China-sourced income includes income from equity investment such as dividend and bonus, income from interest, rental and royalties, income from property transfer, and other income. Pursuant to the SAT Circular (2017) 37, non-PRC resident enterprises shall pay EIT in relation to their China-sourced income, and the entities which have the direct obligation to make certain payments to a non-PRC resident enterprise shall be the relevant tax withholders for such non-PRC resident enterprise. The tax withholders shall, within seven days of the day on which the withholding obligation occurs, which is the day when the payment is made in fact or becomes due, declare and remit the withholding tax to the competent tax authority. When declaring and remitting the withholding tax payable, the tax withholders shall complete the Withholding Statement of the PRC for Enterprise Income Tax. In the event that the tax withholder fails to withhold and remit the taxable EIT for a non-PRC resident enterprise, or is unable to perform its obligation mentioned above, the non-PRC resident enterprise shall declare and pay the EIT to the competent tax authority, and complete the Withholding Statement of the PRC for Enterprise Income Tax.

We face uncertainties as to the reporting and other implications of past and future private equity financing transactions, share exchange or other transactions involving transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Public Notice 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Public Notice 7. As a result, we may be required to expend valuable resources to comply with SAT Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Although it appears that SAT Public Notice 7 are not intended to apply to purchase and sale of shares of publicly traded companies in the open market, the PRC tax authorities may determine that SAT Public Notice 7 are applicable to us in our acquisition of equity interests in companies such as Lefeng and Ovation, and our non-resident shareholders who acquired our shares outside of the open market and subsequently sell our shares in our private financing transactions or in the open market if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose, and we and our non-resident shareholders may be at risk of being required to file a return and being taxed under SAT Public Notice 7 and we may be required to expend valuable resources to comply with SAT Public Notice 7 or to establish that we should not be taxed under SAT Public Notice 7.

#### *PRC Value-Added Tax in Lieu of Business Tax*

We conduct product promotional activities for certain brands on our Vipshop Online Platform. Prior to January 1, 2012, pursuant to Provisional Regulation of China on Business Tax which was abolished on November 19, 2017 and its implementing rules, any entity or individual rendering services in the PRC territory is generally subject to a business tax at the rate of 5% on the revenues generated from provision of such services. In November 2011, MOF and SAT jointly issued two circulars setting

out the details of the VAT Pilot Program, which change business taxes to value-added taxes, or VAT, for certain industries, including, among others, transportation services, research and development and technical services, information technology services, and cultural and creative services. On March 23, 2016, MOF and SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-Added Taxes in Lieu of Business Taxes, or the SAT Circular 36. Effective from May 1, 2016, the PRC tax authorities will collect VAT in lieu of business tax on a trial basis within the PRC territory, and in industries such as construction industries, real estate industries, financial industries, and living service industries. On November 19, 2017, the PRC State Council issued the Decision on Abolishing the Provisional Regulation of China on Business Taxes and Amending the Provisional Regulation of China on Value-Added Taxes, pursuant to which, PRC tax authorities will collect VAT in lieu of business taxes for all industries where business taxes should have been collected within the PRC territory. Pursuant to the Provisional Regulation of China on Value-Added Taxes, as amended in 2017, entities and individuals that sell goods, provide labor services of processing, repairs or maintenance, or sell services, intangible assets or real property in China, or import goods to China, are subject to VAT at a rate ranging from 6% to 17%.

On April 4, 2018, MOF and SAT jointly promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates, or Circular 32, which took effect on May 1, 2018 and was applicable to our company from May 1, 2018 to March 31, 2019. According to Circular 32: (i) for VAT taxable sales or importation of goods originally subject to VAT rates of 17% and 11% respectively, tax rates are adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 11%, the deduction rate is adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, the taxes are calculated at the deduction rate of 12%; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate is adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate is adjusted to 10%. To further reduce VAT, on March 30, 2019, MOF, SAT, and the General Administration of Customs jointly promulgated the Announcement on Relevant Policies for Deepening Value-Added Tax Reform, which took effect on April 1, 2019. According to the announcement: (i) for VAT taxable sales or importation of goods originally subject to VAT rates of 16% and 10%, tax rates are adjusted to 13% and 9%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 10%, the deduction rate is adjusted to 9%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 13%, the taxes are calculated at the deduction rate of 10%; (iv) for exported goods originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate is adjusted to 13%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate is adjusted to 9%.

### **Employment Laws**

We are subject to laws and regulations governing our relationship with our employees, including wage and hour requirements, working and safety conditions, and social insurance, housing funds and other welfare. The compliance with these laws and regulations may require substantial resources.

The PRC Labor Law, which became effective on January 1, 1995, and was amended on August 27, 2009 and December 29, 2018, and the PRC Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, permit workers in both state-owned and private enterprises in China to bargain collectively. The PRC Labor Law and the PRC Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all

types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The PRC Labor Contract Law has enhanced rights for the nation's workers, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

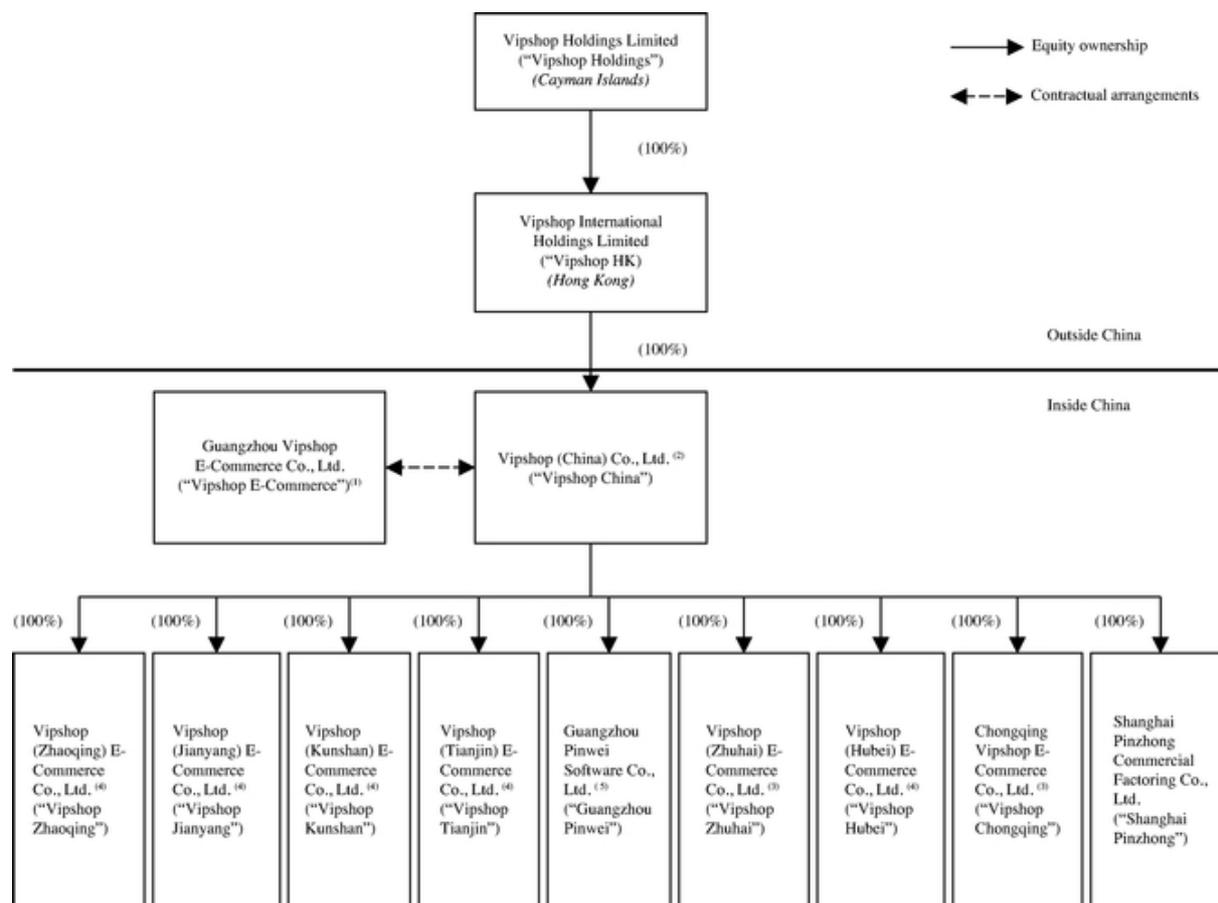
On October 28, 2010, NPC promulgated the PRC Social Insurance Law, which became effective on July 1, 2011 and was amended on December 29, 2018. In accordance with the PRC Social Insurance Law and other relevant laws and regulations, China establishes a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. On January 19, 2017, the General Office of the State Council promulgated the Circular on Issuing the Pilot Program of Consolidating Maternity Insurance and Employees' Basic Medical Insurance, pursuant to which maternity insurance and basic medical insurance will be consolidated in certain pilot cities during the period of the pilot program. An employer must pay the social insurance for its employees in accordance with the rates provided under relevant regulations and must withhold the social insurance that should be assumed by the employees. The authorities in charge of social insurance may request an employer's compliance and impose sanctions if such employer fails to pay and withhold social insurance in a timely manner. Under the Regulations on the Administration of Housing Fund effective in 1999, as amended in 2002, PRC companies must register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing funds.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations. We have not made adequate employee benefit payments as required under applicable PRC labor laws, but we have recorded accruals for the underpaid amounts in our consolidated financial statements. We believe it is not probable for us to be exposed to any PRC government penalties in relation to the under-paid amount of our employee benefits. However, our failure in making contributions to various employee benefit plans and complying with applicable PRC labor-related laws may still subject us to late payment penalties. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—Our failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties."

C. Organizational Structure

**Corporate Structure**

The following diagram illustrates our corporate structure, including our principal subsidiaries and consolidated affiliated entity as of the date of this annual report:



Notes:

- (1) Shareholders of Vipshop E-Commerce include our co-founders and shareholders Eric Ya Shen and Arthur Xiaobo Hong, holding 66.7% and 33.3% of the total equity interests in Vipshop E-Commerce, respectively.
- (2) A subsidiary primarily engaged in warehousing, logistics, product procurement, research and development, technology development, and consulting businesses.
- (3) Subsidiaries primarily engaged in product procurement business.
- (4) Subsidiaries primarily engaged in retail businesses in the cities of Jianyang, Kunshan, Tianjin, Zhaoqing, and Ezhou, and the regions around them.
- (5) A subsidiary primarily engaged in software development and information technology support.

Foreign ownership of Internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information and the conduct of online commerce through strict business licensing requirements and other government regulations. We are a Cayman Islands company and our PRC subsidiaries, including Vipshop China, are WFOEs. As a WFOE, Vipshop China is restricted from holding the licenses that are necessary for our online operation in China. To comply with these restrictions, our Vipshop Online Platform is operated by our consolidated affiliated entities in China. Following our efforts to streamline

our contractual arrangements among our consolidated affiliated entities during 2017 and 2018, we began to use Vipshop E-Commerce to operate our main businesses, which had been previously operated by Vipshop Information, without materially altering the substance of our operations. Vipshop E-Commerce currently holds the primary licenses necessary to conduct our Internet-related operations in China. Most of the business contracts relating to our Vipshop Online Platform previously entered into by Vipshop Information have been replaced with new business contracts entered into by Vipshop E-Commerce with relevant third parties. In addition, over 1,400 employees and all material fixed assets of Vipshop Information in connection with customer service have been transferred to Vipshop E-Commerce.

Our PRC subsidiaries have entered into four sets of contractual arrangements with our consolidated affiliated entities and their respective shareholders. The one primary set of contractual arrangement that we currently rely on to conduct our main business is entered into by Vipshop China, Vipshop E-Commerce, and shareholders of Vipshop E-Commerce. The other three sets of contractual arrangements include: (i) one set entered into by Vipshop China, Vipshop Information, and shareholders of Vipshop Information; (ii) one set entered into by Vipshop China, Pin Jun Tong, and shareholders of Pin Jun Tong; and (iii) one set entered into by Lefeng (Shanghai) Information Technology Co., Ltd., Tianjin Pinjian, and shareholders of Tianjin Pinjian. Vipshop Information, Pin Jun Tong, and Tianjin Pinjian are currently insignificant to our business. The contractual arrangements enable us to:

- exercise effective control over our consolidated affiliated entities;
- receive substantially all of the economic benefits of our consolidated affiliated entities through service fees, which are equal to 100% of our consolidated affiliated entities' net income and may be adjusted at our PRC subsidiaries' sole discretion, in consideration for the technical and consulting services provided by our PRC subsidiaries; and
- have an exclusive option to purchase, or designate one or more person(s) to purchase, all of the equity interests in our consolidated affiliated entities to the extent permitted under PRC laws, regulations and legal procedures.

We do not have any equity interest in our consolidated affiliated entities. However, as a result of contractual arrangements, we are considered the primary beneficiary of our consolidated affiliated entities, and we treat them as our consolidated affiliated entities under U.S. GAAP. We have consolidated the financial results of our consolidated affiliated entities in our consolidated financial statements included in this annual report in accordance with U.S. GAAP.

We face risks with respect to the contractual arrangements with our consolidated affiliated entities and their shareholders. If our consolidated affiliated entities or their shareholders fail to perform their obligations under the contractual arrangements, our ability to enforce the contractual arrangements that give us effective control over the consolidated affiliated entities may be limited. If we are unable to maintain effective control over our consolidated affiliated entities, we would not be able to continue to consolidate their financial results. The revenues generated by our directly owned subsidiaries, apart from revenues earned in respect of the relevant contractual arrangements with our consolidated affiliated entities, are primarily derived from our product promotion activities for brands. In the years ended December 31, 2016, 2017, and 2018, our subsidiaries contributed in aggregate approximately 90.3%, 97.8%, and 97.1%, respectively, of our total consolidated net revenues, exclusive of revenues derived from our consolidated affiliated entities. As of December 31, 2016, 2017, and 2018, our holding company and our subsidiaries accounted for an aggregate of 86.5%, 85.5%, and 86.3%, respectively, of our consolidated total assets (excluding assets attributable to transactions with our consolidated affiliated entities). For a detailed description of the regulatory environment that necessitates the adoption of our corporate structure, see "Item 4.B. Information on the Company—Business Overview—Regulation." For a detailed description of the risks associated with our corporate structure, see "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure and Restrictions on Our Industry."

## **Contractual Arrangements Relating to Our Consolidated Affiliated Entities**

The following is a summary of the material provisions of the agreements for our four sets of contractual arrangements, each among our applicable WFOE, our applicable consolidated affiliated entity, and the shareholders of the applicable consolidated affiliated entity.

As of the date of this annual report, the equity holding structures of each of our consolidated affiliated entities are as follows:

- Eric Ya Shen and Arthur Xiaobo Hong hold 66.7% and 33.3% of Vipshop E-Commerce, respectively;
- Eric Ya Shen and Arthur Xiaobo Hong hold 99.2% and 0.8% of Vipshop Information, respectively;
- Eric Ya Shen and Arthur Xiaobo Hong hold 65% and 35% of Pin Jun Tong, respectively;
- Eric Ya Shen and Zihui Yu hold 75% and 25% of Tianjin Pinjian, respectively.

### ***Agreements that Provide Us Effective Control over Our Consolidated Affiliated Entities***

***Equity Interest Pledge Agreements.*** Under each equity interest pledge agreement among our applicable WFOE, our applicable consolidated affiliated entity, and the shareholders of the applicable consolidated affiliated entity, the shareholders of the applicable consolidated affiliated entity pledge all of their equity interests in the applicable consolidated affiliated entity to the applicable WFOE to guarantee the applicable consolidated affiliated entity's and its shareholders' performance of the relevant obligations under the exclusive business cooperation agreement, exclusive option agreement, and loan agreement. If any stipulated event of default occurs, including the failure by the applicable consolidated affiliated entity or its shareholders to perform relevant contractual obligations under the exclusive business cooperation agreement, exclusive option agreement, or loan agreement, the applicable WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests. Without the applicable WFOE's prior written consent, shareholders of the applicable consolidated affiliated entity cannot transfer or otherwise dispose of, or create or allow the creation of, any encumbrance on the pledged equity interests. The equity interest pledge agreement will remain in full force and effect until all of the obligations of the applicable consolidated affiliated entity and its shareholders under the exclusive business cooperation agreement, exclusive option agreement, and loan agreement have been duly performed or terminated. Except for Tianjin Pinjian, we have completed registering the pledge of the equity interests in our consolidated affiliated entities with the local branches of SAMR.

***Exclusive Option Agreements.*** Under each exclusive option agreement among our applicable WFOE, our applicable consolidated affiliated entity, and the shareholders of the applicable consolidated affiliated entity, the shareholders of the applicable consolidated affiliated entity grant the applicable WFOE an exclusive option to purchase, or designate one or more person(s) to purchase, all or part of their respective equity interests in the applicable consolidated affiliated entity at a purchase price equal to the higher of: (i) the amount of registered capital actually contributed by the shareholders; or (ii) a minimum price permitted by applicable PRC laws. The applicable WFOE may exercise the option by issuing a written notice to the shareholders of the applicable consolidated affiliated entity. Without the applicable WFOE's written consent, the applicable consolidated affiliated entity and its shareholders may not transfer, sell, pledge, or otherwise dispose of, or create any encumbrance on, any assets, business, or equity or beneficiary interests of the applicable consolidated affiliated entity. This agreement will remain in full force and effect for a term of ten years from the date of execution, and may be extended for a period to be determined by the applicable WFOE.

**Powers of Attorney.** Each shareholder of our consolidated affiliated entity has signed an irrevocable power of attorney. Under the powers of attorney, each shareholder of our consolidated affiliated entity has irrevocably appointed the applicable WFOE as his attorney-in-fact to act on his behalf and exercise all of his rights as a shareholder of the applicable consolidated affiliated entity, including the right to attend shareholder meetings, to exercise voting rights, to appoint directors and senior management of the applicable consolidated affiliated entity, and to effect transfers of all or part of their equity interests in the applicable consolidated affiliated entity pursuant to the equity interest pledge agreements and exclusive option agreements. The applicable WFOE has the right to appoint any individual or entity to exercise the power of attorney on its behalf. Each power of attorney will remain in full force and effect until the shareholder ceases to hold any equity interests in the applicable consolidated affiliated entity.

#### **Agreements that Transfer Economic Benefits to Us**

**Exclusive Business Cooperation Agreements.** Under each exclusive business cooperation agreement between the applicable WFOE and the applicable consolidated affiliated entity, the applicable consolidated affiliated entity agrees to engage the applicable WFOE as its exclusive provider of technical, consulting, and other services in relation to its business operations. In consideration of such services, the applicable consolidated affiliated entity will pay to the applicable WFOE service fees that amount to all of the applicable consolidated affiliated entity's net income. The service fees may be adjusted at the applicable WFOE's sole discretion based on the services rendered and the operational needs of the applicable consolidated affiliated entity. The applicable WFOE will exclusively own any intellectual property arising from the performance of the exclusive business cooperation agreement. The term of this agreement is ten years from the date of execution, and may be extended for a period to be determined by the applicable WFOE. The applicable WFOE may terminate this agreement at any time by giving 30 days' prior written notice. The applicable consolidated affiliated entity has no right to terminate this agreement unless the applicable WFOE commits gross negligence or fraud.

#### **Loan Agreements**

Under each loan agreement between the applicable WFOE and the shareholders of the applicable consolidated affiliated entity, the applicable WFOE provided loans to the shareholders of the applicable consolidated affiliated entity solely for the purpose of contribution or increase of registered capital or working capital of the applicable consolidated affiliated entity. The applicable WFOE has the sole discretion to determine the method of repayment, including requiring the shareholders of the applicable consolidated affiliated entity to transfer their equity interests in the applicable consolidated affiliated entity to the applicable WFOE or its designated person.

In the opinion of Han Kun Law Offices, our PRC legal counsel:

- as of the date of this annual report, the ownership structures of our PRC subsidiaries and our consolidated affiliated entities comply with all existing PRC laws and regulations;
- as of the date of this annual report, the contractual arrangements among our PRC subsidiaries, our consolidated affiliated entities and their respective shareholders that are governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and
- as of the date of this annual report, (i) each of our PRC subsidiaries and our consolidated affiliated entities has all necessary corporate power and authority to conduct its business as described in its business scope under its business license; (ii) the business licenses of our PRC subsidiaries and our consolidated affiliated entities are in full force and effect; and (iii) each of our PRC subsidiaries and our consolidated affiliated entities is capable of suing and being sued and may be the subject of any legal proceedings in PRC courts. To the best of Han Kun Law Offices' knowledge after due inquiries, none of our PRC subsidiaries, our consolidated affiliated

entities or their respective assets is entitled to any immunity, on the grounds of sovereignty, from any action, suit or other legal proceedings; or from enforcement, execution or attachment.

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our online commerce and the distribution of Internet content in China do not comply with relevant PRC government restrictions on foreign investment in value-added telecommunication, we could be subject to severe penalties, including being prohibited from continuing operations. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure and Restrictions on Our Industry—Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to online commerce and provision of Internet content in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including shut-down of our Vipshop Online Platform." and "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

#### D. *Property, Plants and Equipment*

We are headquartered in Guangzhou and have approximately 76,000 square meters of office space, data centers, studio and customer service center. In the second half of 2015, we purchased land in Pazhou, Guangzhou for our new office headquarters, and started construction in 2016. We anticipate completion in 2020.

As of December 31, 2018, we had approximately 3.0 million square meters of warehouse space, of which approximately 1.9 million square meters of warehouse space is owned by our company. Additionally, we had approximately 630,000 square meters of leased premises for transit stations and distribution stations, as we have been building out our last mile capability. We lease our premises under operating lease agreements from unrelated third parties. A summary of our owned and leased properties as of December 31, 2018 is shown below:

Location/Business	Space (in square meters)	Usage of Property
Guangzhou	54,089	Office space, data center, studio and customer service center
Beijing	2,964	Office space
Shanghai	18,495	Office space and data center
Hangzhou	481	Office space
<i>Sub-total</i>	76,029	
China Domestic—Owned <sup>(1)</sup>	1,923,038	Logistics centers
China Domestic—Leased <sup>(1)</sup>	925,483	Logistics centers
Cross Border <sup>(2)</sup>	178,749	Logistics centers
<i>Sub-total</i>	3,027,270	

Notes:

- (1) Excludes bonded warehouses under customs supervision in China.
- (2) Includes bonded warehouses under customs supervision in China and overseas warehouses for our cross-border business.

Our servers are hosted at leased Internet data centers owned by leading PRC telecommunications carriers. We typically enter into leasing and hosting service agreements that are renewable from year to year. We believe that our existing facilities are sufficient for our near term needs.

Some of these lease agreements include terms of renewal for periods ranging from one to ten years upon expiry of their respective original lease terms, without purchase options or escalation clause. If these lease agreements are not renewed, we are obligated to remove the facilities constructed under certain of our warehouse space lease contracts, although we expect such related removal costs to be insignificant.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3.D. Key Information—Risk Factors" or in other parts of this annual report on Form 20-F.

##### *A. Operating Results*

We began our operations in August 2008 and have grown significantly since then. In 2016, 2017, and 2018, we fulfilled approximately 269.8 million, 335.0 million, and 437.4 million customer orders, respectively, and we generated total net revenues of RMB56.59 billion, RMB72.91 billion, and RMB84.52 billion (US\$12.29 billion), respectively. In 2016, 2017, and 2018, we generated net income of RMB1.99 billion, RMB1.89 billion, and RMB2.13 billion (US\$310.3 million), respectively. Our net income in 2016, 2017, and 2018 reflected non-cash share-based compensation expenses in an aggregate amount of RMB475.7 million, RMB667.1 million, and RMB671.2 million (US\$97.6 million), respectively.

Our business and operating results are affected by general factors affecting the online retail market in China, including China's overall economic growth, the increase in per capita disposable income, the growth in consumer spending and retail industry and the expansion of Internet penetration. Unfavorable changes in any of these general factors could affect the demand for products we sell and could materially and adversely affect our results of operations.

Our results of operations are also affected by the regulations and industry policies related to the online retail market. Although we have generally benefited from the PRC government's policies to encourage economic growth, we are also affected by the complexity, uncertainties and changes in the PRC regulation of the Internet industry. Due to PRC legal restrictions on foreign equity ownership of and investment in the online retail sector in China, we rely on contractual arrangements with our consolidated affiliated entities and their shareholders to conduct most of our business in China. We face risks associated with our control over our consolidated affiliated entities, as our control is based upon contractual arrangements rather than equity ownership. For a description of these contractual arrangements, see "Item 4.C. Information on the Company—Organizational Structure." For a detailed description of the regulatory environment that necessitates the adoption of our corporate structure, see "Item 4.B. Information on the Company—Business Overview—Regulation." For a detailed description of the risks associated with our corporate structure, see "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure and Restrictions on Our Industry."

The major factors affecting our results of operations and financial condition are discussed below.

## Net Revenues

We derive revenues primarily from the sale of products offered on our Vipshop Online Platform. Generally, we offer our customers an unconditional right of returning products purchased for a period of seven days upon receipt of products. The associated revenues are recognized at the point of time when the goods have been accepted by the customers. Our net revenues are recorded net of VAT and related surcharges.

The following table sets forth the key factors that directly affect our net revenues for the periods indicated:

	For the Year Ended December 31,		
	2016	2017	2018
Total net revenue (RMB in thousands)	56,591,302	72,912,313	84,523,948
Active customers (in thousands)	52,100	57,800	60,500
Average net revenues per active customer (RMB)	1,086	1,261	1,397
Total orders (in thousands)	269,800	335,000	437,400
Average orders per active customer	5.2	5.8	7.2

## Cost of Revenues

Our cost of revenues consists primarily of cost of merchandise sold and inventory write-down. We procure inventory from our brand partners and our inventory is recorded at the lower of cost or net realizable value. Cost of inventory is determined using the weighted average cost method.

## Operating Expenses

Our operating expenses consist of (i) fulfillment expenses, (ii) marketing expenses, (iii) technology and content expenses, and (iv) general and administrative expenses. The following table sets forth the components of our operating expenses both in absolute amount and as a percentage of total net revenues for the periods indicated:

	For the year ended December 31,						
	2016		2017		2018		
	RMB'000	%	RMB'000	%	RMB'000	US\$'000	
Fulfillment expenses	4,904,526	8.7	6,899,654	9.5	7,489,393	1,089,287	8.8
Marketing expenses	2,837,680	5.0	2,978,621	4.1	3,240,450	471,304	3.8
Technology and content expenses	1,563,582	2.8	1,808,452	2.5	2,000,894	291,018	2.4
General and administrative expenses	1,941,146	3.4	2,447,724	3.3	2,674,179	388,943	3.2
Total operating expenses	11,246,934	19.9	14,134,451	19.4	15,404,916	2,240,552	18.2

**Fulfillment expenses.** Fulfillment expenses primarily consist of shipping and handling expenses, packaging expenses, and logistics center rental expenses, as well as compensation and benefits of our logistics staff. Our shipping and handling expenses were RMB2.58 billion, RMB3.83 billion, and RMB4.50 billion (US\$654.3 million) in 2016, 2017, and 2018, respectively. Our fulfillment services utilize regional logistics hubs and rely on quality regional and local couriers. We expect to continue to invest in our logistics network and warehousing capacity to support our long-term growth. We expect our fulfillment expenses to continue to increase in absolute amount as a result of our continued business growth.

**Marketing expenses.** Marketing expenses primarily represent advertising expenses incurred in connection with our brand promotional activities, as well as compensation and benefits of our marketing staff. As we enhance our brand awareness by engaging in additional brand promotional activities, we expect our marketing expenses to increase in the foreseeable future.

**Technology and content expenses.** Technology and content expenses primarily consist of the compensation and benefits of our IT staff, telecommunications expenses, and expenses incurred in creating content for our sales events on our platform, including model fees and professional photography expenses. As we continue to expand our IT capabilities to support our anticipated growth, we expect our technology and content expenses to continue to increase in the foreseeable future.

**General and administrative expenses.** General and administrative expenses primarily consist of compensation and benefits of our headquarters and administrative staff, rental expenses, costs for professional services, payment processing fees and other administrative and overhead expenses. As our business further grows and we continue to incur increased costs related to our ongoing compliance and reporting obligations under U.S. securities laws as a public company, we expect our general and administrative expenses to continue to increase in the foreseeable future.

## **Seasonality**

Our results of operations are subject to seasonal fluctuations. For example, our revenues are relatively lower during the holidays in China, particularly during the Chinese New Year period which occurs in the first quarter of the year, when customers tend to do less shopping, both online and offline. Furthermore, sales in the retail industry are typically significantly higher in the fourth quarter of the year than in the preceding three quarters. This seasonality of our business, however, was not apparent historically as each quarter had greater revenues than the prior quarter due to the rapid growth in sales that we experienced in recent years.

## **Taxation**

### ***Cayman Islands***

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax in the Cayman Islands.

### ***Hong Kong***

Our subsidiary incorporated in Hong Kong is subject to the uniform tax rate of 16.5%. Under Hong Kong tax law, it is exempted from the Hong Kong income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on the remittance of dividends. Hong Kong income tax was provided in our consolidated financial statements for the years ended December 31, 2016, 2017, and 2018, as our Hong Kong subsidiary generated assessable income in 2016, 2017, and 2018.

### ***PRC***

Our PRC subsidiaries and consolidated affiliated entities are companies incorporated under PRC law and, as such, are subject to EIT on their taxable income in accordance with the relevant PRC income tax laws. Under the EIT Law and its implementation rules, both of which became effective on January 1, 2008, a uniform 25% EIT rate is generally applicable to both FIEs and domestic enterprises, unless they qualify for certain exceptions. Our subsidiaries and the consolidated affiliated entities in the PRC are all subject to the EIT rate of 25% for the periods presented, except for certain subsidiaries, including Vipshop (Jianyang) E-Commerce Co., Ltd., or Vipshop Jianyang, Chongqing Vipshop E-Commerce Co., Ltd., or Vipshop Chongqing, Vipshop (Zhuhai) E-Commerce Co., Ltd., or Vipshop Zhuhai and Pinwei Software, that enjoyed the following preferential tax treatment on an annual

renewal basis. Vipshop Jianyang and Vipshop Chongqing were classified as "encouraged enterprises in the western regions in an industry sector encouraged by the PRC government" and enjoyed a preferential tax rate of 15%. Vipshop Zhuhai also enjoyed a preferential tax rate of 15% similarly. The term "encouraged enterprise in an industry sector encouraged by the PRC government" as used herein refers to an enterprise incorporated in certain region whose primary business falls into the scopes of the encouraged industries stipulated in the existing related policies, including Catalogue of Encouraged Industries in the Western Region, Industrial Restructuring Guidance Catalogue (2011 Version), as amended in 2013, Catalogue for the Guidance of Foreign Investment Industries, as amended in 2017 and partially abolished in 2018, Catalogue of Foreign-invested Advantage Industries in Central-Western Region, as amended in 2017, Circular of the Ministry of Finance and the State Administration of Taxation on the Preferential Enterprise Income Tax Policies and Catalogue for Hengqin New Area of Guangdong Province, Pingtan Comprehensive Experimental Area of Fujian Province, and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen City. Pinwei Software was classified as a high and new technology enterprise and entitled to a preferential tax rate of 15% pursuant to Article 28 of the EIT Law for the periods from January 1, 2015 to December 31, 2016. Subsequent to the year ended December 31, 2017, Pinwei Software applied and was classified as "State Planning Key Software Enterprise" by the local tax authority and entitled to a preferential tax rate of 10% pursuant to Circular Caishui (2012) 27 starting from the beginning of 2018.

We evaluate the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measure the unrecognized benefits associated with the tax positions. As of December 31, 2017, and 2018, we did not have any unrecognized tax benefits. We do not anticipate any significant increase to our liability for unrecognized tax benefit within the next 12 months. We will classify interest and penalties related to income tax matters, if any, in income tax expense.

Under the EIT Law and its implementation rules, dividends from Vipshop China are subject to a withholding tax of 10%, unless there is a tax treaty with China that provides for a different withholding arrangement.

The amount of tax loss carry forwards of our PRC subsidiaries and consolidated affiliated entity was RMB702.7 million, RMB1.09 billion, and RMB1.45 billion (US\$210.6 million) as of December 31, 2016, 2017 and 2018, respectively. We provided a valuation allowance for the deferred tax assets relating to the future benefit of net operating loss carry forwards and other deferred tax assets of certain subsidiaries as of December 31, 2016, 2017 and 2018, respectively, as our management is not able to conclude that the future realization of some of such net operating loss carry forwards is more likely than not.

As of December 31, 2016, 2017, and 2018, we had VAT recoverable of approximately RMB555.9 million, RMB791.2 million, and RMB770.9 million (US\$112.1 million), respectively. VAT recoverable occurs due to timing difference on operation of certain entities, as we record the revenue and VAT output when goods are delivered, but VAT input invoice from suppliers may be delayed. We also had VAT tax payable of RMB258.2 million, RMB526.0 million, and RMB749.1 million (US\$109.0 million), as of December 31, 2016, 2017, and 2018, respectively, included as tax payable. We do not net off VAT recoverable and payable from different entities within our group companies.

For more information on PRC tax regulations, see "Item 4.B. Information on the Company—Regulation—Regulations on Tax" and "Item 10.E. Additional Information—Taxation—People's Republic of China Taxation."

### **Critical Accounting Policies**

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect our reported amount of assets and liabilities and the

disclosure of contingent assets and liabilities as of the date of the financial statements, and reported amounts of revenue and expenses during the reporting periods. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

A accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. Significant accounting estimates reflected in our financial statements include inventory write-down, valuation of goodwill and intangible assets acquired in the business acquisitions, valuation of significant other investments impairment assessment and valuation of receivables from consumer financing. Changes in facts and circumstances may result in revised estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report.

### ***Revenue recognition***

On January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. The core principle of the accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. We adopted ASU 2014-09 on January 1, 2018 for all revenue contracts with customers using the modified retrospective approach, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Accounting Standards Codification ("ASC") 605.

Following the adoption of ASU 2014-09 and the associated ASUs (collectively, "Topic 606") on January 1, 2018, we recognize revenue when our customer obtains control of promised goods or services in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that we determine are within the scope of Topic 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the entity satisfies a performance obligation.

In periods prior to the adoption of Topic 606, our accounting policy was to recognize revenue when persuasive evidence of an arrangement exists, products are delivered, the price to the buyer is fixed or determinable, and collectability is reasonably assured.

### ***Product revenue recognition***

We derive a majority of our revenue from product revenue. We recognize revenue from the sale of apparel, fashion goods, cosmetics, home goods, and lifestyle products as well as other merchandise

through our Vipshop Online Platform. We utilize in-house delivery capabilities and third-party delivery companies to deliver goods to our customers. We recognize revenue at the point of time when the goods have been accepted by the customers. The customers have the options to pay for the goods in advance, upon acceptance of the goods, or over an agreed-upon installment period. The delivery day estimate was determined based on the average delivery days for sales made during the last month of the reporting period, derived from customer locations and delivery reports. A one-day change in the estimated good in-transit period would result in an increase or decrease of approximately RMB239.0 million (US\$34.8 million) to our total net revenues in 2018.

Our revenue was recorded net of surcharges and VAT of gross sales. Surcharges are sales-related taxes representing the city maintenance and construction taxes and education surtaxes. Our revenues also include fees charged to customers for shipping and handling expenses. We incur expenses or pay fees to in-house delivery services and third-party delivery companies, respectively, and record such expenses and fees as shipping and handling expenses.

#### *Return rights*

We offer customers with an unconditional right of return for a seven-day period upon receipt of the products on sales from our Vipshop Online Platform. We reduce product revenues by an estimate of expected customer merchandise returns, which is calculated based on historical return patterns and recorded as a refund liability included in accrued expenses and other current liabilities, and the estimated inventories in transit subject to those estimated returns are included in inventories on the consolidated balance sheets.

#### *Principal versus agent accounting*

We record all product revenue on a gross basis. To determine whether we are a principal or an agent in the sale of products, we consider the following indicators: (i) whether we are primarily responsible for fulfilling the promise to provide the specified goods or services, (ii) whether we are subject to inventory risks before the specified goods or services have been transferred to a customer or after transfer of control to the customers, and (iii) whether we have discretion in establishing the price of the specified goods or services.

#### *Membership reward program*

We grant Weipin Coins to customers when they purchase goods from our Vipshop Online Platform. Weipin Coins can be offset against payments when customers make their future purchases.

Upon adoption of Topic 606, we consider Weipin Coins as a separate performance obligation and allocate the transaction price proportionally between the products sold and the Weipin Coins granted on a relative standalone selling price basis in consideration of the likelihood of future redemption and the equivalent value per Weipin Coin when it is redeemed. There is no significant impact upon adoption of Topic 606 other than that the deferred income recorded is considered a contract liability. As of December 31, 2018, we recorded deferred income related to Weipin Coins of RMB150,240.

New members who register on our Vipshop Online Platform or existing members introducing new members to our Vipshop Online Platform will be granted free Weipin Coins. These Weipin Coins are not relating to prior sales and are recorded as reduction of revenue at the time of use.

In June 2017, we launched a Super VIP Membership program, which allows our paying members to enjoy certain privileges. The revenue relating to the membership fee is recognized straight-line over the period of the membership.

### *Other revenues*

Other revenues consist of commissions or income from (i) platform access, (ii) logistics services to external customers, (iii) promotional and advertising services, (iv) inventory and warehouse management services, and (v) interest income from microcredit and consumer financing.

We charge fees to third-party merchants to access our platform for sales of their products. We are not primarily responsible for fulfilling the promised contracts, as we do not bear the inventory risk, nor have the discretion in establishing prices. Upon successful sales on our Vipshop Online Platform, we will charge third-party merchants commission fees. Commission fees are recognized on a net basis at the point of sales of products.

Other revenue from providing logistics services to external customers are recognized upon the completion of the performance of services.

Other revenue from promotional and advertising services and inventory and warehouse management services are recognized over the period during which the services are provided, net of VAT.

In connection with our product revenues, certain approved customers have the option to pay for the goods over an installment period up to 24 months. Significant financing component exists in sales paid by installments. We elected the practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component for all instances in which the period between payment and transfer of the goods will be one year or less. For the contracts with installment period over 12 months, the transaction price is adjusted for the effects of the time value of money equivalent to the amounts charged in separate financing transaction between we and our customers at contract inception. The revenues derived from the financing service is recognized straight-line over the installment period and included in other revenues.

### *Remaining performance obligations*

Remaining performance obligations represent the transaction price allocated to unsatisfied or partially unsatisfied performance obligations. As of December 31, 2018, we had RMB1.47 billion of unfulfilled performance obligations for product goods to be passed to customers, and RMB355.0 million of performance obligations relating to Weipin Coins granted to customers and Super VIP Membership fees. We expect to recognize revenue for the remaining performance obligations within the next year. The remaining performance obligations are accounted under advance from customers and deferred income.

The remaining performance obligation in relation to the financing service represents the remaining period of financing benefit to the customer per the agreed-upon installment period.

### *Disaggregation of revenue*

We disaggregate our revenue from different types of contracts with customers by principal product categories, as we believe it best depicts the nature, amount, timing, and uncertainty of our revenue and cash flows.

### *Contract balances*

The estimated inventories in transit relating to estimated returns are contract assets included in inventories. As of January 1, 2018 and December 31, 2018, the balance of contract assets was RMB140,361 and RMB151,117, respectively.

Our contract liabilities consist of prepayments from customers, unredeemed Weipin Coins, and Super VIP Membership program and estimated return. As of January 1, 2018 and December 31, 2018, the balance of the contract liabilities was RMB1.56 billion and RMB1.95 billion, respectively, included in advances from customers, deferred income, and accrued expenses and other current liabilities.

All contract liabilities as of January 1, 2018 were recognized as revenue during the year ended December 31, 2018 and all contract liabilities as of December 31, 2018 are expected to be realized in the following year.

#### ***Inventory write-down***

Inventory is stated at the lower of cost or net realizable value. Cost of inventory is determined using the weighted average cost method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of disposal and transportation. Adjustments are recorded to write-down the cost of inventory to the estimated net realizable value for slow-moving merchandise and damaged goods. The amount of write-down is also dependent upon factors such as whether the goods are returnable to vendors, inventory aging, historical and forecasted consumer demand, and promotional environment.

We assess the inventory write-down based on different product categories and applies a certain percentages based on aging and quality. We classify all goods into the following two categories: non-returnable goods and returnable goods. Non-returnable goods cannot be returned to suppliers and general inventory write-down of different percentages are applied to these goods within the different aging categories. These percentages were developed based on historical write-down on these different types of goods. In addition to general write-down, specific write-down will also be applied to non-returnable goods if assessed to be needed based on the factors mentioned above. Returnable goods will have no general write-down based on aging and quality but specific write-down will be made at the end of each reporting periods based on forecast sales, conditions of the goods, and planned promotions.

Write-down are recorded in cost of revenues in the consolidated statements of income and comprehensive income.

#### ***Accounts receivable from consumer financing business***

Accounts receivable from consumer financing are stated at the historical carrying amount net of allowance for uncollectible accounts. We establish an allowance for uncollectible accounts receivable based on our best estimates after considering our historical experience and other factors surrounding the credit risk of specific customers. Uncollectible accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when we have determined that it is not probable for the balance to be collected.

Judgement is required to determine the allowance amounts by reference to the aging analysis by past due date and whether such amounts are adequate to cover potential bad debts, and periodic reviews are performed to ensure such amounts continue to reflect the best estimates of the losses inherent in the outstanding portfolio of loans. We recorded the allowance for the uncollectible accounts receivable in the amount of RMB43.6 million, RMB121.8, and RMB113.8 million (US\$16.6 million) in relation to receivables from consumer financing business as of December 31, 2016, 2017, and 2018, respectively. If the conditions underlying these estimates change significantly in the future, the amount of the allowance for doubtful accounts will also change accordingly.

#### ***Intangible assets with indefinite lives***

Intangible assets with indefinite lives represent the purchase price of the payment license in a business combination in 2016. The payment license was determined to have an indefinite life. In determining its indefinite life, we considered the following: (i) the expected use of the intangible, (ii) the longevity of the license, (iii) the legal, regulatory, and contractual provisions that affect their maximum useful life, (iv) our ability to renew or extend the asset's legal or contractual life without substantial costs, (v) effects of the regulatory environment, (vi) maintenance expenditures required to

obtain the expected future cash flows from the asset, and (vii) considerations for obsolescence, demand, competition, and other economic factors.

Intangible assets with indefinite lives is not amortized but is tested for impairment on an annual basis as of December 31, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired.

In 2016, 2017 and 2018, we have conducted the qualitative impairment test and the qualitative assessment indicated that it was more likely than not that our indefinite lived intangible assets are not impaired.

### **Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired in a business combination.

Goodwill is not depreciated or amortized but is tested for impairment as of December 31 on an annual basis, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. In accordance with ASC 350-20 "Goodwill," we first have the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine, as a result of our qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the performance of the two-step quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test compares the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill will be recorded.

Application of a goodwill impairment test requires significant management judgment, including identifying reporting units, assigning assets, liabilities, and goodwill to each reporting unit, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The fair value of each reporting unit is determined by analysis of discounted cash flows. The significant assumptions regarding the reporting unit's future operating performance are revenue growth rates, costs of goods and operating expenses growth rates, discount rates, and terminal values. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

In 2016, 2017, and 2018, we have conducted the qualitative impairment test to compare the carrying value of the reporting units, including assigned goodwill, to its respective fair value. Based on the qualitative impairment assessment, it was determined that it is more likely than not the fair values of the reporting units tested exceeded their carrying amounts and, therefore a quantitative impairment test for goodwill was not required. We concluded that goodwill was not impaired as of December 31, 2016, 2017, and 2018.

### **Recent Accounting Pronouncements**

#### ASU 2016-02

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," and associated ASUs relating to Topic 842, which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by these leases. The new guidance requires that a lessee recognize assets and liabilities for leases, and recognition, presentation, and measurement in the financial statements will depend on its classification as a finance or operating lease. In addition, the new guidance will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. Lessor accounting remains largely unchanged from current U.S. GAAP but does contain some targeted

improvements to align with Topic 606, the new revenue recognition guidance issued in 2014. The new standard is effective for fiscal years, and interim periods within these fiscal years, beginning after December 15, 2018, and early adoption is permitted.

The ASU 2016-02 requires a modified retrospective transition approach, applying the new standard to all leases existing at the date of initial adoption. An entity may choose to use either (i) the effective date or (ii) the beginning of the earliest comparative period presented in the financial statements at the date of initial application. We have elected to apply the transition requirements on the January 1, 2019 effective date rather than at the beginning of the earliest comparative period presented. This approach allows a cumulative effect adjustment in the period of adoption, and prior periods will not be restated. In addition, we have elected the package of practical expedients permitted under the transition guidance, which does not require reassessment of prior conclusions related to contracts containing a lease, lease classification, and initial direct lease costs. As an accounting policy election, we will exclude short-term leases (with terms of 12 months or less) from the balance sheet presentation and will account for non-lease and lease components in a contract as a single lease component for all asset classes.

We analyzed the impact of ASU 2016-02 across all lease arrangements to evaluate and implement the new standard and we have substantially completed the implementation of system updates to facilitate compliance with accounting and reporting requirements. We continue to enhance accounting systems and update business processes and controls relating to the new guidance for leases. Collectively, these activities are expected to enable us to meet the new accounting and disclosure requirements upon adoption on January 1, 2019. We have finalized the evaluation of the impact upon adoption and estimated an increase of lease-related assets and liabilities of approximately RMB451.4 million in the consolidated balance sheets. We do not expect the impact on our consolidated statements of income and consolidated statements of cash flows to be material.

#### ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Based on our financial instruments and risk management policies as of December 31, 2018, application of ASU 2016-13 in the future may have impact on the measurement of our financial assets. The expected credit loss model may result in earlier provision of credit losses which are not yet incurred in relation to our financial assets measured at amortized cost. It should be noted that the above assessments were made based on an analysis of our financial assets and financial liabilities as of December 31, 2018 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may

change during the period leading up to the initial date of application of ASU 2016-13, the assessment of the potential impact is subject to change.

#### ASU 2017-04

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The update simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. The update is effective for any annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The guidance should be applied prospectively upon its effective date. We do not anticipate that the adoption of ASU 2017-04 will have a material impact on the consolidated financial statements.

#### ASU 2018-13

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement," which is part of the FASB disclosure framework project to improve the effectiveness of disclosures in the notes to the financial statements. The amendments in the new guidance remove, modify, and add certain disclosure requirements related to fair value measurements covered in Topic 820, "Fair Value Measurement." The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for either the entire standard or only the requirements that modify or eliminate the disclosure requirements, with certain requirements applied prospectively, and all other requirements applied retrospectively to all periods presented. We do not anticipate that the adoption of ASU 2018-13 will have a material impact on the consolidated financial statements.

#### ASU 2018-17

In October 2018, the FASB issued ASU No. 2018-17, "Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities," which modifies the guidance related to indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interest. ASU 2018-17 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted. We do not anticipate that the adoption of ASU 2018-17 will have a material impact on the consolidated financial statements.

#### **Inflation**

Inflation in China has not historically materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2016, 2017, and 2018 in China were increases of 2.1%, 1.8%, and 1.9%, respectively. Although we have not been materially affected by inflation since our inception, we cannot assure you that we will not be affected in the future by higher rates of inflation in China.

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated, both in absolute amounts and as percentages of our net revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of the results that may be expected for any future period.

	For the Year Ended December 31,						
	2016		2017		2018		
	RMB'000	%	RMB'000	%	RMB'000	US\$'000	
Product revenues	55,281,900	97.7	71,171,653	97.6	81,510,275	11,855,178	96.4
Other revenues	1,309,402	2.3	1,740,660	2.4	3,013,673	438,321	3.6
Total net revenues	56,591,302	100.0	72,912,313	100.0	84,523,948	12,293,499	100.0
Cost of revenues <sup>(1)</sup>	(42,994,688)	(76.0)	(56,618,471)	(77.7)	(67,454,981)	(9,810,920)	(79.8)
Gross profit	13,596,614	24.0	16,293,842	22.3	17,068,967	2,482,579	20.2
Operating expenses <sup>(2)</sup>							
—Fulfillment expenses <sup>(3)</sup>	(4,904,526)	(8.7)	(6,899,654)	(9.5)	(7,489,393)	(1,089,287)	(8.8)
—Marketing expenses	(2,837,680)	(5.0)	(2,978,621)	(4.1)	(3,240,450)	(471,304)	(3.8)
—Technology and content expenses	(1,563,582)	(2.8)	(1,808,452)	(2.5)	(2,000,894)	(291,018)	(2.4)
—General and administrative expenses	(1,941,146)	(3.4)	(2,447,724)	(3.3)	(2,674,179)	(388,943)	(3.2)
Total operating expenses	(11,246,934)	(19.9)	(14,134,451)	(19.4)	(15,404,916)	(2,240,552)	(18.2)
Other operating income	358,029	0.6	531,055	0.8	757,062	110,110	(0.9)
Income from operations	2,707,709	4.8	2,690,446	3.7	2,421,113	352,137	2.9
Impairment loss of investments	(114,574)	(0.2)	(133,026)	(0.2)	(20,073)	(2,919)	(0.0)
Interest expense	(85,195)	(0.2)	(82,435)	(0.1)	(159,744)	(23,234)	(0.2)
Interest income	107,044	0.2	101,125	0.1	242,872	35,324	0.3
Exchange gain/(loss)	51,100	0.1	(90,872)	(0.1)	71,065	10,336	0.1
Gain on disposal or revaluation of investments	—	—	55,615	0.1	191,842	27,902	0.2
Income before income tax and share of equity method investees	2,666,084	4.7	2,540,853	3.5	2,747,075	399,546	3.3
Income tax expense	(601,828)	(1.1)	(626,140)	(0.9)	(566,604)	(82,409)	(0.7)
Share of loss of equity method investees	(71,489)	(0.1)	(22,280)	(0.0)	(46,999)	(6,836)	(0.1)
Net income	1,992,767	3.5	1,892,433	2.6	2,133,472	310,301	2.5
Net loss/(income) attributable to non-controlling interests	44,050	0.1	57,222	0.1	(4,685)	(681)	(0.0)
Net income attributable to ordinary shareholders	2,036,817	3.6	1,949,655	2.7	2,128,787	309,620	2.5

Notes:

- (1) Excludes shipping and handling expenses, and includes inventory write-down which amounted to RMB303.2 million, RMB206.7 million, and RMB440.8 million (US\$64.1 million) in the years ended December 31, 2016, 2017, and 2018, respectively.

- (2) Include share-based compensation expenses as set forth below:

	For the year ended December 31,			
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	US\$'000
Allocation of Share-based Compensation Expenses *				
Fulfillment expenses	(38,428)	(73,235)	(73,151)	(10,639)
Marketing expenses	(38,459)	(40,364)	(41,063)	(5,972)
Technology and content expenses	(183,122)	(206,073)	(203,594)	(29,612)
General and administrative expenses	(215,644)	(347,426)	(353,402)	(51,400)
Total	<u>(475,653)</u>	<u>(667,098)</u>	<u>(671,210)</u>	<u>(97,623)</u>

\* The share-based compensation expenses for 2016 included RMB475.7 million share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB243 thousand and RMB1.24 billion, and were expected to be recognized over a weighted-average period of 0.25 years and 4 years on a straight-line basis as of December 31, 2016, respectively. The share-based compensation expenses for 2017 included RMB667.1 million share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB162.9 million and RMB1.43 billion, and were expected to be recognized over a weighted average period of 3 years and 2.72 years on a straight-line basis as of December 31, 2017, respectively. The share-based compensation expenses for 2018 included RMB671.2 million (US\$97.6 million) share-based compensation expenses in connection with share options and non-vested shares granted to our executive officers, independent directors, and employees. The unrecognized share-based compensation expenses relating to share options and non-vested shares were RMB131.4 million (US\$19.1 million) and RMB1.20 billion (US\$175.0 million), and were expected to be recognized over a weighted average period of 2 years and 2.32 years on a straight-line basis as of December 31, 2018, respectively. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Critical Accounting Policies—Share-based compensation" for details.

- (3) Include shipping and handling expenses, which amounted to RMB2.58 billion, RMB3.83 billion, and RMB4.50 million (US\$654.3 million) in the years ended December 31, 2016, 2017, and 2018, respectively.

### Segment Information

We historically had only one reporting segment. In 2017, we adjusted our reporting segmentation in light of the development of our Internet finance business. We currently report our results of operations in two segments, namely Vip.com and Internet finance business. Vip.com represents our e-commerce business, while the Internet finance businesses mainly include consumer financing, supplier financing services and microcredit services. Accordingly, we updated the presentation of the reportable segments for preceding years to conform to the presentation of the current year.

The following table sets forth our segment operating results for the years ended December 31, 2016, 2017, and 2018.

	<b>For the Year Ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>Segment Net Revenues</b>			
Vip.com	56,567,945	72,875,234	84,159,609
Internet finance business	114,735	249,726	753,752
Inter-segment revenues <sup>(1)</sup>	(91,378)	(212,647)	(389,413)
<b>Total</b>	<b>56,591,302</b>	<b>72,912,313</b>	<b>84,523,948</b>
<b>Segment Income/(Loss) from Operations</b>			
Vip.com	3,665,649	4,063,238	3,353,658
Internet finance business	(172,750)	(366,025)	(215,459)
Unallocated expenses <sup>(2)</sup>	(785,190)	(1,006,767)	(717,086)
<b>Total</b>	<b>2,707,709</b>	<b>2,690,446</b>	<b>2,421,113</b>

Notes:

- (1) Inter-segment revenues mainly consist of payment processing and financing services provided by the Internet finance business to Vip.com and promotion services provided by Vip.com to Internet finance business.
- (2) Unallocated expenses include share-based compensation and amortization of intangible assets resulting from business acquisitions, which are not allocated to segments.

The following table sets forth interest income and interest expenses (included in the measurement of segment profit or loss) for the years ended December 31, 2016, 2017, and 2018.

	<b>For the Year Ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>Segment Interest Income</b>			
Vip.com	105,495	192,052	232,494
Internet finance business	29,931	4,252	36,946
Inter-segment interest income	(28,382)	(95,179)	(26,568)
<b>Total</b>	<b>107,044</b>	<b>101,125</b>	<b>242,872</b>
<b>Segment Interest Expense</b>			
Vip.com	(84,151)	(55,821)	(103,504)
Internet finance business	(29,426)	(121,793)	(82,808)
inter-segment interest expense	28,382	95,179	26,568
<b>Total</b>	<b>(85,195)</b>	<b>(82,435)</b>	<b>(159,744)</b>

The following table sets forth assets information in the Internet finance segment reviewed by our management.

	For the Year Ended	
	December 31,	
	2017	2018
	RMB	
Segment Assets		
Vip.com	30,158,119	34,867,619
Internet finance business	7,824,701	8,695,044
Total	37,982,820	43,562,663

The results of operations of our Internet finance business are summarized as follows.

**Net Revenues.** Net revenues from our Internet finance business increased from RMB114.7 million in 2016 to RMB249.7 million and RMB753.8 million (US\$109.6 million) in 2017 and 2018, respectively, primarily due to an increase in our sales volume with payment processing and financing services provided by the Internet finance business, and our developing consumer financing and supplier financing business.

**Operating expenses.** Operating expenses mainly consist of compensation and benefits of our staff, provision for allowance for consumer financing, and interest expense. Our compensation and benefits increased from RMB116.5 million in 2016 to RMB221.0 million and RMB348.9 million (US\$50.7 million) in 2017 and 2018, respectively, primarily due to the expansion of the Internet finance and increasing staffing demand. Provision for allowance for consumer financing increased from RMB43.6 million in 2016 to RMB121.8 million and RMB113.8 million (US\$16.6 million) in 2017 and 2018, respectively, which is in line with the expansion of consumer financing business. Interest expense increased from RMB29.4 million in 2016 to RMB121.8 million and RMB82.8 million (US\$12.0 million) in 2017 and 2018, respectively, primarily due to an increase in intra-group funding to support the Internet financing business.

Our Vip.com segment contributes to a significant majority of our results of operations, which are compared and analyzed on a year-on-year basis as follows.

#### Comparison of 2017 and 2018

**Net Revenues.** Our total net revenues increased from RMB72.91 billion in 2017 to RMB84.52 billion (US\$12.29 billion) in 2018, primarily due to an increase in the number of active customers and total orders. The number of our active customers increased from 57.8 million in 2017 to 60.5 million in 2018. The number of our total orders increased from 335.0 million in 2017 to 437.4 million in 2018, primarily due to an increase in the number of active customers and increased shopping frequency during the period, which in turn was primarily due to overall growth in the industry, our further optimized product selection, and enhancement of our warehousing capabilities, merchandising, and IT infrastructures. Through our six regional logistics hubs, we were able to continue tailoring our product offerings to regional customer demographics and offer additional sales events and SKUs in 2018. 96.6% of the total orders we fulfilled in 2018 were placed by repeat customers, as compared to 95.1% in 2017.

**Cost of Revenues.** Our cost of revenues increased from RMB56.62 billion in 2017 to RMB67.45 billion (US\$9.81 billion) in 2018, primarily due to a significant increase in products procured from our brand partners in line with our significantly higher sales volume.

We recorded RMB206.7 million and RMB440.8 million (US\$64.1 million) in inventory write-down in 2017 and 2018, respectively. In addition, inventory write-down as a percentage of costs of goods sold, was 0.4% in 2017 and 0.7% in 2018. Such write-down primarily reflected the estimated net realizable value of damaged or obsolete inventory. The increase in write-down from 2017 to 2018 was due to intense market competition and the special sales promotions we took that are more likely to result in write-down attributable to the significant discounts offered.

The amount we write down is calculated based on factors such as whether the goods are returnable to vendors, inventory aging, damages, historical and forecast consumer demand, and the promotional environment. We assess the inventory write-down based on different product categories and apply a certain percentage based on aging and quality. We classify all goods into the following two categories:

- *Non-returnable Goods.* These goods cannot be returned to suppliers and general inventory write-down of different percentages are applied to these goods within the different aging and quality categories. These percentages were developed based on historical write-down on these different types of goods. In addition to general write-down, specific write-down will also be applied to non-returnable goods if assessed to be needed based on the factors mentioned above.
- *Returnable Goods.* Returnable goods will have no general write-down based on aging, but a specific write-down will be made at the end of each reporting period based on forecast sales, conditions of the goods and planned promotions.

**Gross Profit and Gross Margin.** As a result of the foregoing, our gross profit increased from RMB16.29 billion in 2017 to RMB17.07 billion (US\$2.48 billion) in 2018. Our gross margin decreased from 22.3% in 2017 to 20.2% in 2018, primarily due to the increasing promotional activities and sales to drive growth of users and orders via our platform.

**Operating Expenses.** Our operating expenses increased from RMB14.13 billion in 2017 to RMB15.40 billion (US\$2.24 billion) in 2018, primarily due to the following factors:

- *Fulfillment expenses.* Our fulfillment expenses increased from RMB6.90 billion in 2017 to RMB7.49 billion (US\$1.09 billion) in 2018. Shipping and handling expenses, the largest component of our fulfillment expenses during these periods, increased from RMB3.83 billion in 2017 to RMB4.50 billion (US\$654.3 million) in 2018. These increases were primarily due to a significant increase in our sales volume and the number of orders fulfilled, higher staff compensation and benefits and increase in rental expenses and depreciation expenses in connection with our expanded warehouse facilities. In 2018, we fulfilled over 437.4 million customer orders, as compared to approximately 335.0 million customer orders in 2017. Our fulfillment expenses as a percentage of our total net revenues decreased from 9.5% in 2017 to 8.8% in 2018, primarily due to scale effect associated with the rapid growth in our total net revenue and improved efficiency of our regional warehouses. Throughout 2018, we continued to utilize the regional logistics hubs in Guangdong Province, Jiangsu Province, Sichuan Province, Tianjin, Hubei Province, and Liaoning Province. In addition, our regional logistics hubs enabled us to rely more on quality regional and local couriers, which generally have lower average delivery charges than national delivery companies.
- *Marketing expenses.* Our marketing expenses increased from RMB2.98 billion in 2017 to RMB3.24 billion (US\$471.3 million) in 2018, primarily attributable to our increased marketing and brand promotion activities. On the other hand, our marketing expenses as a percentage of our total net revenues decreased from 4.1% in 2017 to 3.8% in 2018, primarily due to our strategic balance between promotional activities and sales with our broader marketing efforts.
- *Technology and content expenses.* Our technology and content expenses increased from RMB1.81 billion in 2017 to RMB2.00 billion (US\$291.0 million) in 2018, primarily due to the

headcount increase of our IT personnel in connection with our expansion of IT capacities and higher compensation and benefit. Our technology and content expenses also decreased from 2.5% to 2.4% as a percentage of our total net revenues during the same period, primarily due to scale effect associated with the rapid growth in total net revenue.

- **General and administrative expenses.** Our general and administrative expenses increased from RMB2.45 billion in 2017 to RMB2.67 billion (US\$388.9 million) in 2018 due to an increase in the scale of our business. Our general and administrative expenses as a percentage of our total net revenues remained stable at 3.3% in 2017 and 3.2% in 2018 during the same period.

**Other Operating Income.** Our other operating income amounted to RMB757.1 million (US\$110.1 million) in 2018, as compared to RMB531.1 million in 2017. Our other operating income in 2018 was primarily due to income derived from government grants and tax rebates.

**Impairment Loss of Investments.** We incurred RMB20.1 million (US\$2.9 million) impairment loss of investments in 2018, as compared to RMB133.0 million in 2017, which was primarily due to loss of investees. We review the investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Certain of our investments are in development stage companies whose success depends on factors including the ability of the investee companies to raise additional funds in financial markets that can be volatile and other key business factors, any of which may impact our ability to recover the investment. The other than temporary impairment recorded in 2018 in the amounts of RMB20.1 million (US\$2.9 million) on the available-for-sale investments was due to sustained depression of either in the market price or the respective investees' expected result of operation.

**Interest Expenses.** We incurred RMB159.7 million (US\$23.2 million) interest expenses in 2018, as compared to RMB82.4 million in 2017, primarily due to the net effect of the increase in interest expenses for the securitization debt and the short term loans and decrease in amortization of debt issuance cost of our convertible senior notes.

**Interest Income.** Our interest income increased from RMB101.1 million in 2017 to RMB242.9 million (US\$35.3 million) in 2018 primarily due to the increase of interest bearing investments, such as the deposits and held-to-maturity investments in the banks.

**Share of Loss of Equity Method Investees.** Our share of loss of equity method investees increased from RMB22.3 million in 2017 to RMB47.0 million (US\$6.8 million), which was primarily due to our share of losses in Shenzhen Tencent Puhe Limited Partnership.

**Net Income.** As a result of the foregoing, we recorded a net income of RMB2.13 billion (US\$310.3 million) in 2018, as compared to a net income of RMB1.89 billion in 2017.

**Net Income Attributable to Non-controlling Interests.** We recorded net income attributable to non-controlling interests of RMB4.7 million (US\$0.7 million) in 2018, as compared to net loss attributable to non-controlling interests of RMB57.2 million in 2017, which was primarily due to the income attributable to non-controlling shareholders of Pinjun.

#### **Comparison of 2016 and 2017**

**Net Revenues.** Our total net revenues increased from RMB56.59 billion in 2016 to RMB72.91 billion in 2017, primarily due to an increase in the number of active customers and total orders. The number of our active customers increased significantly from 52.1 million in 2016 to 57.8 million in 2017. The number of our total orders increased from 269.8 million in 2016 to 335.0 million in 2017, primarily due to an increase in the number of active customers during the period, which in turn was primarily due to overall growth in the industry, our further optimized product

selection, and enhancement of our warehousing capabilities, merchandising, and IT infrastructures. Through our five regional logistics hubs, we were able to continue tailoring our product offerings to regional customer demographics and offer additional sales events and SKUs in 2017. 95.1% of the total orders we fulfilled in 2017 were placed by repeat customers, as compared to 93.6% in 2016.

**Cost of Revenues.** Our cost of revenues increased from RMB42.99 billion in 2016 to RMB56.62 billion, primarily due to a significant increase in products procured from our brand partners in line with our significantly higher sales volume.

We recorded RMB303.2 million and RMB206.7 million in inventory write-down in 2016 and 2017, respectively. In addition, inventory write-down as a percentage of costs of goods sold, was 0.7% in 2016 and 0.4% in 2017. Such write-down primarily reflected the estimated net realizable value of damaged or obsolete inventory. The decrease in write-down from 2016 to 2017 was as a result of improving inventory management. The primary reason for the decrease in percentage of costs of goods sold was the significant increase in our sales volume.

The amount we write down is calculated based on factors such as whether the goods are returnable to vendors, inventory aging, damages, historical and forecast consumer demand, and the promotional environment. We assess the inventory write-down based on different product categories and apply a certain percentage based on aging. We classify all goods into the following two categories:

- **Non-returnable Goods.** These goods cannot be returned to suppliers and general inventory write-down of different percentages are applied to these goods within the different aging categories. These percentages were developed based on historical write-down on these different types of goods. In addition to general write-down, specific write-down will also be applied to non-returnable goods if assessed to be needed based on the factors mentioned above.
- **Returnable Goods.** Returnable goods will have no general write-down based on aging but a specific write-down will be made at the end of each reporting period based on forecast sales, conditions of the goods and planned promotions.

**Gross Profit and Gross Margin.** As a result of the foregoing, our gross profit increased from RMB13.60 billion in 2016 to RMB16.29 billion in 2017. Our gross margin decreased from 24.0% in 2016 to 22.3% in 2017, primarily due to the increasing promotional activities and sales to drive growth of users and orders via our platform.

**Operating Expenses.** Our operating expenses increased from RMB11.25 billion in 2016 to RMB14.13 billion in 2017, primarily due to the following factors:

- **Fulfillment expenses.** Our fulfillment expenses increased from RMB4.90 billion in 2016 to RMB6.90 billion in 2017. Shipping and handling expenses, the largest component of our fulfillment expenses during these periods, increased from RMB2.58 billion in 2016 to RMB3.83 billion in 2017. These increases were primarily due to an significant increase in our sales volume and the number of orders fulfilled, higher staff compensation and benefits and increase in rental expenses and depreciation expenses in connection with our expanded warehouse facilities. In 2017, we fulfilled over 335.0 million customer orders, as compared to approximately 269.8 million customer orders in 2016. Our fulfillment expenses as a percentage of our total net revenues increased from 8.7% in 2016 to 9.5% in 2017, primarily due to a significant increase in fulfillment expenses in expanded logistics network and warehouse facilities over the growth in total net revenues. Throughout 2017, we continued to utilize the regional logistics hubs in Guangdong Province, Jiangsu Province, Sichuan Province, Tianjin, and Hubei Province. In addition, our regional logistics hubs enabled us to rely more on quality regional and local couriers, which generally have lower average delivery charges than national delivery companies.

- **Marketing expenses.** Our marketing expenses increased from RMB2.84 billion in 2016 to RMB2.98 billion in 2017, primarily attributable to our increased marketing and brand promotion activities. On the other hand, our marketing expenses as a percentage of our total net revenues decreased from 5.0% in 2016 to 4.1% in 2017, primarily due to our strategic balance between promotional activities and sales with our broader marketing efforts.
- **Technology and content expenses.** Our technology and content expenses increased from RMB1.56 billion in 2016 to RMB1.81 billion, primarily due to the headcount increase of our IT personnel in connection with our expansion of IT capacities and higher compensation and benefit. Our technology and content expenses also decreased from 2.8% to 2.5% as a percentage of our total net revenues during the same period, primarily due to scale effect associated with the rapid growth in total net revenue.
- **General and administrative expenses.** Our general and administrative expenses increased from RMB1.94 billion in 2016 to RMB2.45 billion due to an increase in the scale of our business. Our general and administrative expenses as a percentage of our total net revenues remained stable at 3.4% in 2016 and 3.3% in 2017 during the same period.

**Other Operating Income.** Our other operating income amounted to RMB531.1 million in 2017, as compared to RMB358.0 million in 2016. Our other operating income in 2017 was primarily due to income derived from government grants, tax rebates and ADR reimbursements.

**Impairment Loss of Investments.** We incurred RMB133.0 million impairment loss of investments in 2017, as compared to RMB114.6 million in 2016, which was primarily due to the loss of an available for sale investee and the loss of several cost method investees. We review the investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Certain of our investments are in development stage companies whose success depends on factors including the ability of the investee companies to raise additional funds in financial markets that can be volatile and other key business factors, any of which may impact our ability to recover the investment. The other than temporary impairment recorded in 2017 in the amounts of RMB15.0 million and RMB118.0 million on the available-for-sale investments and cost method investments were due to sustained depression of either in the market price or the respective investees' expected result of operation.

**Interest Expenses.** We incurred RMB82.4 million interest expenses in 2017, as compared to RMB85.2 million in 2016, primarily due to the net effect of the increase in interest expenses for the securitization debt and the short term loans and decrease in amortization of debt issuance cost of our convertible senior notes.

**Interest Income.** Our interest income decreased from RMB107.0 million in 2016 to RMB101.1 million in 2017 primarily due to the decrease of interest bearing investments, such as the deposits and held-to-maturity investments in the banks.

**Share of Loss of Equity Method Investees.** Our share of loss of equity method investees decreased from RMB71.5 million in 2016 to RMB22.3 million, which was primarily due to the decrease of our share of losses of equity interest in Ovation from the amortization adjustment of basis difference between our investment cost and underlying equity in net assets of Ovation from the date of acquisition in February 2014.

**Net Income.** As a result of the foregoing, we recorded a net income of RMB1.89 billion in 2017, as compared to a net income of RMB1.99 billion in 2016.

Net Loss Attributable to Non-controlling Interests. Our net loss attributable to non-controlling interests increased from RMB44.1 million in 2016 to RMB57.2 million in 2017, which was primarily due to the decline in profitability for the non-wholly-owned logistic subsidiaries.

## B. Liquidity and Capital Resources

As of December 31, 2017 and 2018, we had RMB10.22 billion and RMB10.04 billion (US\$1.46 billion), respectively, in cash, cash equivalents and restricted cash. We had short-term investments with an aggregate outstanding amount of RMB2.3 billion (US\$337.6 million) as of December 31, 2018. Our cash and cash equivalents primarily consist of cash on hand, short-term bank demand deposits and highly liquid investments with maturities of less than three months. One of our subsidiaries operating our Internet finance business offered an aggregate amount of RMB800.0 million ABSs in 2017, and an aggregate amount of RMB500.0 million ABSs in 2018, both listed on Shanghai Stock Exchange in China. In 2018, we also offered an aggregate amount of RMB520.0 million ABNs listed on Shanghai Clearing House in China. In 2018, we repaid RMB760.0 million of ABSs. We plan to use this and any future ABS and ABN offerings in China to alleviate the dependence of our Internet finance business on our own cash flow. We also procured several bank borrowings and other borrowings in an aggregate amount of RMB1.34 billion (US\$195.4 million) and had unutilized banking facilities in an amount of RMB450.0 million (US\$65.4 million) as of December 31, 2018. We believe that our current cash, cash equivalents, restricted cash and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for the next 12 months. However, we may need additional capital in the future to fund our continued operations.

As of December 31, 2017 and 2018, our cash, cash equivalents, restricted cash and short-term investments are held in the following currency denominations and jurisdictions in which our subsidiaries domiciled:

Currency Denomination	As of December 31,							
	2017				2018			
	Subsidiaries in PRC <sup>(1)</sup> RMB'000	Subsidiaries in HK RMB'000	Subsidiary in USA RMB'000	Total RMB'000	Subsidiaries in PRC <sup>(1)</sup> RMB'000	Subsidiaries in HK RMB'000	Subsidiary in USA RMB'000	Total RMB'000
RMB	4,531,293	2,588	—	4,533,881	7,419,634	107,609	—	7,527,243
US\$	31,871	5,815,441	16,522	5,863,834	54,912	4,724,836	15,522	4,795,270
Others	4,322	65,936	—	70,258	7,396	29,807	—	37,203
Total	4,567,486	5,883,965	16,522	10,467,973	7,481,942	4,862,252	15,522	12,359,716

Note:

(1) Also include our consolidated affiliated entities in China.

As of December 31, 2017 and 2018, our cash, cash equivalents and restricted cash held by our consolidated affiliated entities and subsidiaries in China are as follows:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Cash, Cash Equivalents and Restricted Cash			
Consolidated affiliated entities	2,953,989	2,583,412	375,742
Subsidiaries in China	1,367,516	3,976,639	578,378
Total	4,321,505	6,560,051	954,120

As of December 31, 2017 and 2018, our short-term investments held by our consolidated affiliated entities and other entities in China are as follows:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
<b>Short-term Investments:</b>			
Consolidated affiliated entities	40,313	—	—
Subsidiaries in China	205,668	912,027	132,649
Total	245,981	912,027	132,649

The PRC government authorities impose controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currencies out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our company in the Cayman Islands may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade- and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our WFOEs in China are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends out of China complies with certain procedures under PRC foreign exchange regulations, such as the requirement of outbound overseas investment registrations by our shareholders or the ultimate shareholders of our corporate shareholders who are PRC residents. But approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currencies and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. There is no requirement on U.S. investors to complete registration or obtain approval from appropriate government authorities before they can receive dividend payments from our Cayman company. The PRC government may also in the future in its discretion restrict access to foreign currencies for current account transactions. If the PRC foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the year ended December 31,			
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	US\$'000
Net cash from operating activities	2,831,413	981,251	5,745,748	835,684
Net cash used in investing activities	(1,669,002)	(2,032,606)	(6,693,812)	(973,575)
Net cash (used in) provided by financing activities	(393,128)	7,169,824	586,968	85,371
Effect of exchange rate changes	15,910	(6,054)	177,576	25,828
Cash, cash equivalents and restricted cash at beginning of year	3,324,384	4,109,577	10,221,992	1,486,727
Cash, cash equivalents and restricted cash at end of year	4,109,577	10,221,992	10,038,472	1,460,035

### Operating Activities

Net cash from operating activities amounted to RMB5.75 billion (US\$835.7 million) in 2018, which was primarily attributable to a net income of RMB2.13 billion (US\$310.3 million), adjusted for certain

non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB671.2 million (US\$97.6 million), which was higher than 2017 due to an increase in our number of employees, (ii) inventory write-down of RMB440.8 million (US\$64.1 million) and provision for allowance for doubtful accounts of RMB175.4 million (US\$25.5 million), (iii) depreciation of property and equipment of RMB770.3 million (US\$112.0 million) attributable to increases in warehouse and logistic facilities, (iv) gain on disposal or revaluation of investments of RMB191.8 million (US\$27.9 million) attributable to fair value change of other investments, and (v) changes in operating assets and liabilities. The adjustment for changes in operating assets and liabilities primarily reflected (w) a significant increase in accrued expenses and other current liabilities of RMB1.99 billion (US\$288.8 million), primarily due to the increase in the amounts received on behalf of third-party merchants due to the expansion of platform sales, and the increase in accrued shipping and handling expenses, accrued advertising expenses, accrued payroll and accrued taxes payable, primarily driven by the growth in our business, (x) a decrease in advances from customers of RMB873.9 million (US\$127.1 million) primarily due to the adoption of ASU 2014-09, (y) a decrease in inventories of RMB291.8 million (US\$42.4 million) due to improving inventory management, and (z) a decrease in other receivables and prepayments of RMB124.4 million (US\$18.1 million), primarily related to a decrease in advance to suppliers as a result of optimization of procurement process in 2018.

Net cash from operating activities amounted to RMB981.3 million in 2017, which was primarily attributable to a net income of RMB1.89 billion, adjusted for certain non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB667.1 million, which was higher than 2016 due to an increase in our number of employees, (ii) inventory write-down of RMB206.7 million, (iii) depreciation of property and equipment of RMB720.8 million attributable to increases in warehouse and logistic facilities, (iv) amortization of intangible assets of RMB340.8 million, and (v) changes in operating assets and liabilities. The adjustment for changes in operating assets and liabilities primarily reflected (w) an increase in accounts payable of RMB3.22 billion and accrued expenses and other current liabilities of RMB290.8 million, primarily due to the net effect of a decrease in accrued shipping and handling expenses and an increase in accrued advertising expenses, accrued payroll and social benefit provisions, primarily driven by the growth in our business and the development of our owned logistic network, (x) a significant increase in account receivables of RMB2.66 billion and a decrease in advances from customers of RMB347.5 million, primarily due to our developing consumer financing business in 2017, (y) an increase in inventories of RMB2.24 billion to support the increase in sales volume, and (z) an increase in other receivables and prepayments of RMB1.27 billion, primarily related to our developing supplier financing business in 2017.

Net cash from operating activities amounted to RMB2.83 billion in 2016, which was primarily due to a net income of RMB1.99 billion, adjusted for certain non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB475.7 million, which was higher than 2015 due to an increase in our number of employees, (ii) inventory write-down of RMB303.2 million, which increased from 2015 due to an increase in special sales promotion events, (iii) depreciation of property and equipment of RMB611.0 million attributable to increases in warehouse and logistic facilities, (iv) amortization of intangible assets of RMB364.0 million, and (v) changes in operating assets and liabilities. The adjustment for changes in operating assets and liabilities primarily reflected (y) a decrease in accounts payable of RMB1.55 billion and accrued expenses and other current liabilities of RMB305.2 million, primarily due to the net effect of a decrease in accrued shipping and handling expenses and an increase in accrued advertising expenses and accrued payroll and social benefit provisions, all driven by the growth in our business, and (z) an increase in advances from customers of RMB690.4 million primarily due to increased sales volume. These increases were partially offset by (1) a significant increase in accounts receivable of RMB1.95 billion primarily due to our developing consumer financing business in 2016, (2) an increase in inventories of RMB685.0 million due to increase in sales volume, and (3) an increase in other receivables and prepayments of

RMB323.2 million primarily related to prepayment to suppliers as a result of our increased sales volume and scale of operations.

### **Investing Activities**

Net cash used in investing activities amounted to RMB6.70 billion (US\$973.6 million) in 2018. Our net cash used in investing activities in 2018 was primarily due to (i) RMB3.59 billion (US\$522.7 million) capital expenditure relating to our construction of warehouses and leasehold improvements, as well as purchases of office and other operating equipment, motor vehicles, IT software, and land use rights, (ii) RMB2.69 billion (US\$391.4 million) used for purchase of short-term investments, offset by RMB747.8 million (US\$108.8 million) from redemption of short term investments upon maturities, (iii) RMB963.7 million (US\$140.2 million) investment in the equity method investments and other investments, and (iv) RMB764.0 million (US\$111.1 million) cash paid for loan originations offered by our Internet finance business, offset by RMB519.5 million (US\$75.6 million) received from loan payments.

Net cash used in investing activities amounted to RMB2.03 billion in 2017. Our net cash used in investing activities in 2017 was primarily due to (i) RMB2.47 billion capital expenditure relating to our construction of warehouses and leasehold improvements, as well as purchases of office and other operating equipment, motor vehicles, IT software, and land use rights, (ii) RMB240.0 million used for prepayment for an investment, and (iii) RMB354.0 million used for purchase of short-term investments, offset by (y) RMB279.3 million from disposal of an available-for-sales securities investment and (z) RMB796.7 million from net redemption of short-term investments.

Net cash used in investing activities amounted to RMB1.67 billion in 2016. Our net cash used in investing activities in 2016 was primarily due to (i) RMB2.79 billion capital expenditure relating to our construction of warehouses and leasehold improvements, as well as purchases of office and other operating equipment, motor vehicles, IT software, and land use rights, (ii) RMB58.3 million used in the investment in affiliates and other investments, (iii) RMB97.3 million used in the investment in available-for-sale investments, and (iv) RMB106.4 million used for acquisition of subsidiaries, offset by (y) RMB1.17 billion from net investment of short-term investments and (z) RMB240.1 million received from government subsidies for land use rights.

### **Financing Activities**

Net cash provided by financing activities amounted to RMB587.0 million (US\$85.4 million) in 2018, primarily due to (i) RMB2.12 billion (US\$307.7 million) of proceeds from bank and other borrowings, offset by RMB1.70 billion (US\$246.7 million) of repayment to bank and other borrowings, and (ii) RMB969.0 million (US\$140.9 million) of proceeds from issuance of securitization debt offset by RMB760 million (US\$110.5 million) of repayment to issuance of securitization debt.

Net cash provided by financing activities amounted to RMB7.17 billion in 2017, primarily due to (i) RMB910.3 million of proceeds from bank and other borrowings, (ii) RMB760.0 million of proceeds from issuance of securitization debt, and (iii) RMB5.61 billion of proceeds from issuance of Class A ordinary shares to the respective subsidiaries of Tencent and JD.com.

Net cash used in financing activities amounted to RMB393.1 million in 2016, primarily due to (i) acquisition of non-controlling interest in an amount of RMB111.6 million, (ii) repurchase of Class A ordinary shares of RMB193.6 million, and (iii) repayment of bank borrowings of RMB98.0 million.

### **Capital Expenditures**

Our capital expenditures amounted to RMB2.79 billion, RMB2.47 billion, and RMB3.59 billion (US\$522.7 million) in the years ended December 31, 2016, 2017, and 2018, respectively. Out of the

foregoing capital expenditures, we paid RMB817.9 million, RMB275.8 million, and RMB1.07 billion (US\$156.1 million) in the years ended December 31, 2016, 2017, and 2018, respectively, to acquire use right of lands located in China. Our capital expenditures were primarily for construction and expansion of warehouses, land use right, and other logistic infrastructure from 2016 through 2018. We expect our future capital expenditures to remain stable in 2019 and 2020. Approximately 79.0% of such capital expenditures are expected to be used to further expand our fulfillment capabilities and infrastructure expansions, approximately 5.3% of such capital expenditures are expected to be used to enhance our Vipshop Online Platform and IT systems, and approximately 15.7% of such capital expenditures are expected to be used for other purposes. We plan to fund these capital expenditures through our existing cash balances and our financing activities.

### ***Holding Company Structure***

Vipshop Holdings Limited is a holding company with no material operations of its own. We conduct our operations primarily through our wholly-owned subsidiaries and our consolidated affiliated entities in China. As a result, our ability to pay dividends depends upon dividends paid by our wholly-owned subsidiaries. If our wholly-owned subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly-owned subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our wholly-owned PRC subsidiaries and our consolidated affiliated entities is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. We set aside amounts of RMB84.9 million, RMB95.6 million, and RMB121.1 million (US\$17.6 million) to the general reserve during the years ended December 31, 2016, 2017, and 2018, respectively.

### ***C. Research and Development, Patents and Licenses, etc.***

#### **Research and Development**

Our Vipshop Online Platform and management systems are supported by a combination of our internally developed proprietary technologies and commercially available licensed technologies. We focus our internal development efforts on mobile solutions, warehouse and transportation management systems and several service modules such as merchant module, order and payment processing module, and data module.

We have adopted a service-oriented architecture supported by data processing technologies which consist of front-end and back-end modules with different functions. Our network infrastructure is built upon self-owned servers located in data centers operated by major PRC Internet data center providers. We have developed most of the key business modules through our internal IT department. We also license software from reputable third-party providers and work closely with them to customize the software for our operations. We have implemented a number of measures to protect against failure and data loss. We have developed a disaster tolerant system for our key business modules which includes real-time data mirroring, daily off-line data back-up and redundancy and load balancing.

Our technology and content expenses consist primarily of the compensation and benefits of our IT staff, telecommunications expenses, and expenses incurred in creating content for our sales events on our Vipshop Online Platform, including model fees and professional photography expenses. We incurred RMB1.56 billion, RMB1.81 billion, and RMB2.0 billion (US\$291.0 million) in technology and content expenses in 2016, 2017, and 2018.

## Intellectual Property

We regard our trademarks, service marks, domain names, trade secrets, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions with our employees, partners, service providers, suppliers and others to protect our proprietary rights. As of December 31, 2018, we owned 1,401 registered trademarks, 149 copyrights (including copyrights to 115 software products developed by us relating to various aspects of our operations), and 301 registered domain names that are material to our business, including vip.com and vipshop.com.

### D. *Trend Information*

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year 2018 that are reasonably likely to have a material adverse effect on our total net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### E. *Off-Balance Sheet Arrangements*

Except for the guarantee provided to a bank under the cooperative lending arrangement as disclosed elsewhere in this annual report, we have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. See "Item 5.F. Operating and Financial Review and Prospects—Tabular Disclosure of Contractual Obligations." We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

### F. *Tabular Disclosure of Contractual Obligations*

We lease office space and certain equipment under non-cancelable operating lease agreements that expire at various dates from January 2019 through June 2026. These lease agreements provide for periodic rental increases based on both contractually agreed upon incremental rates and on the general inflation rate as agreed upon by us and our landlords. In the years ended December 31, 2016, 2017, and 2018, we incurred rental expenses of RMB248.3 million, RMB493.2 million, and RMB595.3 (US\$86.6 million), respectively. Our purchase obligations as of December 31, 2016 amounted to RMB938.5 million, representing property, equipment, software contracts, and land use rights. Our purchase obligations as of December 31, 2017 amounted to RMB2,345.7 million, representing property, equipment, software contracts, and land use rights. Our purchase obligations as of December 31, 2018 amounted to RMB2,638.1 million (US\$383.7 million), representing property, equipment, software contracts, and land use rights. In addition, we will purchase certain services from our business partners. In June 2017, we entered into a cooperative lending arrangement with a bank, whereby we and the bank will jointly fund financing to individuals. Under this arrangement, we are obligated to compensate the bank if the balance of outstanding principal of the bank's lending portion becomes overdue for more than 80 days. As of December 31, 2018, the balance of outstanding principal of the bank's lending portion under the arrangement was approximately RMB117.7 million (US\$17.1 million).

In March 2018, we agreed to invest in the capacity of a passive investor, up to US\$250 million in a private equity fund, which focuses on technology-enabled consumer, retail, and related business. As of

December 31, 2018, the aggregate amount of our committed capital to the fund was RMB126.1 million (US\$18.4 million). We will make further investment from time to time upon capital calls by the fund manager of the private equity fund.

The following table sets forth our minimum contractual obligations and commitments as of December 31, 2018.

	Payment Due by Period				
	Total	Less than 1 year	1 - 3 years (in RMB'000)	3 - 5 years	More than 5 years
Operating lease obligations	751,294	398,044	257,024	88,289	7,937
Purchase obligations	2,638,129	2,334,925	295,352	7,852	—
Purchase of services	390,378	—	130,126	260,252	—
Short term loans	1,381,827	1,381,827	—	—	—
Securitization debt	1,024,823	1,024,823	—	—	—
Convertible senior notes	4,343,495	4,343,495	—	—	—

We will fund our commitments and future investments with our existing cash balances, our financing activities, and operating cash flows. We have generated positive cash flows from our operating activities, and this cash flows will in term fund our various commitments and future investments. Our net cash generated from operating activities was RMB5.75 billion (US\$835.7 million) for the year ended December 31, 2018.

### G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "is/are likely to," "potential," "continue" or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements relating to:

- our goals and strategies;
- our future business development, results of operations and financial condition;
- the expected growth of the online discount retail market in China;
- our ability to attract customers and brand partners and further enhance our brand recognition;
- our expectations regarding demand for and market acceptance of flash sales products and services;
- competition in our industry;
- fluctuations in general economic and business conditions in China; and
- assumptions underlying or related to any of the foregoing.

You should read thoroughly this annual report and the documents that we refer to in this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

This annual report also contains certain data and information, which we obtained from various government and private publications. Although we believe that the publications and reports are reliable, we have not independently verified the data. Statistical data in these publications includes projections that are based on a number of assumptions. If any one or more of the assumptions underlying the market data is later found to be incorrect, actual results may differ from the projections based on these assumptions.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Eric Ya Shen	47	Chairman of the Board of Directors, Chief Executive Officer
Arthur Xiaobo Hong	46	Vice Chairman of the Board of Directors, Chief Operating Officer
Martin Chi Ping Lau	46	Director
Jacky Yu Xu	47	Director
Chun Liu	51	Independent Director
Frank Lin	54	Independent Director
Xing Liu	48	Independent Director
Kathleen Chien	49	Independent Director
Nanyan Zheng	50	Independent Director
Donghao Yang	47	Chief Financial Officer
Daniel Kao	46	Chief Technology Officer
Yizhi Tang	45	Senior Vice President of Logistics

*Mr. Eric Ya Shen* is our co-founder and has served as the chairman of our board of directors and chief executive officer since our inception in August 2010. He has over 20 years of experience in the distribution of consumer electronic products in domestic and overseas markets. From 2001 to 2012, Mr. Shen served as the chairman of the board of directors of Guangzhou NEM Import and Export Co., Ltd., a company primarily engaging in the sales of consumer electronic and telecommunication products. Mr. Shen received an EMBA degree from Cheung Kong Graduate School of Business in 2010 and an associate degree in telecommunication from Shanghai Railway College in 1990.

*Mr. Arthur Xiaobo Hong* is our co-founder and has served as the vice chairman of our board of directors since January 2011. Mr. Hong has served as our chief operating officer since August 2012. Mr. Hong has over 15 years of experience in the distribution of consumer electronic products in

overseas markets. From 1998 to 2011, Mr. Hong served as chairman of the board of directors of Société Europe Pacifique Distribution, a French company engaging in the distribution of consumer electronic products, since 1998. Mr. Hong graduated from Cheung Kong Graduate School of Business in 2010.

*Mr. Martin Chi Ping Lau* has served as our director since December 2017. Mr. Lau is president and executive director of Tencent Holdings Limited (SEHK: 0700), or Tencent. He joined Tencent in 2005 as the chief strategy and investment officer, and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr. Lau was promoted as president of Tencent to manage the day-to-day operation of Tencent. In 2007, he was appointed as an executive director of Tencent. Prior to joining Tencent, Mr. Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the chief operating officer of its telecom, media and technology group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr. Lau also serves as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed on Hong Kong Stock Exchange, a director of JD.com Inc., the largest retailer of China listed on the Nasdaq, and a director of Leju Holdings Limited, an online-to-offline real estate services provider in China listed on the NYSE. Mr. Lau received a bachelor of science degree in electrical engineering from the University of Michigan, a master of science degree in electrical engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University.

*Mr. Jacky Yu Xu* is an angel investor of our company and has served as our director since January 2011. Mr. Xu is the director of several privately held companies in China. Mr. Xu graduated from Cheung Kong Graduate School of Business in 2009.

*Mr. Chun Liu* has served as our director since March 2013. Mr. Chun Liu is currently the senior vice president of Phoenix TV. Prior to joining Phoenix TV, he served as the chief culture officer of Zhong Nan Wen Hua, senior vice president of iQiyi.com, managing director of Sohu.com Inc. and chief operating officer of Sohu Video, respectively. Prior to joining Sohu, Mr. Liu worked with Phoenix TV from 2000 to 2011. His last position at Phoenix TV was the executive director and the head of Phoenix TV Beijing Program Center. Earlier in his career, Mr. Liu worked in the Youth Division and News Commentary Department at CCTV, China's state television broadcaster. As the executive producer of a famous program "News Investigation," he produced dozens of award winning documentaries. Mr. Chun Liu received an EMBA degree from Cheung Kong Graduate School of Business in China and a master's degree from the Communication University of China.

*Mr. Frank Lin* has served as our director since January 2011. Mr. Lin is a general partner of DCM, a technology venture capital firm. Prior to joining DCM in 2006, Mr. Lin was chief operating officer of SINA Corporation (Nasdaq: SINA). He co-founded SINA's predecessor, SinaNet, in 1995 and later guided SINA through its listing on Nasdaq. Prior to founding SinaNet, Mr. Lin was a consultant at Ernst & Young Management Consulting Group. Mr. Lin had also held various marketing, engineering and managerial positions at Octel Communication Inc. and NYNEX. Mr. Lin currently serves on the board of directors of numerous DCM portfolio companies. Mr. Lin received an MBA degree from Stanford University and a bachelor's degree in engineering from Dartmouth College.

*Mr. Xing Liu* has served as our director since January 2011. Mr. Liu is a partner of Sequoia Capital China. Prior to joining Sequoia Capital China in 2007, Mr. Liu had over nine years of work experience in investment banking, technology and product development and consulting at Merrill Lynch, Xerox and GlobalSight, respectively. Mr. Liu currently serves on the board of directors of numerous Sequoia Capital China portfolio companies. Mr. Liu received a master's degree in computer engineering from Syracuse University, an MBA degree from The Wharton School of the University of Pennsylvania and a bachelor's degree in management information systems from Fudan University.

*Ms. Kathleen Chien* has served as our director since March 2012. Ms. Chien is currently the chief operating officer and acting chief financial officer of 51job, Inc., a Nasdaq-listed provider of integrated human resource services in China. Ms. Chien joined 51job, Inc. in 1999 and served as its chief financial officer from 2004 to March 2009. Prior to joining 51job, Inc., Ms. Chien worked in the financial services and management consulting industries, including three years with Bain & Company in Hong Kong and two years with Capital Securities Corp. in Taiwan. During her tenure at Bain & Company, Ms. Chien was a consultant to a number of companies on strategic and marketing issues, including entry into the Chinese market and achieving cost and operating efficiencies. While at Capital Securities Corp., Ms. Chien completed a number of equity and equity-linked transactions, enabling Taiwanese companies to raise significant capital from the international capital markets. Ms. Chien received her bachelor's degree in economics from the Massachusetts Institute of Technology and an MBA degree from the Walter A. Haas School of Business at University of California, Berkeley.

*Mr. Nanyan Zheng* has served as our director since March 2012. Mr. Zheng is currently the chairman of Plateno Group Ltd. Mr. Zheng founded Plateno Group Ltd. in 2013, which wholly owned 7 Days Groups Holdings Ltd. after its privatization and launched a series of new mid-level and upscale hotel brands. Mr. Zheng co-founded 7 Days Groups Holdings Ltd. and has been serving as its chief executive officer since October 2004. Mr. Zheng is also a co-founder and partner of Ocean Link Partners Limited, a fund management company founded in April 2016, and a co-founder and co-chairman since January 2011 of Reocar Group Limited, one of the leading car rental agencies in China. In June 2016, Mr. Zheng invested in OGC Nice, a French football club. From 2000 to October 2004, Mr. Zheng worked for Ctrip.com International Ltd., a Nasdaq-listed company and a leading travel service provider in China, and served as vice president and general manager of southern China, and later as vice president of marketing in charge of national marketing. During 2001, Mr. Zheng also worked for the computer center of the Economic and Trade Commission of Guangdong Province. Mr. Zheng received a bachelor's degree from Sun Yat-Sen University in China.

*Mr. Donghao Yang* has served as our chief financial officer since August 2011. Mr. Yang has held senior executive and managerial positions in various public and private companies, including serving as the chief finance officer of Synutra International Inc. (Nasdaq: SYUT) from May 2010 to August 2011, as the chief financial officer of Greater China of Tyson Foods, Inc. (NYSE: TSN) from March 2007 to April 2010, as a finance director of Asia Pacific of Valmont Industries, Inc. (NYSE: VMI) from October 2003 to March 2007, and as a director of China Minmetals Brazil Holding Limited from January 1999 to April 2001. Mr. Yang received an MBA degree from Harvard Business School in 2003 and a bachelor's degree in international economics from Nankai University in 1993.

*Mr. Daniel Kao* has served as our chief technology officer from June 2012 to October 2016, and again since April 2019. Mr. Kao also serves as an independent director of the board of ZTO Express (Cayman) Inc. (NYSE: ZTO). From January 2018 to April 2019, Mr. Kao served as the chief technology officer of Noah Holdings Limited (NYSE: NOAH). Mr. Kao has over 20 years of experience with leading e-commerce and Internet companies in the United States and China. From October 2010 to March 2012, Mr. Kao served as the director of site operation and quality engineering at eBay Inc. (Nasdaq: EBAY). During his tenure at eBay, Mr. Kao focused on customer service enhancements, online branding, and organization growth strategies. Prior to that, he was the enterprise architect at AccelOps, a provider of integrated data center and cloud service monitoring software solutions to enterprises and service providers, from October 2007 to July 2008. From March to October 2007, Mr. Kao co-founded and served as the chief technology officer of AdChina Ltd., a leading integrated Internet advertising platform in China. Mr. Kao received a bachelor's degree in computer science from Iowa State University in 1995.

*Mr. Yizhi Tang* has served as our senior vice president since November 2012. Before that, Mr. Tang served as our vice president from September 2010 to November 2012. Mr. Tang has over 10 years of experience in the logistics industry. Prior to joining us, Mr. Tang served as an operating director of Best

Logistics Technology Co., Ltd. from 2009 to 2010. From 2008 to 2009, Mr. Tang served as the head of logistics department of Tesco, responsible for the logistics in the northern China area. From 2006 to 2008, Mr. Tang worked as the senior director of the logistics department of Dangdang.com. Mr. Tang received a master's degree from Sun Yat-Sen University in 2003 and a bachelor's degree from Nanjing University of Aeronautics and Astronautics in 1997.

## **Employment Agreements**

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. In such case, the executive officer will not be entitled to receive payment of any severance benefits or other amounts by reason of the termination, and the executive officer's right to all other benefits will terminate, except as required by any applicable law. We may also terminate an executive officer's employment without cause upon one-month advance written notice. In such case of termination by us, we are required to provide compensation to the executive officer, including severance pay, as expressly required by the applicable law of the jurisdiction where the executive officer is based. The executive officer may terminate the employment at any time with a one-month advance written notice if there is any significant change in the executive officer's duties and responsibilities that is inconsistent in any material and adverse respect with his or her title and position or a material reduction in the executive officer's annual salary before the next annual salary review, or if otherwise approved by the board of directors.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice and to assign all right, title and interest in them to us, and assist us in obtaining patents,

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and for one year following the last date of employment. Specifically, each executive officer has agreed not to (a) approach our clients, customers, contacts or other persons or entities introduced to the executive officer for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (b) assume employment with or provide services to any of our competitors, or engage with, whether as principal, partner, licensor or otherwise, any of our competitors; or (c) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination.

### *B. Compensation*

For the fiscal year ended December 31, 2018, we paid an aggregate of RMB13.5 million (US\$2.0 million) in cash to our executive officers, and we paid an aggregate of RMB3.3 million (US\$0.5 million) in cash to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and consolidated affiliated entities are required by PRC law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

## Stock Incentive Plans

### *2011 Stock Incentive Plan*

In March 2011, we adopted our 2011 Plan, in order to attract and retain the best available personnel, to provide additional incentives to employees, directors, officers, consultants and other eligible persons and to promote the success of our business. Under the 2011 Plan, the maximum number of shares may be granted is 7,350,000 ordinary shares. As of the date of this annual report, options to acquire 680,937 Class A ordinary shares have been granted and are outstanding under the 2011 Plan.

The following paragraphs summarize the terms of the 2011 Plan.

*Plan Administration.* The plan administrator is our board or a committee designated by our board.

*Awards.* We may grant options, restricted shares and restricted share units as well as other rights or benefits, such as share appreciation rights and dividend equivalent rights, under the 2011 Plan.

*Award Agreement and Notice of Stock Option Award.* Awards granted under the 2011 Plan are evidenced by an award agreement and, in the case of stock options, a notice of stock option award that sets forth the terms, conditions, and limitations for each grant.

*Exercise Price.* The exercise price of an award shall be determined by the administrator in accordance with the 2011 Plan.

*Eligibility.* We may grant awards other than incentive stock options to our employees, directors and consultants or those of our related entities. Incentive stock options may be granted only to employees of our company or a parent or a subsidiary of our company.

*Term of the Awards.* The term of each award grant shall be determined by the plan administrator and stated in the award agreement, provided that the term of incentive stock options shall not exceed 10 years from the date of grant. In the event of an incentive stock option granted to a grantee who, at the time the option is granted, owns shares representing more than 10% of the voting power of all classes of shares of our company or any parent or subsidiary of our company, the term of the incentive stock option shall be five years from the date of grant or such shorter term as may be provided in the award agreement.

*Vesting Schedule.* The vesting schedule is determined by the plan administrator and set forth in the notice of stock option award and award agreement. Except as unanimously approved by our board, awards granted under the 2011 Plan shall be subject to a minimum four-year vesting schedule calling for vesting no faster than the following: one-fourth of the total ordinary shares subject to the awards shall vest at the first anniversary of the vesting commencement date and one-forty-eighth of the total ordinary shares subject to the awards shall vest at the end of each month thereafter; provided that the awards shall not be exercised or released until the earlier of consummation of a qualified initial public offering or immediately prior to a change in control. Our initial public offering in March 2012 is a qualified initial public offering under the 2011 Plan.

*Transfer Restrictions.* Incentive stock options may not be transferred in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the grantee, only by the grantee. Other awards are transferable by will and by the laws of descent and distribution, and during the lifetime of the grantee, may be transferred to the extent and in the manner authorized by the plan administrator.

*Termination of Employment or Service.* In the event that an award recipient ceases employment with us or ceases to provide services to us, an award may be exercised following the termination of employment or service to the extent provided in the award agreement.

*Termination and Amendment of the Plan.* Unless terminated earlier, the 2011 Plan will terminate automatically in 2021. Our board has the authority to amend, suspend or terminate the plan subject to shareholder approval with respect to certain amendments. However, no suspension or termination shall adversely affect any rights under awards previously granted.

#### *2012 Share Incentive Plan*

In March 2012, we adopted our 2012 Plan, which permits the grant of options to purchase our ordinary shares, restricted shares and restricted share units as deemed appropriate by the administrator. The maximum aggregate number of shares that may be issued pursuant to our 2012 Plan is 9,000,000, and the maximum aggregate number of shares that may be issued per calendar year is 1,500,000 from 2012 until the termination of this plan. As of the date of this annual report, options to acquire 380,481 Class A ordinary shares have been granted and are outstanding under the 2012 Plan.

The following paragraphs describe the principal terms of our 2012 Plan:

*Plan Administration.* The plan will be administered by a committee of one or more directors to whom the board shall delegate the authority to grant or amend awards to participants other than any of the committee members. The committee will determine the provisions and terms and conditions of each award grant.

*Awards and Award Agreement.* We may grant options, restricted shares or restricted share units to our directors, employees or consultants under the plan. Awards granted under the plan will be evidenced by award agreements that set forth the terms, conditions and limitations for each award. These may include the term of an award, the provisions applicable in the event the participant's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

*Option Exercise Price.* The exercise price of an option shall be determined by the plan administrator and set forth in the award agreement. It may be a fixed price or a variable price related to the fair market value of our ordinary shares, to the extent not prohibited by applicable laws. Subject to certain limits set forth in the plan, the exercise price may be amended or adjusted in the absolute discretion of the plan administrator, whose determination shall be final, binding and conclusive. To the extent not prohibited by applicable laws or any exchange rule, a downward adjustment of the exercise prices of options shall be effective without the approval of the shareholders or the approval of the affected participants.

*Eligibility.* We may grant awards to our employees, directors and consultants or those of any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership or control interest, as determined by our plan administrator. Awards other than incentive share options may be granted to our employees, directors and consultants. Incentive share options may be granted only to employees of our company or a parent or a subsidiary of our company.

*Term of the Awards.* The term of each award grant shall be determined by our plan administrator, provided that the term shall not exceed 10 years from the date of the grant.

*Vesting Schedule.* In general, the plan administrator determines, or the award agreement specifies, the vesting schedule. Restricted shares granted under the plan will have either a three-year, a two-year or a one-year vesting schedule. We have the right to repurchase the restricted shares until they have vested.

*Transfer Restrictions.* Except as otherwise provided by the plan administrator, an award may not be transferred or otherwise disposed of by a participant other than by will or the laws of descent and distribution. The plan administrator may permit an award other than an incentive share option to be transferred to or exercised by certain persons related to the participant by express provision in the award or by an amendment to the award.

*Corporate Transactions.* Except as otherwise provided in an individual award agreement or any other written agreement entered into between a participant and us, our plan administrator may provide for one or more of the following in the event of a change of control or other similar corporate transaction: (i) the termination of each award outstanding under the plan at a specific time in the future, with each participant having the right to exercise the vested portion of the awards during a period of time as determined by the plan administrator; (ii) the termination of any award in exchange for an amount of cash equal to the amount that could have been obtained upon the exercise of the award; (iii) the replacement of an award with other rights or property selected by the plan administrator; (iv) the assumption of the award by our successor, parent or subsidiary, or the substitution of an award granted by our successor, parent or subsidiary, with appropriate adjustments; or (v) payment of an award in cash based on the value of our ordinary shares on the date of the corporate transaction plus reasonable interest on the award.

*Amendment and Termination of the Plan.* With the approval of our board, the plan administrator may amend, modify or terminate the plan at any time and from time to time. However, no amendment may be made without the approval of our shareholders to the extent that approval is required by applicable laws. The approval of our shareholders would also be required in the event that the amendment increased the number of shares available under our plan, permitted the plan administrator to extend the term of our plan or the exercise period for an option beyond ten years from the date of grant, or resulted in a material increase in benefits or a change in eligibility requirements, unless we decided to follow home country practice.

#### *2014 Share Incentive Plan*

In July 2014, we adopted our 2014 Plan, which permits the grant of options to purchase our ordinary shares, restricted shares, share appreciation rights, and other types of awards as deemed appropriate by the administrator. The maximum aggregate number of shares that may be issued pursuant to our 2014 Plan is (i) 5,366,998 Class A ordinary shares, and (ii) an automatic increase on January 1 of each year after the effective date of the 2014 Plan by that number of shares representing 1.5% of our then total issued and outstanding share capital as of December 31 of the preceding year, or such less number as determined by the board of directors. In December 2017, we registered additional securities consisting of 5,237,297 Class A ordinary shares that were automatically added to our 2014 Plan, effective January 1, 2015, January 1, 2016 and January 1, 2017, pursuant to the evergreen provisions. As of the date of this annual report, options to acquire 605,000 Class A ordinary shares and 2,699,733 restricted shares have been granted and are outstanding under the 2014 Plan.

The following paragraphs describe the principal terms of our 2014 Plan:

*Plan Administration.* The plan will be administered by the Compensation Committee, or a committee of two or more directors to whom the Compensation Committee shall delegate the authority to grant or amend awards to participants other than independent directors and executive officers. The committee will determine the provisions and terms and conditions of each award grant.

*Awards and Award Agreement.* We may grant options, restricted shares, share appreciation rights, or other types of awards to our directors, employees or consultants under the plan. Awards granted under the plan will be evidenced by award agreements that set forth the terms, conditions and limitations for each award. These may include the term of an award, the provisions applicable in the

event the participant's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

*Option Exercise Price.* The exercise price of an option shall be determined by the plan administrator and set forth in the award agreement. It may be a fixed price or a variable price related to the fair market value of our Class A ordinary shares, to the extent not prohibited by applicable laws. Subject to certain limits set forth in the plan, the exercise price may be amended or adjusted in the absolute discretion of the plan administrator, whose determination shall be final, binding and conclusive. To the extent not prohibited by applicable laws or any exchange rule, a downward adjustment of the exercise prices of options shall be effective without the approval of the shareholders or the approval of the affected participants.

*Eligibility.* We may grant awards to our employees, directors and consultants or those of any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership or control interest, as determined by our plan administrator. Awards other than incentive share options may be granted to our employees, directors and consultants. Incentive share options may be granted only to employees of our company or a parent or a subsidiary of our company.

*Term of the Awards.* The term of each award grant shall be determined by our plan administrator, provided that the term for an option shall not exceed 10 years from the date of the grant.

*Vesting Schedule.* In general, the plan administrator determines, or the award agreement specifies, the vesting schedule. We have the right to repurchase the restricted shares until they have vested.

*Transfer Restrictions.* Except as otherwise provided by the plan administrator, an award may not be transferred or otherwise disposed of by a participant other than by will or the laws of descent and distribution. The plan administrator may permit an award other than an incentive share option to be transferred to or exercised by certain persons related to the participant by express provision in the award or by an amendment to the award. A participant must give us prompt notice of any disposition of shares acquired by exercise of an incentive share option within (i) two years from the date of grant of such incentive share option or (ii) one year after the transfer of such shares to the participant.

*Corporate Transactions.* Except as otherwise provided in an individual award agreement or any other written agreement entered into between a participant and us, our plan administrator may provide for one or more of the following in the event of a change of control or other similar corporate transaction: (i) the termination of each award outstanding under the plan at a specific time in the future, with each participant having the right to exercise such awards during a period of time as determined by the plan administrator; (ii) either the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award or realization of the participant's rights had such award been currently exercisable or payable or fully vested; (iii) the replacement of an award with other rights or property selected by the plan administrator in its sole discretion the assumption of or substitution of such award by the successor or surviving corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, or (iv) provide for payment of awards in cash based on the value of shares on the date of the change of control plus reasonable interest on the award through the date such award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with the Code.

*Amendment and Termination of the Plan.* With the approval of our board of directors, at any time and from time to time, the plan administrator may terminate, amend or modify the 2014 Plan; provided, however, that to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, unless we decide to follow home country practice, shareholder approval is required for any plan amendment, including any amendment to the plan that (i) increases the number of shares available under the 2014 Plan, (ii) permits the plan administrator to extend the

exercise period for an option beyond ten years from the date of grant, or (iii) results in a change in eligibility requirements.

### Share Incentive Grants

The following table summarizes, for the year ended December 31, 2018, the outstanding options we granted to our directors and executive officers under the 2011 Plan, the 2012 Plan, and the 2014 Plan.

<u>Name</u>	<u>Number of Ordinary Shares Underlying Options</u>	<u>Exercise Price (US\$/Share)</u>	<u>Date of Grant</u>	<u>Date of Expiration</u>
Eric Ya Shen	660,000	68.35	January 1, 2017	January 1, 2022
Donghao Yang	*	0.50	August 30, 2011	August 29, 2021
	*	0.50	January 1, 2013	December 31, 2022
	*	26.30	January 1, 2017	January 1, 2022
Yizhi Tang	*	0.50	March 18, 2011	March 17, 2021
	*	2.52	November 30, 2011	November 29, 2021
Nanyan Zheng	*	2.50	April 16, 2012	April 15, 2022
Kathleen Chien	*	2.50	April 16, 2012	April 15, 2022
Chun Liu	*	2.50	March 22, 2013	March 22, 2023

Note:

\* Aggregate number of shares beneficially owned by the person account for less than 1% of our total outstanding ordinary shares.

The following table summarizes, for the year ended December 31, 2018, the outstanding restricted shares we granted to our directors and executive officers under the 2012 Plan and the 2014 Plan.

<u>Name</u>	<u>Number of Restricted Shares</u>	<u>Date of Grant</u>
Arthur Xiaobo Hong	300,000	January 1, 2017
Donghao Yang	*	January 1, 2017
Bill Yanlin Huang <sup>(1)</sup>	*	October 1, 2016
Yizhi Tang	*	January 1, 2013
	*	January 1, 2017
Frank Lin	*	January 1, 2013
	*	April 1, 2016
Xing Liu	*	January 1, 2013
	*	April 1, 2016
Nanyan Zheng	*	January 1, 2013
	*	April 1, 2016
Kathleen Chien	*	January 1, 2013
	*	April 1, 2016
Chun Liu	*	March 22, 2013
	*	April 1, 2016

Notes:

\* Aggregate number of shares beneficially owned by the person account for less than 1% of our total outstanding ordinary shares.

(1) Bill Yanlin Huang resigned as our chief technology officer in April 2019.

C. *Board Practices*

**Board of Directors**

Our board of directors consists of nine directors. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract or transaction in which he or she is materially interested provided the nature of the interest is disclosed prior to its consideration. Subject to our amended and restated memorandum and articles of association, the directors may exercise all the powers of our company to borrow money, mortgage their undertaking, property and uncalled capital and issue debentures or other securities whether outright or as security for any debt, liability or obligation of our company or of any third party. None of our directors has a service contract with us that provides for benefits upon termination of service.

**Committees of the Board of Directors**

We have three committees under the board of directors, namely the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

**Audit Committee.** Our audit committee consists of Ms. Kathleen Chien, Mr. Nanyan Zheng and Mr. Chun Liu. Ms. Kathleen Chien, Mr. Nanyan Zheng and Mr. Chun Liu satisfy the "independence" requirements under Section 303A of the Corporate Governance Rules of NYSE and Rule 10A-3 under the Exchange Act. Ms. Kathleen Chien is the chair of our audit committee. We have determined that Ms. Kathleen Chien qualifies as an "audit committee financial expert." The purpose of the audit committee is to assist our board of directors with its oversight responsibilities regarding: (a) the integrity of our financial statements, (b) our compliance with legal and regulatory requirements, (c) the independent auditor's qualifications and independence and (d) the performance of our internal audit function and independent auditor. The audit committee will be responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

**Compensation Committee.** Our compensation committee consists of Mr. Nanyan Zheng, Ms. Kathleen Chien and Mr. Frank Lin. Mr. Nanyan Zheng, Mr. Frank Lin and Ms. Kathleen Chien satisfy the "independence" requirements under Section 303A of the Corporate Governance Rules of NYSE. Mr. Nanyan Zheng is the chair of our compensation committee. The compensation committee assists the board in reviewing and approving compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be

present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our directors; and
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements.

***Nominating and Corporate Governance Committee.*** Our nominating and corporate governance committee consists of Mr. Nanyan Zheng, Ms. Kathleen Chien and Mr. Xing Liu. Mr. Nanyan Zheng, Ms. Kathleen Chien and Mr. Xing Liu satisfy the "independence" requirements under Section 303A of the Corporate Governance Rules of NYSE. Mr. Nanyan Zheng is the chair of our nominating and corporate governance committee. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regard to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regard to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

#### **Duties of Directors**

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. Our company has the right to seek damages if a duty owed by our directors to us is breached.

#### **Terms of Directors and Officers**

Our officers are elected by and serve at the discretion of the board of directors and the shareholders. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders in a general meeting or by the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

#### D. Employees

As of December 31, 2018, we had 57,638 full time employees, compared with 58,702 and 29,720 employees as of December 31, 2016 and 2017, respectively. We also employ independent contractors and part-time personnel from time to time. The following table sets forth the number of our full time employees categorized by areas of operations as of December 31, 2018:

<u>Operations</u>	<u>Number of Employees</u>
Merchandising	1,791
Products and technology support	2,081
Business development, sales and marketing	233
Internet finance	561
Customer services	1,828
Logistics and delivery	50,598
Administration and management	546
Total	<u>57,638</u>

Our success depends on our ability to attract, retain and motivate qualified personnel. We have developed a corporate culture that encourages teamwork, effectiveness, self-development and commitment to providing our customers with superior services. We regularly provide our employees with training tailored to each job function to enhance performance and service quality.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing insurance. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. In addition, we also provide our employees fringe benefits such as free lunches and periodic appreciation payments to employees' family members. For the year ended December 31, 2018, we have not experienced any significant labor disputes.

#### E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2019 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the shareholder table below are based on 133,101,306 ordinary shares issued and outstanding as of March 31, 2019, comprising of (i) 116,590,948 Class A ordinary shares, excluding the 747,793 Class A ordinary shares issued to Deutsche Bank Trust Company Americas, the depository

of our ADS program, for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our stock incentive plans, and (ii) 16,510,358 Class B ordinary shares.

	Number of Ordinary Shares Beneficially Owned <sup>(1)</sup>	% <sup>(2)</sup>
<b>Directors and Executive Officers** :</b>		
Eric Ya Shen <sup>(3)</sup>	16,895,358	12.7
Arthur Xiaobo Hong <sup>(4)</sup>	9,049,741	6.8
Martin Chi Ping Lau <sup>(5)</sup>	*	*
Jacky Xu <sup>(6)</sup>	*	*
Chun Liu <sup>(7)</sup>	*	*
Frank Lin <sup>(8)</sup>	*	*
Xing Liu <sup>(9)</sup>	*	*
Kathleen Chien <sup>(10)</sup>	*	*
Nanyan Zheng <sup>(11)</sup>	*	*
Donghao Yang <sup>(12)</sup>	*	*
Bill Yanlin Huang <sup>(12)(13)</sup>	*	*
Yizhi Tang <sup>(12)</sup>	*	*
All directors and executive officers as a group	27,881,305	20.9
<b>Principal Shareholders :</b>		
Elegant Motion Holdings Limited <sup>(14)</sup>	16,510,358	12.4
Tencent Mobility Limited <sup>(15)</sup>	11,558,130	8.7
Windcreek Limited. <sup>(16)</sup>	9,644,034	7.2
High Vivacity Holdings Limited <sup>(17)</sup>	8,952,810	6.7

Notes:

- \* Less than 1% of our total outstanding ordinary shares.
- \*\* Except for Mr. Frank Lin, Mr. Xing Liu, Mr. Nanyan Zheng, Ms. Kathleen Chien, Mr. Chun Liu, and Mr. Martin Chi Ping Lau, the business address of our directors and executive officers is c/o No. 20 Huahai Street, Liwan District, Guangzhou 510370, People's Republic of China.
- (1) Beneficial ownership is determined in accordance with the SEC rules and includes voting or investment power with respect to the securities.
- (2) For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the number of shares outstanding and the number of shares such person or group has the right to acquire upon exercise of the stock options or vesting of restricted shares within 60 days after March 31, 2019.
- (3) Beneficially owned through Elegant Motion Holdings Limited, a British Virgin Islands company, and options of Mr. Eric Ya Shen granted under our share incentive plans to acquire Class A ordinary shares. Elegant Motion Holdings Limited is ultimately wholly owned by the SYZXC Trust. Under the terms of the SYZXC Trust, Mr. Eric Ya Shen and his wife Ms. Xiaochun Zhang have the power to jointly direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to these shares. As of March 31, 2019, Mr. Eric Ya Shen beneficially owned (i) 385,000 Class A ordinary shares issuable to Mr. Eric Ya Shen upon the exercise of options within 60 days after March 31, 2019, and (ii) 16,510,358 Class B ordinary shares held by Elegant Motion Holdings Limited, representing 58.7% of the aggregate voting power of our company.
- (4) Beneficially owned through High Vivacity Holdings Limited, a British Virgin Islands company, which is ultimately wholly owned by the Nasa Stand Trust, and options of Mr. Hong granted under our share incentive plans to acquire Class A ordinary shares. Under the terms of the Nasa Stand Trust, Mr. Hong has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to these shares. As of March 31, 2019, Mr. Hong beneficially owned (i) 96,931 restricted shares that can be acquired by Mr. Arthur Xiaobo Hong within 60 days after March 31, 2018; and (ii) 8,952,810 Class A ordinary shares held by High Vivacity Holdings Limited.

- (5) The business address of Mr. Martin Chi Ping Lau is 39/F, Tencent Building, Kejizhongyi Avenue, Hi-Tech Park, Nanshan District, Shenzhen 518057, People's Republic of China.
- (6) Beneficially owned through Advanced Sea International Limited, a British Virgin Islands company wholly owned by Mr. Xu.
- (7) The business address of Mr. Liu is Level 11, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (8) The business address of Mr. Lin is 2420 Sand Hill Road, Suite 200, Menlo Park, CA 94025, U.S.A.
- (9) Mr. Liu is a partner of Sequoia Capital China. The business address of Mr. Liu is Suite 2215, Two Pacific Place, 88 Queensway, Hong Kong.
- (10) The business address of Ms. Chien is Building 3, No. 1387 Zhang Dong Road, Shanghai 201203, People's Republic of China.
- (11) The business address of Mr. Zheng is 10F, 705 Guangzhou Da Dao Nan Road, Guangzhou, Guangdong, 510290, People's Republic of China.
- (12) Certain of our directors and executive officers have been granted options pursuant to our stock incentive plans. See "Item 6.B. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Stock Incentive Plans."
- (13) Mr. Huang resigned as our chief technology officer in April 2019.
- (14) Elegant Motion Holdings Limited, or Elegant Motion, is a British Virgin Islands company. Elegant Motion is ultimately wholly owned by the SYZXC Trust. Under the terms of the SYZXC Trust, Mr. Eric Ya Shen and his wife Ms. Xiaochun Zhang have the power to jointly direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to these shares, as reported by Elegant Motion, Eric Ya Shen and Xiaochun Zhang on the Schedule 13G/A filed with the SEC on February 12, 2019. The registered address of Elegant Motion Holdings Limited is Trident Chambers, Wickhams Cay, PO Box 146, Road Town, Tortola, British Virgin Islands.
- (15) Tencent Mobility Limited is a company limited by shares incorporated in Hong Kong. Tencent Mobility Limited is wholly owned by Tencent Holdings Limited, a public company listed on Hong Kong Stock Exchange, as reported by Tencent Holdings Limited on the Schedule 13D/A filed with the SEC on March 7, 2019. The principal office address of Tencent Mobility Limited is 29/F., Three Pacific Place, No. 1 Queen's Road East, Wanchai, Hong Kong.
- (16) Windcreek Limited is a company incorporated in the British Virgin Islands. Windcreek Limited is ultimately wholly owned by JD.com, Inc., a public company whose ADS are traded on the Nasdaq Global Select Market, as reported by JD.com, Inc. on the Schedule 13D/A filed with the SEC on June 13, 2018. The registered address of Windcreek Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (17) High Vivacity Holdings Limited, or High Vivacity, is a British Virgin Islands company, which is ultimately wholly owned by the Nasa Stand Trust. Under the terms of the Nasa Stand Trust, Mr. Hong has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to these shares, as reported by High Vivacity and Arthur Xiaobo Hong on the Schedule 13G/A filed with the SEC on February 12, 2019. The registered address of High Vivacity Holdings Limited is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.

To our knowledge and based on our review of our register of shareholders as of March 31, 2019, 92,585,040 Class A ordinary shares were held of record by one holder that resides in the United States, Deutsche Bank Trust Company Americas, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our Class A ordinary shares in the United States. For the different voting rights of our Class A ordinary shareholders and Class B ordinary shareholders, please refer to "Item 4.A. Information on the Company—History and Development of the Company—Our Company." We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

For the options granted to our directors, officers and employees, please refer to "Item 6.B. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers."

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

Please refer to "Item 6.E. Directors, Senior Management and Employees—Share Ownership."

### B. Related Party Transactions

#### Contractual Arrangements

Our wholly-owned subsidiary, Vipshop China, has entered into a series of contractual arrangements with our consolidated affiliated entity, Vipshop E-Commerce, and its shareholders, which enable us to exercise effective control over Vipshop E-Commerce, receive substantially all of the economic benefits of Vipshop E-Commerce through service fees in consideration for the technical and consulting services provided by Vipshop China, and have an exclusive option to purchase, or designate one or more person(s) to purchase, all of the equity interests in Vipshop E-Commerce to the extent permitted under PRC laws, regulations and legal procedures. For a description of these contractual arrangements, see "Item 4.C. Information on the Company—Organizational Structure—Contractual Arrangements with Vipshop E-Commerce."

#### Transactions with Our Directors and Shareholders

In December 2017, a Tencent subsidiary and JD.com entered into strategic cooperation framework agreement and business cooperation framework agreement with us, respectively. Under these agreements, Tencent granted us an entry on the interface of Weixin Wallet, and JD.com granted us entries on the main page of JD.com's mobile application, and the main page of JD.com's Weixin Discovery shopping entry, to utilize the traffic from such platforms.

Other than transactions with Tencent and JD.com, we purchased products and goods from companies controlled by our director and ordinary shareholder, in the amount of RMB247.9 million (US\$36.1 million) for the year ended December 31, 2018. As of December 31, 2018, the amounts due to companies controlled by our director and ordinary shareholders were RMB42.4 million (US\$6.2 million), which was unsecured and interest free. We also provided logistic service to companies controlled or significantly influenced by our directors and ordinary shareholders in the amount of RMB1.8 million (US\$0.3 million) for the year ended December 31, 2018. As of December 31, 2018, the amounts due from companies controlled or significantly influenced by our directors and ordinary shareholders were RMB9.5 million (US\$1.4 million), which were unsecured and interest free.

#### Transactions with Other Related Parties

We purchased products and goods from companies significantly influenced by us in the amount of RMB92.5 million (US\$13.5 million), and engaged one of our affiliate to provide advertising service in the amount of RMB1.6 million (US\$0.2 million), for the year ended December 31, 2018. As of December 31, 2018, the amount due to companies significantly influenced by us and our shareholders were RMB280.7 million (US\$40.8 million), which were unsecured and interest free.

#### Employment Agreements

See "Item 6.A. Directors, Senior Management and Employees—Directors and Senior Management—Employment Agreements."

#### Share Options

See "Item 6.B. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Stock Incentive Plans."

C. *Interests of Experts and Counsel*

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

A. *Consolidated Statements and Other Financial Information*

We have appended consolidated financial statements filed as part of this annual report.

**Legal Proceedings**

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property infringement, violation of third-party license or other rights, breach of contract, labor and employment claims. We are currently not a party to, and we are not aware of any threat of, any legal or administrative proceedings that, in the opinion of our management, are likely to have a material and adverse effect on our business, financial condition or results of operations and cash flows.

**Litigation**

We and certain of our officers and directors were named as defendants in two putative securities class actions filed in the U.S. District Court for the Southern District of New York: *Heller v. Vipshop Holdings Limited et al.*, Civil Action No. 1:15-cv-03870-LTS (S.D.N.Y.) (filed on May 19, 2015) and *Schwartz v. Vipshop Holdings Limited et al.*, Civil Action No. 1:15-cv-05097-LTS (S.D.N.Y.) (filed on June 30, 2015). The complaints in both putative class actions allege that certain of our financial statements and other public disclosures contained misstatements or omissions and assert claims under the U.S. securities laws. On September 15, 2015, the court consolidated the two actions, and appointed a lead plaintiff and approved the lead plaintiff's selection of lead counsel for the consolidated action. On November 24, 2015, the lead plaintiff filed a Notice of Voluntary Dismissal Without Prejudice which was entered by the court, voluntarily dismissing, without prejudice, all claims in the consolidated action.

**Dividend Policy**

We have not paid in the past and do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to declare dividends, their form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual and statutory restrictions and other factors that the board of directors may deem relevant.

Holders of our ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as the holders of our ordinary shares. Cash dividends will be paid to the depository of our ADSs in U.S. dollars, which will distribute them to the holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depository to the holders of ADSs in any means it deems legal, fair and practical.

We are a holding company incorporated in the Cayman Islands. We principally rely on dividends from our subsidiaries in China and Hong Kong for our cash needs. To pay dividends to us, our subsidiaries in China and Hong Kong need to comply with the applicable regulations. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—We principally rely on dividends and other distributions on equity paid by Vipshop China in China to fund our cash and financing requirements, and any limitation on the ability of Vipshop China to make payments to us could materially and adversely affect our ability to conduct our business."

B. *Significant Changes*

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**ITEM 9. THE OFFER AND LISTING**

A. *Offer and Listing Details*

Our ADSs, each representing 0.2 Class A ordinary shares, have been listed on NYSE since March 23, 2012. Our ADSs trade under the symbol "VIPS."

B. *Plan of Distribution*

Not applicable.

C. *Markets*

Our ADSs, each representing 0.2 Class A ordinary shares, have been listed on NYSE since March 23, 2012. Our ADSs trade under the symbol "VIPS."

D. *Selling Shareholders*

Not applicable.

E. *Dilution*

Not applicable.

F. *Expenses of the Issue*

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

A. *Share Capital*

Not applicable.

B. *Memorandum and Articles of Association*

Our second amended and restated memorandum and articles of association became effective on September 15, 2014. The following are summaries of material provisions of our second amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

## Registered Office and Objects

Pursuant to Article 2 of our second amended and restated memorandum of association, our registered office is at the offices of International Corporation Services Ltd., PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands or at such other place as our board of directors may from time to time decide. Pursuant to Article 3 of our second amended and restated memorandum of association, the objects for which our company is established are unrestricted and our company has full power and authority to carry out any object not prohibited by the Companies Law as the same may be revised from time to time, or any other law of the Cayman Islands.

## Directors

See "Item 6.C. Directors, Senior Management and Employees—Board Practices."

## Ordinary Shares

*General.* All of our outstanding Class A and Class B ordinary shares are fully paid and non-assessable. Certificates representing the Class A and Class B ordinary shares are issued in registered form. Our shareholders may freely hold and vote their shares. Each holder of our Class A ordinary shares is entitled to one vote for each Class A ordinary share held on matters submitted to a vote of shareholders, and each holder of our Class B ordinary shares is entitled to ten votes for each Class B ordinary share held on matters submitted to a vote of shareholders.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

*Voting Rights.* Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to ten votes on all matters upon which the ordinary shares are entitled to vote. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by one or more shareholders holding at least 10% of the paid up voting share capital, present in person or by proxy.

A quorum required for a meeting of shareholders consists of at least one shareholder present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, who holds no less than one-third of our voting share capital. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of our voting share capital. Advance notice to shareholders of at least seven days is required for the convening of our annual general meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires a simple majority of votes cast in a general meeting, while a special resolution requires no less than two-thirds of the votes cast. A special resolution is required for important matters such as a change of name. Our shareholders may effect certain changes by ordinary resolution, including increasing the amount of our authorized share capital, consolidating and dividing all or any of our share capital into shares of larger amount than our existing shares and canceling any shares.

*Transfer of Shares.* Subject to the restrictions of our memorandum and articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its sole discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless (a) the instrument of transfer is lodged with us, accompanied by the

certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (b) the instrument of transfer is in respect of only one class of shares; (c) the instrument of transfer is properly stamped, if required; (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; (e) the shares conceded are free of any lien in favor of us; or (f) a fee of such maximum sum as NYSE may determine to be payable, or such lesser sum as our board of directors may from time to time require, has been paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

*Liquidation.* On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares in accordance with the Companies Law and the memorandum or articles of association of the company. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

*Redemption of Shares.* Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by special resolution.

*Variations of Rights of Shares.* All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking in priority to or *pari passu* with such previously existing shares.

*Inspection of Books and Records.* Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements.

*Anti-Takeover Provisions.* Some provisions of our second amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our second amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*C. Material Contracts*

Other than in the ordinary course of business and other than those described under this item, in "Item 4. Information on the Company," "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions" or elsewhere in this annual report, we have not entered into any material contract during the two years immediately preceding the date of this annual report: (i) a subscription agreement dated December 17, 2017 by and among Windcreek Limited, Tencent Mobility Limited and Vipshop Holdings Limited; (ii) a business cooperation framework agreement dated December 17, 2017 by and among JD.com and Vipshop Holdings Limited; (iii) a strategic cooperation framework agreement dated December 17, 2017 by and among Shenzhen Tencent Computer Systems Company Limited and Vipshop Holdings Limited; and (iv) an investor rights agreement dated December 29, 2017 by and among Vipshop Holdings Limited, Mr. Eric Ya Shen, Mr. Arthur Xiaobo Hong, Elephant Motion Holdings Limited, High Vivacity Holdings Limited, Windcreek Limited and Tencent Mobility Limited.

*D. Exchange Controls*

See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Foreign Currency Exchange."

*E. Taxation*

**Cayman Islands Taxation**

According to Travers Thorp Alberga, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by us. There are no exchange control regulations or currency restrictions in the Cayman Islands.

**People's Republic of China Taxation**

***PRC Enterprise Income Tax Law***

Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a PRC "resident enterprise," meaning it can be treated in a manner similar to a PRC enterprise for EIT purposes, although the dividends paid to a PRC resident enterprise from another may qualify as "tax-exempt income." The implementation rules of the EIT Law define a "de facto management body" as a body that has substantial and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. SAT Circular 82 issued by SAT on April 22, 2009 specifies that certain offshore enterprises controlled by a PRC company or a PRC company group will be classified as PRC "resident enterprises" if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in China; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in China; and (iv) at least half of the enterprise's directors with voting rights or senior management reside in China. Although SAT Circular 82 only applies to

offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals, the determination criteria set forth in SAT Circular 82 may reflect SAT's general position on how the "de facto management body" test should be applied in determining tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC individuals.

We believe that we are not a PRC resident enterprise and therefore we are not subject to PRC EIT reporting obligations and the dividends paid by us to holders of our ADSs or ordinary shares will not be subject to PRC withholding tax. However, if the PRC tax authorities determine that we are a PRC resident enterprise for EIT purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our non-PRC enterprise shareholders and a 20% withholding tax from dividends we pay to our non-PRC individual shareholders, including the holders of our ADSs. In addition, non-PRC shareholders may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares if such income is treated as China-sourced income. It is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their tax residence and China in the event we are treated as a PRC resident enterprise. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—It is unclear whether we will be considered a PRC 'resident enterprise' under the PRC Enterprise Income Tax Law and, depending on the determination of our PRC 'resident enterprise' status, our global income may be subject to the 25% PRC enterprise income tax, which could materially and adversely affect our results of operations."

#### ***Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises***

On February 3, 2015, SAT issued SAT Public Notice 7. In December 2017, Article 13 and Paragraph 2 of Article 8 of SAT Public Notice 7 were abolished Pursuant to the SAT Public Notice 7, as amended, where a non-PRC resident enterprise indirectly transfers equities and other properties of a PRC resident enterprise to evade its obligation of paying EIT by implementing arrangements that are not for reasonable commercial purpose, such indirect transfer shall be re-identified and recognized as a direct transfer of equities and other properties of the PRC resident enterprise. SAT Public Notice 7, as amended, provides clear criteria for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity interests through a public securities market. SAT Public Notice 7, as amended, also brings challenges to both offshore transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-PRC resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an offshore holding company, which is an Indirect Transfer, the non-PRC resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant PRC tax authority. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the offshore holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to EIT, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

#### ***PRC Value-Added Tax (VAT) Law***

China started to apply VAT in 1984 on 24 specified taxable items until a structural reform on taxation system was implemented in 1994. In December 1993, the PRC State Council promulgated the Provisional Regulation of the People's Republic of China on Value-Added Tax, which went effective on January 1, 1994 and amended on February 6, 2016 and November 19, 2017, respectively, and is currently effective in China. According to this provisional regulation, VAT should be paid by enterprises or individuals who sell merchandise or labor services of processing, repairing or assembling, sell

services, intangible assets or real property, or import goods within China on the added value derived from their production and/or services. Based on the categories of taxable goods and services, different flat rates are adopted ranging from zero to 17%. We also conduct product promotional activities for certain brands on our Vipshop Online Platform. Prior to January 1, 2012, pursuant to Provisional Regulation of the People's Republic of China on Business Tax which was abolished on November 19, 2017 and its implementing rules, any entity or individual rendering services in the PRC territory is generally subject to a business tax at the rate of 5% on the revenues generated from provision of such services. In November 2011, MOF and SAT jointly issued two circulars setting out the details of the VAT Pilot Program, which change business tax to VAT for certain industries, including, among others, transportation services, research and development and technical services, information technology services, and cultural and creative services. On March 23, 2016, MOF and SAT issued the SAT Circular 36. Effective from May 1, 2016, the PRC tax authorities will collect VAT in lieu of business tax on a trial basis within the PRC territory, and in industries such as construction industries, real estate industries, financial industries, and living service industries. On November 19, 2017, the State Council issued the Decision on Abolishing the Provisional Regulation of China on Business Tax and Amending the Provisional Regulation of China on Value-added Tax, pursuant to which, PRC tax authorities will collect VAT in lieu of business tax for all industries which should have been collected business tax within the PRC territory. Pursuant to the Provisional Regulation of China on Value-added Tax, as amended in 2017, entities and individuals that sell goods, provide labor services of processing, repairs or maintenance, or sell services, intangible assets or real property in China, or import goods to China, shall be subject to VAT with a VAT rate ranging from 6% to 17%. On April 4, 2018, MOF and SAT jointly promulgated Circular 32, which took effect on May 1, 2018 and was applicable to our company from May 1, 2018 to March 31, 2019. According to Circular 32: (i) for VAT taxable sales or importation of goods originally subject to VAT rates of 17% and 11% respectively, tax rates are adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 11%, the deduction rate is adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, the taxes are calculated at the deduction rate of 12%; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate is adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate is adjusted to 10%. To further reduce VAT, on March 30, 2019, MOF, SAT, and the General Administration of Customs jointly promulgated the Announcement on Relevant Policies for Deepening Value-Added Tax Reform, which took effect on April 1, 2019. According to the announcement: (i) for VAT taxable sales or importation of goods originally subject to VAT rates of 16% and 10%, tax rates are adjusted to 13% and 9%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 10%, the deduction rate is adjusted to 9%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 13%, the taxes are calculated at the deduction rate of 10%; (iv) for exported goods originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate is adjusted to 13%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate is adjusted to 9%.

To compute the VAT payable, the subject taxpayer needs to separately calculate the output tax and the input tax for the applicable period. The VAT payable is the difference between the output tax and the input tax. The formula for computing the tax payable is:

$$\text{VAT payable} = \text{Output tax payable for the applicable period} - \text{Input tax receivable for the same applicable period}$$

As of December 31, 2016, 2017, and 2018, we had VAT recoverable of approximately RMB555.9 million, RMB791.2 million, and RMB770.9 million (US\$112.1 million) respectively. VAT

recoverable occurs due to timing difference on operation of certain entities, as we record the revenue and VAT output when goods are delivered, but VAT input invoice from suppliers may be delayed. We also had VAT tax payable of RMB258.2 million, RMB526.0 million, RMB749.1 million (US\$109.0 million) as of December 31, 2016, 2017, and 2018, respectively, included as tax payable. We do not net off VAT recoverable and payable from different entities within our group companies.

### **United States Federal Income Tax Considerations**

The following is a summary of United States federal income tax considerations with respect to the ownership and disposition of our ADSs or Class A ordinary shares by a U.S. Holder, as defined below, that holds our ADSs or Class A ordinary shares as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended, or the Code. This summary is based upon existing United States federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service, or the IRS, with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This summary does not discuss all aspects of United States federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules (for example, financial institutions, insurance companies, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, pension plans, regulated investment companies, real estate investment trusts, cooperatives, and tax-exempt organizations (including private foundations)), holders who are not U.S. Holders, holders who own (directly, indirectly, or constructively) 10% or more of our stock (by vote or value), holders that hold their ADSs or Class A ordinary shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes, United States expatriates, persons liable for alternative minimum tax, holders who acquired their ADSs or Class A ordinary shares pursuant to any employee share option or otherwise as compensation, holders required to accelerate the recognition of any item of gross income with respect to our ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement or holders that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary of United States federal income tax considerations does not discuss any state, local, or non-United States tax considerations, any non-income tax (such as gift or estate tax) considerations, or the Medicare Tax. Each U.S. Holder is advised to consult its tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our ADSs or Class A ordinary shares.

#### **General**

For purposes of this summary, a "U.S. Holder" is a beneficial owner of our ADSs or Class A ordinary shares that is, for United States federal income tax purposes, (a) an individual who is a citizen or resident of the United States, (b) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the law of, the United States or any state thereof or the District of Columbia, (c) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (d) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or Class A ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships and partners of a partnership holding our ADSs or Class A ordinary shares are advised to consult their tax advisors regarding an investment in our ADSs or Class A ordinary shares.

It is generally expected that a U.S. Holder of ADSs should be treated as the beneficial owner, for United States federal income tax purposes, of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a holder of ADSs will be treated in this manner. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will not be subject to United States federal income tax.

### ***Passive Foreign Investment Company Considerations***

A non-United States corporation, such as our company, will be a PFIC for United States federal income tax purposes for any taxable year if either (a) 75% or more of its gross income for such year consists of certain types of "passive" income or (b) 50% or more of the average quarterly value of its assets (as determined on the basis of fair market value) during such year is attributable to assets that produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company's goodwill and other unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is unclear, we treat our consolidated affiliated entities (and their subsidiaries) as being owned by us for United States federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate these entities' operating results in our consolidated financial statements. If it were determined, however, that we are not the owner of any of our consolidated affiliated entities (or their subsidiaries) for United States federal income tax purposes, we would likely be treated as a PFIC for the current taxable year or any future taxable year.

Assuming that we are the owner of our consolidated affiliated entities (and their subsidiaries) for United States federal income tax purposes, and based upon our income and assets and the market price of our ADSs, we do not believe that we were a PFIC for the taxable year ended December 31, 2018 and do not anticipate becoming a PFIC in the foreseeable future. While we do not expect to become a PFIC, the determination of whether we will be or become a PFIC will depend in part upon the market price of our ADSs, which we cannot control. Among other matters, if our market capitalization declines, we may be classified as a PFIC for the current or future taxable years. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming, a PFIC for the current or one or more future taxable years.

The determination of whether we are or will be a PFIC will also depend, in part, on the composition of our income and our assets, which will be affected by how, and how quickly, we use our liquid assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given that we are not or will not become a PFIC and our special United States counsel expresses no opinion with respect to our PFIC status and also

expresses no opinion with respect to our expectations regarding our PFIC status. If we are a PFIC for any year during which a U.S. Holder holds our ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or Class A ordinary shares.

The discussion below under "Dividends" and "Sale or Other Disposition of ADSs or Class A Ordinary Shares" assumes that we will not be a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under "Passive Foreign Investment Company Rules."

### ***Dividends***

Subject to the PFIC rules discussed below, any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or Class A ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of Class A ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be reported as a "dividend" for United States federal income tax purposes. A non-corporate recipient of dividend income generally will be subject to tax on dividend income from a "qualified foreign corporation" at a reduced capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements and other requirements are met. Each U.S. Holder is advised to consult its tax advisors regarding the availability of the reduced tax rate on dividends to its particular circumstances.

A non-United States corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information provision, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on NYSE, which is an established securities market in the United States, and we expect our ADSs to be readily tradable on NYSE for as long as our ADSs continue to be listed on NYSE. Accordingly, we believe that dividends we pay on our ADSs will meet the conditions required for the reduced tax rate. Since we do not expect that our Class A ordinary shares will be listed on an established securities market in the United States, it is unclear whether dividends that we pay on our Class A ordinary shares that are not backed by ADSs currently meet the conditions required for these reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in the United States in later years.

In the event that we are deemed to be a PRC "resident enterprise" and are liable to tax under EIT Law, we should be eligible for the benefits of the United States-PRC income tax treaty (the "U.S.-PRC Treaty"), which the Secretary of Treasury of the United States has determined is satisfactory for purposes of clause (a) above and which includes an exchange of information provision. If we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by the ADSs, would generally be eligible for the reduced rate of taxation applicable to qualified dividend income whether or not such shares are readily tradable on an established securities market in the United States. Dividends received on the ADSs or Class A ordinary shares will not be eligible for the dividends received deduction allowed to corporations. Each U.S. Holder is advised to consult its tax advisors regarding the availability of the lower capital gains rate

applicable to qualified dividend income for any dividends we pay with respect to our ADSs or Class A ordinary shares.

Dividends paid on our ADSs or Class A ordinary shares generally will be treated as income from foreign sources for United States foreign tax credit purposes and generally will constitute passive category income. In the event that we are deemed to be a PRC "resident enterprise" under the EIT Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or Class A ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or Class A ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for United States federal income tax purposes in respect of such withholdings, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. Each U.S. Holder is advised to consult its tax advisors regarding the availability of the foreign tax credit under its particular circumstances.

#### ***Sale or Other Disposition of ADSs or Class A Ordinary Shares***

Subject to the PFIC rules discussed below, a U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. Holder's adjusted tax basis in such ADSs or Class A ordinary shares. Any capital gain or loss will be long-term if the ADSs or Class A ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. Long-term capital gain of non-corporate U.S. Holders is generally eligible for a reduced rate of taxation. In the event that we are deemed to be a PRC "resident enterprise" under the EIT Law and gain from the disposition of the ADSs or Class A ordinary shares is subject to tax in China, a U.S. Holder that is eligible for the benefits of the U.S.-PRC Treaty may elect to treat the gain as PRC source income. The deductibility of a capital loss may be subject to limitations. Each U.S. Holder is advised to consult its tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or Class A ordinary shares, including the availability of the foreign tax credit under its particular circumstances.

#### ***Passive Foreign Investment Company Rules***

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares, unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (a) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or Class A ordinary shares), and (b) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or Class A ordinary shares. Under the PFIC rules:

- such excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or Class A ordinary shares;
- such amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC, or pre-PFIC year, will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to individuals or corporations as appropriate for that year; and

- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares and any of our non-United States subsidiaries is also a PFIC (i.e., a lower-tier PFIC), such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by a lower-tier PFIC and a disposition of shares of a lower-tier PFIC even though such U.S. Holder would not receive the proceeds of those distributions or dispositions. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, if we are a PFIC, a U.S. Holder of "marketable stock" may make a mark-to-market election with respect to our ADSs, provided that the ADSs are regularly traded on NYSE. In addition, we do not expect that holders of Class A ordinary shares that are not represented by ADSs will be eligible to make a mark-to-market election. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard. If a U.S. Holder makes this election, the U.S. Holder will generally (a) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (b) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election, any gain recognized upon the sale or other disposition of ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in the income as a result of the mark-to-market election.

If a U.S. Holder makes a mark-to-market election and we cease to be a PFIC, the U.S. Holder will not be required to take into account the mark-to-market gain or loss described above during any period that we are not classified as a PFIC. Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

We do not intend to provide the information necessary for U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or Class A ordinary shares during any taxable year that we are a PFIC, the U.S. Holder must file an annual report containing such information as the United States Treasury Department may require and will generally be required to file an annual IRS Form 8621. Each U.S. Holder is advised to consult its tax advisors concerning the United States federal income tax consequences of purchasing, holding, and disposing of ADSs or Class A ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election.

### ***Information Reporting***

U.S. Holders may be subject to information reporting to the IRS with respect to dividends on and proceeds from the sale or other disposition of our ADSs or Class A ordinary shares. Each U.S. Holder is advised to consult its tax advisors regarding the application of the United States information reporting rules to its particular circumstances.

Certain U.S. Holders who hold "specified foreign financial assets," including stock of a non-U.S. corporation that is not held in an account maintained by a U.S. "financial institution," whose aggregate value exceeds US\$50,000 during the tax year, may be required to attach to their tax returns for the year certain specified information. An individual who fails to timely furnish the required information may be subject to a penalty. U.S. Holders who are individuals should consult their own tax advisors regarding their reporting obligations under this legislation.

F. *Dividends and Paying Agents*

Not applicable.

G. *Statement by Experts*

Not applicable.

H. *Documents on Display*

We have filed with SEC a registration statement on Form F-1, including relevant exhibits and securities under the Securities Act with respect to underlying ordinary shares represented by the ADSs. We have also filed with SEC a related registration statement on Form F-6 (File No. 333-180029) to register the ADSs.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with SEC. All information filed with SEC can be obtained over the Internet at SEC's website at [www.sec.gov](http://www.sec.gov) or inspected and copied at the public reference facilities maintained by SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call SEC at 1-800-SEC-0330 or visit the SEC website for further information on the operation of the public reference rooms.

As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

I. *Subsidiary Information*

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest bearing demand deposits and short-term investments, and interest rates associated with the 2014 offering. The convertible senior notes we issued in the 2014 offering bear

interest at a rate of 1.50% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2014. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates. We have not used any derivative financial instruments to manage our interest risk exposure. Based on our cash balance as of December 31, 2018, a one basis point decrease in interest rates would only result in a minimal decrease in our interest income on an annual basis. Our future interest income may fluctuate in line with changes in interest rates. However, the risks associated with fluctuating interest rates are principally confined to our interest-bearing cash deposits, and, therefore, our exposure to interest rate risk is limited.

### **Foreign Exchange Risk**

All of our revenues and most of our expenses are denominated in Renminbi. Our exposure to foreign exchange risk primarily relates to the U.S. dollar proceeds of the public offerings of our equity securities, most or substantially all of which we expect to convert into Renminbi over time. As the impact of foreign currency risk on our operations was not material in the past, we have not used any forward contracts, currency borrowings or derivative instruments to hedge our exposure to foreign currency exchange risk.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in China and by China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert the U.S. dollars we receive from any offering or financing into Renminbi to fund our operations, acquisitions, or for other uses within the PRC, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. To the extent that we seek to convert Renminbi into U.S. dollars, depreciation of the Renminbi against the U.S. dollar would have an adverse effect on the U.S. dollar amount we receive from the conversion. On the other hand, a decline in the value of the Renminbi against the U.S. dollar could reduce the U.S. dollar equivalent of our financial results, the value of your investment in the company and the dividends that we may pay in the future, if any, all of which may materially and adversely affect the prices of our ADS.

The Renminbi has fluctuated significantly against the U.S. dollar during the reporting periods presented, from a rate of RMB6.9430 to US\$1.00 as of December 30, 2016 to a rate of RMB6.5063 to US\$1.00 as of December 31, 2017 and to a rate of RMB6.8755 to US\$1.00 as of December 31, 2018. We are exposed to currency risk attributable to foreign currencies denominated monetary assets and liabilities that are different from the respective group entities' functional currency, while as these monetary assets and liabilities are not material, and all of our revenues and most of our expenses are denominated in Renminbi, the changes in the exchange rates of Renminbi against U.S. dollars have not historically materially impacted our results of operations.

We are not currently subject to any significant direct foreign exchange risk and accordingly, we have not hedged exposures denominated in foreign currencies, nor do we have any other derivative financial instruments outstanding. Based on the amount of our cash, cash equivalents and restricted cash as of December 31, 2018, a 1.0% change in the exchange rate between the Renminbi and the U.S.

dollar would result in an increase or decrease of RMB8.9 million (US\$1.3 million) to our cash, cash equivalents and restricted cash.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

#### Fees and Charges Our ADS Holders May Have to Pay

Deutsche Bank Trust Company Americas, the depositary of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deducting from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid. Set forth below is a summary of fees holders of our ADSs may be required to pay for various services the depositary may provide:

Service	Fees
• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	Up to US\$0.05 per ADS issued
• Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
• Distribution of cash dividends or other cash distributions	Up to US\$0.05 per ADS held
• Distribution of ADSs pursuant to share dividends, free share distributions or exercise of rights.	Up to US\$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	A fee equivalent to the fee that would be payable if securities distributed to you had been ordinary shares and the ordinary shares had been deposited for issuance of ADSs
• Depositary services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depositary bank
• Transfer of ADRs	US\$1.50 per certificate presented for transfer

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

#### **Fees and Other Payments Made by the Depositary to Us**

The depositary has agreed to reimburse us for a portion of certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. Further, the depositary has agreed to reimburse us certain fees payable to the depositary by holders of ADSs. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of service fees to be charged to holders of ADSs and, (iii) our reimbursable expenses related to the program are not known at this time.

## **PART II.**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

On September 15, 2014, our shareholders voted in favor of a proposal to adopt a dual-class share structure, pursuant to which our authorized share capital was reclassified and re-designated into Class A ordinary shares and Class B ordinary shares, with each Class A ordinary share being entitled to one vote and each Class B ordinary share being entitled to ten votes on all matters that are subject to shareholder vote.

See "Item 10. Additional Information" for a description of the rights of securities holders.

## **ITEM 15. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, our senior management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our senior management has concluded that, as of December 31, 2018, our disclosure controls and procedures were effective.

Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in SEC's rule and forms and that such information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the effectiveness of our company's internal control over financial reporting as of December 31, 2018 based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Deloitte Touche Tohmatsu, our independent registered public accounting firm, audited the financial statements included in this annual report and issued an attestation report on our management's assessment of our company's internal control over financial reporting as of December 31, 2018.

### **Attestation Report of the Registered Public Accounting Firm**

The attestation report on our management's assessment of our company's internal control over financial reporting issued by Deloitte Touche Tohmatsu, our independent registered public accounting firm, appears on page F-3 of this annual report.

**Changes in Internal Control over Financial Reporting**

As required by Rule 13a-15(d), under the Exchange Act, our management, including our chief executive officer and our chief financial officer, also conducted an assessment of our company's internal control over financial reporting to determine whether any changes occurred during the period covered by this annual report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that assessment, it has been determined that there has been no such change during the period covered by this annual report.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Ms. Kathleen Chien, an independent director (under the standards set forth in Section 303A of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act) and member of our audit committee, qualifies as an audit committee financial expert.

**ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of us and our subsidiaries, whether they work for us on a full-time, part-time, consultative, or temporary basis. In addition, we expect those who do business with us, such as consultants, suppliers and collaborators, to also adhere to the principles outlined in the code of ethics. Certain provisions of the code of ethics apply specifically to our chief executive officer, chief financial officer, senior finance officer, controller, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-179581) in connection with our initial public offering in March 2012, which was incorporated by reference thereto in this annual report.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu, our principal accountant, for the periods indicated. We did not pay any other fees to our principal accountant during the periods except as indicated below.

	2017	2018	
	RMB	RMB	US\$
	(in thousands)		
Audit Fees <sup>(1)</sup>	12,500	14,000	2,036
Audit-Related Fees <sup>(2)</sup>	1,387	1,443	210
Tax Fees <sup>(3)</sup>	140	838	122
All Other Fees <sup>(4)</sup>	630	—	—

## Notes:

- (1) "Audit Fees" represent the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal accountant for the audit of our annual consolidated financial statements, review of quarterly financial information, and audit services that are normally provided by the principal accountant in connection with regulatory filings or engagements for those fiscal years.
- (2) "Audit-Related Fees" represent the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."
- (3) "Tax Fees" represent the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal accountant for tax compliance, tax advice, and tax planning.

- (4) "All Other Fees" represent the aggregate fees billed in each of the fiscal years listed for products and services provided by our principal accountant, other than the services reported in (1), (2), and (3).

All audit and permitted non-audit services provided by our principal accountant, including audit services, audit-related services, tax services and other services as described above, must be and have been approved in advance by our audit committee.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

**ITEM 16G. CORPORATE GOVERNANCE**

Section 303A.08 of the NYSE Listed Company Manual requires a NYSE-listed company to obtain its shareholders' approval when an equity compensation arrangement is established or materially amended. Section 303A.00 of the NYSE Listed Company Manual permits a foreign private issuer like our company to follow home country practice in certain corporate governance matters. Pursuant to the approval on July 1, 2014 by our board of directors, we adopted our 2014 Plan. Our Cayman Islands counsel has provided a letter to NYSE dated July 5, 2014 certifying that under Cayman Islands law, we are not required to obtain shareholders' approval for adoption of an equity incentive plan. NYSE has acknowledged the receipt of such letter and our home country practice with respect to approval for the adoption of our 2014 Plan.

Other than the home country practices described above, we are not aware of any significant differences between our corporate governance practices and those followed by domestic companies under NYSE Listed Company Manual.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III.**

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of Vipshop Holdings Limited are included at the end of this annual report.

## ITEM 19. EXHIBITS

Exhibit Number	Document
1.1	<a href="#">Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
1.2	<a href="#">Second Amended and Restated Memorandum and Articles of Association of the Registrant adopted by the shareholders of the Registrant on September 15, 2014 (incorporated by reference to Exhibit 99.2 to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on September 16, 2014)</a>
2.1	<a href="#">Form of Ordinary Share Certificate of the Registrant (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
2.2	<a href="#">Deposit Agreement among the Registrant, the depository and all holders of the American Depositary Receipts of the Registrant, dated as of March 22, 2012 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-8 (File No. 333-181559) filed with the Securities and Exchange Commission on May 21, 2012)</a>
2.3	<a href="#">Form of Amendment to Deposit Agreement among the Registrant, the depository and all holders of the American Depositary Receipts of the Registrant (incorporated by reference to Exhibit 99.(A)(2) to the Registration Statement on Form F-6EF filed by Deutsche Bank Trust Company Americas with the Securities and Exchange Commission on October 21, 2014)</a>
2.4	<a href="#">Amended and Restated Shareholders' Agreement, among the Registrant and other parties thereto dated as of April 11, 2011 (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
4.1	<a href="#">2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
4.2	<a href="#">2012 Share Incentive Plan (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
4.3	<a href="#">2014 Share Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8, as amended, initially filed with the Securities and Exchange Commission on October 22, 2014)</a>
4.4	<a href="#">Form of Employment Agreement between the Registrant and the executives of the Registrant (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
4.5*	<a href="#">Form of Exclusive Business Cooperation Agreement between a wholly-owned subsidiary of the Registrant and a consolidated affiliated entity of the Registrant, as currently in effect, and a schedule of all executed exclusive business cooperation agreements adopting the same form in respect of a consolidated affiliated entity of the Registrant</a>

<u>Exhibit Number</u>	<u>Document</u>
4.6*	<a href="#">Form of Equity Interest Pledge Agreement among a wholly-owned subsidiary of the Registrant, a consolidated affiliated entity of the Registrant, and shareholders of the consolidated affiliated entity of the Registrant, as currently in effect, and a schedule of all executed equity interest pledge agreements adopting the same form in respect of a consolidated affiliated entity of the Registrant</a>
4.7*	<a href="#">Form of Exclusive Option Agreement among a wholly-owned subsidiary of the Registrant, a consolidated affiliated entity of the Registrant, and shareholders of the consolidated affiliated entity of the Registrant, as currently in effect, and a schedule of all executed exclusive option agreements adopting the same form in respect of a consolidated affiliated entity of the Registrant</a>
4.8*	<a href="#">Form of Power of Attorney by shareholders of a consolidated affiliated entity of the Registrant, as currently in effect, and a schedule of all executed powers of attorney adopting the same form in respect of a consolidated affiliated entity of the Registrant</a>
4.9*	<a href="#">Form of Loan Agreement between a wholly-owned subsidiary of the Registrant and a consolidated affiliated entity of the Registrant, as currently in effect, and a schedule of all executed loan agreements adopting the same form in respect of a consolidated affiliated entity of the Registrant</a>
4.10	<a href="#">Form of Indemnity Agreement between the Registrant and its directors and officers (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012)</a>
4.11	<a href="#">English Translation of Contract for Assignment of State-owned Construction Land Use Right dated July 16, 2015 between Guangzhou Municipal Bureau of Land Resources and Housing Management and Guangzhou Vipshop Data Technology Co., Ltd. (incorporated by reference to Exhibit 4.10 to our Annual Report on Form 20-F (File No. 001-35454) filed with the Securities and Exchange Commission on April 14, 2017)</a>
4.12	<a href="#">English Translation of Contract for Assignment of State-owned Construction Land Use Right dated August 20, 2015 between Guangzhou Municipal Bureau of Land Resources and Housing Management and Guangzhou Vipshop Data Technology Co., Ltd. (incorporated by reference to Exhibit 4.11 to our Annual Report on Form 20-F (File No. 001-35454) filed with the Securities and Exchange Commission on April 14, 2017)</a>
4.13	<a href="#">Subscription Agreement dated December 17, 2017, among the Registrant, Windcreek Limited and Tencent Mobility Limited (incorporated by reference to Exhibit 99.2 to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on December 18, 2017)</a>
4.14	<a href="#">Business Cooperation Framework Agreement dated December 17, 2017 among the Registrant and JD.com, Inc. (incorporated by reference to Exhibit 99.3 to Schedule 13D (File No. 005-86788) filed by JD.com, Inc. with the Securities and Exchange Commission on January 8, 2018)</a>
4.15	<a href="#">Strategic Cooperation Framework Agreement dated December 17, 2017 among the Registrant and Shenzhen Tencent Computer Systems Company Limited (incorporated by reference to Exhibit 4 to Schedule 13D (File No. 005-86788) filed by Tencent Holdings Limited with the Securities and Exchange Commission on January 8, 2018)</a>

<u>Exhibit Number</u>	<u>Document</u>
4.16	<a href="#">Investor Rights Agreement dated December 29, 2017 among the Registrant, Mr. Eric Ya Shen, Mr. Arthur Xiaobo Hong, Elephant Motion Holdings Limited, High Vivacity Holdings Limited, Windcreek Limited and Tencent Mobility Limited (incorporated by reference to Exhibit 99.4 to Schedule 13D (File No. 005-86788) filed by JD.com, Inc. with the Securities and Exchange Commission on January 8, 2018).</a>
8.1*	<a href="#">List of Significant Consolidated Entities of the Registrant</a>
11.1	<a href="#">Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form F-1 (File No. 333-179581), as amended, initially filed with the Securities and Exchange Commission on February 17, 2012).</a>
12.1*	<a href="#">Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1**	<a href="#">Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of Deloitte Touche Tohmatsu</a>
15.2*	<a href="#">Consent of Han Kun Law Offices</a>
15.3*	<a href="#">Consent of Travers Thorp Alberga</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Scheme Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed with this annual report on Form 20-F.

\*\* Furnished with this annual report on Form 20-F.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Vipshop Holdings Limited

By: /s/ Eric Ya Shen

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Name: Eric Ya Shen  
Title: Chairman of the Board of Directors and Chief  
Executive Officer

Date: April 18, 2019

VIPSHOP HOLDINGS LIMITED

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Vipshop Holdings Limited

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vipshop Holdings Limited, its subsidiaries, its consolidated variable interest entities ("VIEs") and VIEs' subsidiaries (collectively referred to as the "Group") as of December 31, 2018 and 2017, the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, the related notes and the schedule listed in the Schedule I (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the financial statements. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 18, 2019, expressed an unqualified opinion on the Group's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
April 18, 2019

We have served as the Group's auditor since 2011.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Vipshop Holdings Limited

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vipshop Holdings Limited, its subsidiaries, its consolidated variable interest entities ("VIEs") and VIEs' subsidiaries (collectively referred to as the "Group") as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Group and our report dated April 18, 2019, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financing Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject

to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
April 18, 2019

**VIPSHOP HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

(All amounts in thousands, except for share and par value data)

	As of December 31,		
	2017 RMB	2018 RMB	2018 US\$ Note 2(ad)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	9,973,891	9,540,556	1,387,616
Restricted cash	248,101	497,916	72,419
Short term investments	245,981	2,321,244	337,611
Accounts receivable, net	4,803,527	5,674,731	825,355
Amounts due from related parties	10,191	17,475	2,542
Other receivables and prepayments, net	3,674,196	3,594,736	522,833
Loan receivables, net	—	310,873	45,215
Inventories	6,960,251	5,368,106	780,759
<b>Total current assets</b>	<b>25,916,138</b>	<b>27,325,637</b>	<b>3,974,350</b>
Property and equipment, net	6,660,825	8,531,483	1,240,853
Deposits for property and equipment	307,859	176,556	25,679
Land use rights, net	3,077,770	3,885,578	565,134
Intangible assets, net	400,994	353,108	51,358
Investment in equity method investees	66,334	667,427	97,073
Other investments	533,922	1,470,551	213,882
Other long-term assets	366,760	396,447	57,661
Goodwill	367,106	367,106	53,393
Deferred tax assets, net	285,112	388,770	56,544
<b>Total assets</b>	<b>37,982,820</b>	<b>43,562,663</b>	<b>6,335,927</b>

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**
**CONSOLIDATED BALANCE SHEETS (Continued)**
**(All amounts in thousands, except for share and par value data)**

	As of December 31,		
	2017 RMB	2018 RMB	2018 US\$ Note 2(ad)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable (Including accounts payable of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB87,926 and RMB85,257 as of December 31, 2017 and 2018, respectively)	11,445,109	11,630,172	1,691,538
Advances from customers (Including advances from customers of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB965,275 and RMB751,615 as of December 31, 2017 and 2018, respectively)	2,339,914	1,473,134	214,258
Accrued expenses and other current liabilities (Including accrued expenses and other current liabilities of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB1,618,716 and RMB2,689,273 as of December 31, 2017 and 2018, respectively).	3,537,151	5,512,605	801,775
Amounts due to related parties (Including amounts due to related parties of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB616 and RMB22,225 as of December 31, 2017 and 2018, respectively)	65,022	323,108	46,994
Deferred income (Including deferred income of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB54,543 and RMB204,925 as of December 31, 2017 and 2018, respectively)	203,179	367,512	53,452
Securitization debt (Including securitization debt of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and nil as of December 31, 2017 and 2018, respectively)	760,000	969,000	140,935
Short term loans (Including short term loans of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and nil as of December 31, 2017 and 2018, respectively)	907,310	1,343,160	195,355
Convertible senior notes (Including convertible senior notes of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and nil as of December 31, 2017 and 2018, respectively)	—	4,327,268	629,375
<b>Total current liabilities</b>	<b><u>19,257,685</u></b>	<b><u>25,945,959</u></b>	<b><u>3,773,682</u></b>
Deferred tax liability (Including deferred tax liability of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB4,224 and RMB3,617 as of December 31, 2017 and 2018, respectively)	17,007	4,960	721
Deferred income (Including deferred income of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB838 and RMB298 as of December 31, 2017 and 2018, respectively)	362,649	400,951	58,316
Convertible senior notes (Including convertible senior notes of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and nil as of December 31, 2017 and 2018, respectively)	4,094,903	—	—
<b>Total liabilities</b>	<b><u>23,732,244</u></b>	<b><u>26,351,870</u></b>	<b><u>3,832,719</u></b>
Commitments and contingencies (Note 27)			

The accompanying notes are an integral part of the consolidated financial statements.

## VIPSHOP HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEETS (Continued)

(All amounts in thousands, except for share and par value data)

	As of December 31,		
	2017 RMB	2018 RMB	2018 US\$ Note 2(ad)
<b>SHAREHOLDERS' EQUITY:</b>			
Class A ordinary shares (US\$0.0001 par value, 483,489,642 shares authorized, and 114,716,587 and 116,395,883 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	74	75	11
Class B ordinary shares (US\$0.0001 par value, 16,510,358 shares authorized, and 16,510,358 and 16,510,358 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	11	11	2
Additional paid-in capital	8,715,995	9,385,216	1,365,023
Retained earnings	5,602,681	7,907,396	1,150,083
Accumulated other comprehensive loss	(24,242)	(30,883)	(4,490)
Total Vipshop Holdings Limited shareholders' equity	14,294,519	17,261,815	2,510,629
Non-controlling interests	(43,943)	(51,022)	(7,421)
Total shareholders' equity	14,250,576	17,210,793	2,503,208
Total liabilities and shareholders' equity	37,982,820	43,562,663	6,335,927

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**
**(All amounts in thousands, except for share and per share data)**

	Year ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US\$ Note 2(ad)
Net revenues:				
Product revenues (Note 4)	55,281,900	71,171,653	81,510,275	11,855,178
Other revenues (Note 4)	1,309,402	1,740,660	3,013,673	438,321
Total net revenues	56,591,302	72,912,313	84,523,948	12,293,499
Cost of revenues (Including inventory write-down of RMB303,233, RMB206,733 and RMB440,823 for the years ended December 31, 2016, 2017 and 2018, respectively)	(42,994,688)	(56,618,471)	(67,454,981)	(9,810,920)
Gross profit	13,596,614	16,293,842	17,068,967	2,482,579
Operating expenses:				
Fulfillment expenses (Including shipping and handling expenses of RMB2,578,491, RMB3,830,229 and RMB4,498,678 for the years ended December 31, 2016, 2017 and 2018, respectively)	(4,904,526)	(6,899,654)	(7,489,393)	(1,089,287)
Marketing expenses	(2,837,680)	(2,978,621)	(3,240,450)	(471,304)
Technology and content expenses	(1,563,582)	(1,808,452)	(2,000,894)	(291,018)
General and administrative expenses	(1,941,146)	(2,447,724)	(2,674,179)	(388,943)
Total operating expenses	(11,246,934)	(14,134,451)	(15,404,916)	(2,240,552)
Other operating income	358,029	531,055	757,062	110,110
Income from operations	2,707,709	2,690,446	2,421,113	352,137
Impairment loss of investments	(114,574)	(133,026)	(20,073)	(2,919)
Interest expenses	(85,195)	(82,435)	(159,744)	(23,234)
Interest income	107,044	101,125	242,872	35,324
Exchange gain (loss)	51,100	(90,872)	71,065	10,336
Gain on disposal or revaluation of investments	—	55,615	191,842	27,902
Income before income tax expense and share of loss of equity method investees	2,666,084	2,540,853	2,747,075	399,546
Income tax expense	(601,828)	(626,140)	(566,604)	(82,409)
Share of loss of equity method investees, net of tax of nil	(71,489)	(22,280)	(46,999)	(6,836)
Net income	1,992,767	1,892,433	2,133,472	310,301
Net loss (income) attributable to non-controlling interests	44,050	57,222	(4,685)	(681)
Net income attributable to Vipshop Holdings Limited's shareholders	2,036,817	1,949,655	2,128,787	309,620
Shares used in calculating earnings per share:				
Weighted average number of Class A and Class B ordinary shares for computing earnings per Class A and Class B ordinary share:				
—Basic	115,958,088	117,554,229	132,266,157	132,266,157
—Diluted	125,817,183	125,715,833	140,083,610	140,083,610
Net earnings per Class A and Class B ordinary share				
—Basic	17.57	16.59	16.09	2.34
—Diluted	16.86	15.94	15.61	2.27
Net income	1,992,767	1,892,433	2,133,472	310,301
Other comprehensive gain (loss):				
Foreign currency translation, net of tax of nil	(288,956)	342,348	(7,083)	(1,030)
Fair value change of available-for-sale investments, net of tax of nil	(17,042)	32,633	—	—
Reclassification adjustments for loss (gain) included in net income	36,567	(55,615)	—	—
Comprehensive income	1,723,336	2,211,799	2,126,389	309,271
Less: Comprehensive (loss) gain attributable to non-controlling interests	(40,854)	(57,222)	4,685	681
Comprehensive income attributable to Vipshop Holdings Limited's shareholders	1,764,190	2,269,021	2,121,704	308,590

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(All amounts in thousands, except for share data)

<b>Vipshop Holdings Limited Shareholders' Equity</b>											
	<b>Class A ordinary shares</b>		<b>Class B ordinary shares</b>		<b>Additional paid-in capital</b>	<b>Treasury shares</b>		<b>Retained Earnings</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Non-controlling interests</b>	<b>Total</b>
	<b>No. of shares</b>	<b>Amount RMB</b>	<b>No. of shares</b>	<b>Amount RMB</b>		<b>RMB</b>	<b>No. of shares</b>				
<b>Balance as of</b>											
<b>December 31, 2015</b>	100,085,519	65	16,510,358	11	2,838,591	(1,614,135)	(844,711)	1,616,209	(70,981)	74,083	3,613,267
Net income	—	—	—	—	—	—	—	2,036,817	—	(44,050)	1,992,767
Issuance of ordinary shares upon exercise of share options	560,930	—	—	—	5,747	—	—	—	—	—	5,747
Issuance of ordinary shares upon vesting of shares awards	861,815	1	—	—	(1)	—	—	—	—	—	—
Re-issuance of treasury shares upon vesting of shares awards	—	—	—	—	(137,270)	257,217	137,270	—	—	—	—
Share-based compensation expense	—	—	—	—	475,653	—	—	—	—	—	475,653
Non-controlling interests arising from business combinations	—	—	—	—	—	—	—	—	—	73,637	73,637
Purchase additional ownership interests in subsidiaries	—	—	—	—	(52,594)	—	—	—	—	(59,042)	(111,636)
Capital contribution from non-controlling interest shareholders	—	—	—	—	—	—	—	—	—	1,800	1,800
Foreign currency translation	—	—	—	—	—	—	—	—	(292,152)	3,196	(288,956)
Fair value changes of available-for-sale investments	—	—	—	—	—	—	—	—	(17,042)	—	(17,042)
Reclassification adjustment for loss included in net income	—	—	—	—	—	—	—	—	36,567	—	36,567
<b>Balance as of</b>											
<b>December 31, 2016</b>	<u>101,508,264</u>	<u>66</u>	<u>16,510,358</u>	<u>11</u>	<u>3,130,126</u>	<u>(1,356,918)</u>	<u>(707,441)</u>	<u>3,653,026</u>	<u>(343,608)</u>	<u>49,624</u>	<u>5,781,804</u>

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)**

(All amounts in thousands, except for share data)

<b>Vipshop Holdings Limited Shareholders' Equity</b>											
	<b>Class A ordinary shares</b>		<b>Class B ordinary shares</b>		<b>Additional paid-in capital</b>	<b>Treasury shares</b>		<b>Retained earnings</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Non-controlling interests</b>	<b>Total</b>
	<b>No. of shares</b>	<b>Amount RMB</b>	<b>No. of shares</b>	<b>Amount RMB</b>		<b>No. of shares</b>	<b>Amount RMB</b>				
<b>Balance as of December 31, 2016</b>	101,508,264	66	16,510,358	11	3,130,126	(1,356,918)	(707,441)	3,653,026	(343,608)	49,624	5,781,804
Net income	—	—	—	—	—	—	—	1,949,655	—	(57,222)	1,892,433
Issuance of ordinary shares to new investors	13,184,910	8	—	—	5,610,329	—	—	—	—	—	5,610,337
Issuance of ordinary shares upon vesting of shares awards	23,413	—	—	—	—	—	—	—	—	—	—
Re-issuance of treasury shares upon exercise of share options	—	—	—	—	(234,409)	454,708	240,378	—	—	—	5,969
Re-issuance of treasury shares upon vesting of shares awards	—	—	—	—	(467,063)	902,210	467,063	—	—	—	—
Share-based compensation expense	—	—	—	—	667,098	—	—	—	—	—	667,098
Purchase additional ownership interests in subsidiaries	—	—	—	—	9,914	—	—	—	—	(36,345)	(26,431)
Foreign currency translation	—	—	—	—	—	—	—	—	342,348	—	342,348
Fair value changes of available-for-sale investments	—	—	—	—	—	—	—	—	32,633	—	32,633
Reclassification adjustment for gain included in net income	—	—	—	—	—	—	—	—	(55,615)	—	(55,615)
<b>Balance as of December 31, 2017</b>	<u>114,716,587</u>	<u>74</u>	<u>16,510,358</u>	<u>11</u>	<u>8,715,995</u>	<u>—</u>	<u>—</u>	<u>5,602,681</u>	<u>(24,242)</u>	<u>(43,943)</u>	<u>14,250,576</u>
Adoption of new accounting standards (Note 2(ao))	—	—	—	—	—	—	—	175,928	442	—	176,370
Net income	—	—	—	—	—	—	—	2,128,787	—	4,685	2,133,472
Issuance of ordinary shares upon exercise of share options	356,736	—	—	—	3,947	—	—	—	—	—	3,947
Issuance of ordinary shares upon vesting of shares awards	1,322,560	1	—	—	(1)	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	671,210	—	—	—	—	—	671,210
Purchase additional ownership interests in subsidiaries	—	—	—	—	(5,935)	—	—	—	—	(12,764)	(18,699)
Capital contribution from non-controlling interest shareholders	—	—	—	—	—	—	—	—	—	1,000	1,000
Foreign currency translation	—	—	—	—	—	—	—	—	(7,083)	—	(7,083)
<b>Balance as of December 31, 2018</b>	<u>116,395,883</u>	<u>75</u>	<u>16,510,358</u>	<u>11</u>	<u>9,385,216</u>	<u>—</u>	<u>—</u>	<u>7,907,396</u>	<u>(30,883)</u>	<u>(51,022)</u>	<u>17,210,793</u>

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(All amounts in thousands)

	Year ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US\$ Note 2(ad)
<b>Cash flows from operating activities:</b>				
<b>Net income</b>	<b>1,992,767</b>	<b>1,892,433</b>	<b>2,133,472</b>	<b>310,301</b>
<b>Adjustments to reconcile net income to net cash by operating activities:</b>				
Provision for allowance for doubtful accounts	57,743	130,862	175,405	25,512
Inventory write-down	303,233	206,733	440,823	64,115
Depreciation of property and equipment	610,976	720,840	770,290	112,034
Amortization of intangible assets	363,977	340,816	47,842	6,958
Amortization of land use rights	37,657	55,545	71,601	10,414
Gains (losses) on disposal of property and equipment and other assets	10,499	(4,170)	762	111
Share-based compensation expenses	475,653	667,098	671,210	97,623
Share of loss of equity method investees	71,489	22,280	46,999	6,836
Impairment loss of other investments	114,574	133,026	20,073	2,919
Unrealized gains on short term investments	(31,855)	(16,934)	(48,604)	(7,069)
Amortization of debt issuance costs	35,824	5,950	—	—
Gain on disposal or revaluation of investments	—	(55,615)	(191,842)	(27,902)
<b>Changes in operating assets and liabilities:</b>				
Accounts receivable	(1,951,397)	(2,655,862)	(64,931)	(9,444)
Amounts due from related parties	30,251	(1,839)	(7,284)	(1,059)
Other receivables and prepayments	(323,182)	(1,265,051)	124,418	18,095
Inventories	(685,018)	(2,240,420)	291,781	42,438
Deferred tax assets	(10,119)	(70,297)	(103,658)	(15,076)
Accounts payable	1,553,400	3,217,304	(140,746)	(20,471)
Advances from customers	690,402	(347,538)	(873,914)	(127,106)
Accrued expenses and other current liabilities	(305,221)	290,818	1,985,677	288,805
Amounts due to related parties	(186,533)	12,293	258,086	37,537
Deferred income	55,549	26,554	150,335	21,865
Deferred tax liability	(79,256)	(83,575)	(12,047)	(1,752)
<b>Net cash generated from operating activities</b>	<b>2,831,413</b>	<b>981,251</b>	<b>5,745,748</b>	<b>835,684</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(1,967,645)	(2,197,773)	(2,519,673)	(366,471)
Purchases of land use rights	(199,642)	(275,810)	(1,073,370)	(156,115)
Government subsidies received for land use rights	240,069	117,825	52,300	7,607
Deposits paid for acquisition of land use rights	(618,219)	—	—	—
Proceed from disposal of property and equipment and other assets	13,385	9,290	4,936	718
Purchases of other assets	(5,121)	(867)	(917)	(133)
Purchases of short term investments	(2,165,000)	(354,000)	(2,691,032)	(391,394)
Redemption of short term investments upon maturities	3,332,482	796,729	747,766	108,758
Investment in equity method investees and other investments	(155,641)	(16,783)	(963,699)	(140,164)
Acquisition of subsidiaries, net of cash acquired of RMB19,490 , RMB174 and nil in 2016, 2017 and 2018, respectively	(106,365)	(4,701)	—	—
Deposits for investment in equity method investees and other investments	—	(240,000)	—	—
Disposal of an available-for-sale investment	—	279,295	—	—
Cash paid for loan originations	(46,305)	(188,960)	(764,020)	(111,122)
Cash received from loan repayments	—	46,149	519,519	75,561
Other investing activities	9,000	(3,000)	(5,622)	(820)
<b>Net cash used in investing activities</b>	<b>(1,669,002)</b>	<b>(2,032,606)</b>	<b>(6,693,812)</b>	<b>(973,575)</b>

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(All amounts in thousands)

	Year ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	US\$ Note 2(ad)
<b>Cash flows from financing activities:</b>				
Proceeds from bank and other borrowings	3,000	910,310	2,115,285	307,655
Repayment to bank and other borrowings	(98,000)	(3,000)	(1,695,885)	(246,656)
Capital contributions from non-controlling interests	1,380	—	1,000	145
Acquisition of non-controlling interests	(111,636)	(25,855)	(18,699)	(2,719)
Partial redemption of convertible senior notes	—	(21,697)	—	—
Repurchase of ordinary shares	(193,619)	—	—	—
Proceeds from issuance of securitization debt	—	760,000	969,000	140,935
Repayment of securitization debt	—	—	(760,000)	(110,537)
Proceeds from issuance of ordinary shares to new investors	—	5,610,337	—	—
Proceeds from issuance of ordinary shares upon exercise of share options	5,747	5,969	3,947	574
Deferred settlement of acquisition of subsidiaries	—	(64,990)	(27,680)	(4,026)
Other financing activities	—	(1,250)	—	—
<b>Net cash (used in) provided by financing activities</b>	<b>(393,128)</b>	<b>7,169,824</b>	<b>586,968</b>	<b>85,371</b>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	15,910	(6,054)	177,576	25,828
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>785,193</b>	<b>6,112,415</b>	<b>(183,520)</b>	<b>(26,692)</b>
Cash, cash equivalents and restricted cash at beginning of the period	3,324,384	4,109,577	10,221,992	1,486,727
<b>Cash, cash equivalents and restricted cash at end of the period</b>	<b>4,109,577</b>	<b>10,221,992</b>	<b>10,038,472</b>	<b>1,460,035</b>
<b>Reconciliation in amounts on the consolidated balance sheets:</b>				
Cash and cash equivalents	4,109,577	9,973,891	9,540,556	1,387,616
Restricted cash	—	248,101	497,916	72,419
<b>Total cash, cash equivalents and restricted cash at end of the period</b>	<b>4,109,577</b>	<b>10,221,992</b>	<b>10,038,472</b>	<b>1,460,035</b>
<b>Supplemental disclosures of cash flow information:</b>				
Interest paid, net of amount capitalized	85,195	82,435	159,744	23,234
Income tax paid	631,129	948,915	956,291	139,087
<b>Supplemental disclosure of non-cash investing and financing activities:</b>				
Payables incurred for purchase of property and equipment	271,999	9,971	4,626	673
Payables for acquisition of subsidiaries	74,352	—	—	—

The non-cash transaction from acquisition of a subsidiary by acquiring additional equity interests in an equity method investees during the year ended December 31, 2016 are set out in Note 3(a).

The accompanying notes are an integral part of the consolidated financial statements.

**VIPSHOP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(All amounts in thousands, except for share and per share data, unless otherwise stated)**

**1. Organization and principal activities**

Vipshop Holdings Limited (the "Company") was incorporated in the Cayman Islands on August 27, 2010. The Company, through its subsidiaries, its consolidated variable interest entities ("VIEs") and VIEs' subsidiaries (collectively, the "Group"), operate online platforms that offer high-quality branded products to consumers in the People's Republic of China (the "PRC") through flash sales on its vipshop.com, vip.com and lefeng.com online platforms. Flash sale represents an online retail format combining the advantages of e-commerce and discount sales through selling a finite quantity of discounted products or services online for a limited period of time.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 1. Organization and principal activities (Continued)

As of December 31, 2018, the Company's significant subsidiaries and consolidated VIEs consist of the following:

<u>Name of subsidiaries</u>	<u>Date of incorporation/ establishment</u>	<u>Place of incorporation/ establishment</u>	<u>Percentage of shareholdings</u>	<u>Principal activities</u>
Vipshop International Holdings Limited ("Vipshop HK")	October 22, 2010	Hong Kong	100%	Investment holding and online retail
Vipshop (China) Co., Ltd. (the "WFOE")	January 20, 2011	China	100%	Warehousing, logistics, procurement, research and development, consulting
Vipshop (Kunshan) E-Commerce Co., Ltd. ("Vipshop Kunshan")	August 2, 2011	China	100%	Warehousing and logistics
Vipshop (Jianyang) E-Commerce Co., Ltd. ("Vipshop Jianyang")	February 22, 2012	China	100%	Warehousing and logistics
Vipshop (Tianjin) E-Commerce Co., Ltd. ("Vipshop Tianjin")	July 31, 2012	China	100%	Warehousing and logistics
Guangzhou Pinwei Software Co., Ltd. ("Pinwei Software")	December 6, 2012	China	100%	Software development and information technology support
Vipshop (Zhuhai) E-Commerce Co., Ltd. ("Vipshop Zhuhai")	July 16, 2013	China	100%	Supplier chain service
Vipshop (Hubei) E-Commerce Co., Ltd. ("Vipshop Hubei")	July 4, 2013	China	100%	Warehousing and logistics
Shanghai Pinzhong Commercial Factoring Co., Ltd. ("Pinzhong Factoring")	August 1, 2013	China	100%	Business financing
Chongqing Vipshop E-Commerce Co., Ltd. ("Vipshop Chongqing")	October 22, 2013	China	100%	Warehousing and logistics
Vipshop (Zhaoqing) E-Commerce Co., Ltd. ("Vipshop Zhaoqing")	November 22, 2013	China	100%	Warehousing and logistics
<u>Name of consolidated VIEs</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Economic interest held</u>	<u>Principal activities</u>
Guangzhou Vipshop E-Commerce Co., Ltd. ("Vipshop E-Commerce")	June 22, 2017	China	VIE	Online retail

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

2. Summary of significant accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its consolidated VIEs and VIEs' subsidiaries for which the Company is the primary beneficiary. All intercompany transactions, balances and unrealized profit and losses have been eliminated on consolidation.

The Group evaluates the need to consolidate its VIEs and VIEs' subsidiaries in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support.

As foreign-invested companies engaged in internet-based businesses is subject to significant restrictions under current PRC laws and regulations, the Group and its PRC subsidiaries, Vipshop China and Lefeng (Shanghai) Information Technology Co., Ltd. ("Lefeng Information"), as wholly foreign owned enterprises (the "WFOE"), are both restricted from holding the licenses that are necessary for the online operation in China. To comply with these restrictions, the Group conducts the Internet-related operations in the PRC through certain PRC domestic companies, whose equity interests are held by certain management members of the Group ("Nominee Shareholders").

In order to exercise effective control over these PRC domestic companies, the Company, through the WFOE, entered into a series of contractual arrangements with these PRC domestic companies and the Nominee Shareholders, pursuant to which the Group is entitled to receive effectively all economic benefits generated from the Nominee Shareholders' equity interests in these PRC domestic companies. By entering into a series of contractual arrangements, the Group established four sets of VIEs: (i) Vipshop China, Vipshop E-Commerce and shareholders of Vipshop E-Commerce; (ii) Vipshop China, Vipshop Information Technology Co., Ltd. ("Vipshop Information") and shareholders of Vipshop Information; (iii) Lefeng Information, Tianjin Pinjian E-Commerce Co., Ltd. ("Tianjin Pinjian") and shareholders of Tianjin Pinjian; and (iv) Vipshop China, Pin Jun Tong Enterprise Management & Consulting Co., Ltd. ("Pin Jun Tong") and shareholders of Pin Jun Tong. The Group has concluded that these PRC domestic companies are consolidated VIEs of the Group, of which the Group is the ultimate primary beneficiary.

The following is a summary of the contractual agreements (collectively, "Contractual Agreements") that the Group, through the WFOE, entered into with the consolidated VIEs and their Nominee Shareholders:

*Equity Interest Pledge Agreements*

The Nominee Shareholders of these PRC domestic companies pledged all their equity interests in these PRC domestic companies as collateral to ensure that these PRC domestic companies fully performs its obligations under the Exclusive Business Cooperation Agreement, Exclusive Option Agreement and Loan Agreement, and pays the consulting and service fees and repays the loan and the

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(b) Principles of consolidation (Continued)

accrued interests to the WFOE when the same becomes due. The agreement will remain in effect until all of the obligations of these PRC domestic companies under the Exclusive Business Cooperation Agreement, Exclusive Option Agreement and Loan Agreement have been duly performed or terminated.

*Exclusive Option Agreements*

The Nominee Shareholders of these PRC domestic companies granted the WFOE an irrevocable and exclusive right to purchase, or designate one or more persons to purchase, their equity interest in these PRC domestic companies at the WFOE's sole and absolute discretion to the extent permitted by the PRC laws. The purchase price is equal to the higher of: (i) the amount of registered capital actually contributed by the equity holder; or (ii) a minimum price permitted by applicable PRC laws.

*Power of Attorney Agreements*

The Nominee Shareholders of these PRC domestic companies irrevocably authorized the WFOE to exercise the rights related to their shareholdings, including attending shareholders' meetings and voting on their behalf on all matters, including but not limited to matters related to the transfer, pledge or disposition of their respective equity interests in these PRC domestic companies, and appointment of the executive directors and senior management of these PRC domestic companies. The WFOE has the right to appoint any individual or entity to exercise the power of attorney on its behalf. Each power of attorney will remain in effect until the shareholder ceases to hold any equity interest in these PRC domestic companies.

*Exclusive Business Cooperation Agreements*

The WFOE entered into an agreement with these PRC domestic companies to provide these PRC domestic companies with technical, consulting and other services. In consideration of these services, these PRC domestic companies shall pay the WFOE fees equal to 100% of its net income of these PRC domestic companies, provided that the WFOE, at its sole discretion, shall have the right to adjust the rate of the service through written notice. The WFOE will exclusively own any intellectual property arising from the performance of this agreement. These PRC domestic companies has no right to terminate this agreement unless the WFOE commits gross negligence or fraud.

*Loan Agreements*

The WFOE entered into a loan agreement with the Nominee Shareholders, to provided them loans solely for the purpose of contribution or increase of registered capital or working capital of these PRC domestic companies. The WFOE has the sole discretion to determine the method of repayment, including requiring the Nominee Shareholders to transfer their equity interests in these PRC domestic companies to the WFOE or its designated person.

Vipshop E-Commerce was established by Mr. Eric Ya Shen and Mr. Arthur Xiaobo Hong on June 22, 2017. As of December 31, 2018, shareholders of Vipshop E-Commerce included Mr. Eric Ya Shen and Mr. Arthur Xiaobo Hong, holding 66.67% and 33.33% of the total equity interests in

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(b) Principles of consolidation (Continued)

Vipshop E-Commerce, respectively. Vipshop E-Commerce holds the licenses necessary to conduct the Internet-related operations of *vipshop.com* and *vip.com* in China.

*Risks in relation to the VIE structure*

The Group believes that the VIE arrangements are in compliance with PRC law and are legally enforceable. The equity holders of the VIEs are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, there are certain risks related to the Contractual Agreements, which include but are not limited to the following:

- If the Group's ownership structure, are found to be in violation of any existing or future PRC laws or regulations, the relevant governmental authorities, including the China Securities Regulatory Commission, would have broad discretion in dealing with such violation, including levying fines, confiscating its income or the income of the WFOE, Vipshop E-commerce, Vipshop Information, Tianjin Pinjian, Pin Jun Tong, revoking the business licenses or operating licenses of the WFOE, Vipshop E-commerce, Vipshop Information, Tianjin Pinjian, Pin Jun Tong, shutting down the Group's servers or blocking the Group's websites, discontinuing or placing restrictions or onerous conditions on the Group's operations, requiring the Group to undergo a costly and disruptive restructuring, restricting or prohibiting the Group's use of various funding to finance its business and operations in China, and taking other regulatory or enforcement actions that could be harmful to the Group's business;
- The Group relies on the Contractual Arrangements with the VIEs and their equity holders for a majority all of its PRC operations, which may not be as effective as direct ownership in providing operational control;
- The Group may have to incur significant cost to enforce, or may not be able to effectively enforce, the Contractual Arrangements with the VIEs and their equity holders in the event of a breach or non-compliance by the VIEs or their equity holders;
- The Nominee Shareholders of the VIEs are also directors of the Group or its subsidiaries, and have a duty of care and loyalty to the Group and its shareholders as a whole under Cayman Islands law. Under the Contractual Arrangements with the VIEs and their Nominee Shareholders, (a) the Group may replace any such individual as a shareholder of the VIEs at the Group's discretion, and (b) each of these individuals has executed a power of attorney to appoint the WFOE or its designated third party to vote on their behalf and exercise shareholder rights of the VIE. However, the Group cannot assure that these individuals will act in the best interests of the Group should any conflicts of interest arise, or that any conflicts of interest will be resolved in the Group's favor. These individuals may breach or cause the VIE to breach the existing contractual arrangements. If the Group cannot resolve any conflicts of interest or disputes between the Group and any of these individuals, the Group would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to its operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 2. Summary of significant accounting policies (Continued)

## (b) Principles of consolidation (Continued)

- There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. On March 15, 2019, the National People's Congress approved the PRC Foreign Investment Law, which will become effective on January 1, 2020 and replace the existing laws regulating foreign investment in China. The PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. Under the newly enacted PRC Foreign Investment Law, there are substantial uncertainties relating to its interpretation and implementation. It is possible that future legislations promulgated by the State Council may provide for contractual arrangements as a form of foreign investment and subject to foreign investment restrictions. It is therefore uncertain whether the Group's corporate structure may be deemed as violating the foreign investment restrictions in China. If the Group fails to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, the Group's current corporate structure, corporate governance, and business operations could be materially and adversely affected.

The financial information of the Group's consolidated VIEs and VIEs' subsidiaries, including total assets, total liabilities, net revenues, total operating expenses, net income (loss) and cash flows after intercompany eliminations are as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
Total assets	5,520,550	5,974,238
Current liabilities:		
Accounts payable	(87,926)	(85,257)
Advances from customers	(965,275)	(751,615)
Accrued expenses and other current liabilities	(1,618,716)	(2,689,273)
Amounts due to related parties	(616)	(22,225)
Deferred income	(54,543)	(204,925)
Total current liabilities	(2,727,076)	(3,753,295)
Deferred tax liability	(4,224)	(3,617)
Deferred income	(838)	(298)
Total liabilities	(2,732,138)	(3,757,210)

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Net revenues	5,500,226	1,583,466	2,455,488
Total operating expenses	(1,740,370)	(5,243,573)	(5,826,283)
Net income (loss)	230,954	(3,784,932)	(3,531,460)

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(b) Principles of consolidation (Continued)**

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Net cash used in operating activities	(1,192,894)	(801,931)	(294,853)
Net cash provided by (used in) investing activities	626,798	1,435,001	(48,162)
Net cash (used in) provided by financing activities	(108,779)	1,144,728	(17,698)

There are no consolidated VIEs' assets that are collateral for the VIEs' obligations or are restricted solely to settle the VIEs' obligations. The Company has not provided any financial support that it was not previously contractually required to provide to the VIEs.

**(c) Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Actual results may differ from these estimates. The Group's management based their estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's financial statements include inventory write-down, valuation of goodwill and intangible assets acquired in the business acquisitions, valuation of other investments and valuation of receivables arising from consumer financing. Changes in facts and circumstances may result in revised estimates.

**(d) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments with maturity of less than three months.

Cash and cash equivalents are placed with financial institutions with high-credit ratings and quality.

**(e) Restricted cash**

The Group's restricted cash mainly represents: (1) deposits held in a designated bank account under the cooperative lending arrangement with a bank in which the Group is required to maintain at all times a certain percentage of the outstanding principal of total lending amount with a bank, (2) deposits held in a designated account in the People's Bank of China related to online payments service and (3) deposits that are pledged for short-term bank loans.

**(f) Short term investments**

Short-term investments consist primarily of wealth management products, which are certain deposits with variable interest rates and fixed maturity dates ranging from three months to one year.

**VIPSHOP HOLDINGS LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(g) Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost of inventory is determined using the weighted average cost method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of disposal and transportation. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value for slow-moving merchandise and damaged goods. The amount of write down is also dependent upon factors such as whether the goods are returnable to vendors, inventory aging and quality, historical and forecasted consumer demand, and promotional environment.

The Group assesses the inventory write-down based on different product categories and applies a certain percentages based on aging and quality. The Group classifies all goods into the following two categories: non-returnable goods and returnable goods. Non-returnable goods cannot be returned to suppliers and general inventory write-down of different percentages are applied to these goods within the different aging and quality categories. These percentages were developed based on historical write-down on these different types of goods. In addition to general write-down, specific write-down will also be applied to non-returnable goods if assessed to be needed based on the factors mentioned above. Returnable goods will have no general write-down based on aging and quality but specific write-down will be made at the end of each reporting periods based on forecast sales, conditions of the goods and planned promotions.

Write downs are recorded in cost of revenues in the consolidated statements of income and comprehensive income.

**(h) Accounts receivable**

Accounts receivable are mainly receivables from consumer financing business, which are stated at the historical carrying amount net of allowance for uncollectible accounts. The Group establishes an allowance for uncollectible accounts receivable based on estimates, historical experience and other factors surrounding the credit risk of specific customers. Uncollectible accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined that is not probable for the balance to be collected.

Accounts receivable expected to be settled more than one year as of the balance sheet date are classified into other long-term assets on the consolidated balance sheets.

**(i) Loan receivables**

Loan receivables mainly represent the microcredit business made to qualified individual customers who are the end users of the Group's online marketplace business. The loan periods extended by the Group to the individual customers mainly range from 3 months to 24 months. The loan receivables are stated at the historical carrying amount net of allowance for uncollectible loan receivables. The Group establishes an allowance for uncollectible loan receivable based on estimates, historical experience and other factors surrounding the credit risk of specific customers. Uncollectible loan receivables are written off when the Group has determined the balance will not be collected.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(i) Loan receivables (Continued)**

The loan receivables expected to be settled more than one year as of balance sheet date are classified into other long-term assets on the consolidated balance sheets.

**(j) Other receivables**

Other receivables mainly consisted of advances to supplier, loans to staff and others, which are stated at the historical carrying amounts. The Group establishes an allowance for uncollectible other receivables based on estimates, historical experience and other factors surrounding the credit risk of specific accounts. Uncollectible other receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined the balance will not be collected.

**(k) Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Gains or losses on dispositions of property and equipment are included in other operating income. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

Depreciation and amortization are provided over the estimated useful lives of the assets using the straight-line method from the time the assets are placed in service. Estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated useful life</u>
Buildings	20 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Shorter of lease term or the estimated useful life of lease improvements
Motor vehicles	5 years
Software	3 years

Direct and incremental costs related to the construction of assets, including costs under the construction contracts, duties and tariffs, equipment installation and shipping costs, are capitalized. Management estimates the residual value of its furniture, fixtures and equipment and motor vehicles to be 5%.

**(l) Capitalization of interest**

Interest and amortization of deferred financing costs incurred on funds used to construct the Group's warehouses during the active construction period are capitalized. Interest subject to capitalization primarily includes interest paid or payable on the Group's convertible senior notes due 2019 at interest rate of 1.5%. The capitalization of interest and amortization of deferred financing costs ceases once a project is substantially completed or development activity is suspended for more than a brief period. The amount to be capitalized is determined by applying the weighted average interest rate of the Group's outstanding borrowings to the average amount of accumulated capital expenditures for

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(l) Capitalization of interest (Continued)**

assets under construction during the year and is added to the cost of the underlying assets and amortized over their respective useful lives. Total interest expenses incurred amounted to RMB99,437, RMB97,024 and RMB165,618, of which RMB14,242, RMB14,589 and RMB5,874 were capitalized for the years ended December 31, 2016, 2017 and 2018, respectively.

**(m) Land use rights, net**

The land use rights represent the amounts paid and relevant costs incurred for the Group's leases for the use right of lands located in PRC and are recorded at purchase cost less accumulated amortization. Amortization is provided on a straight-line basis over the terms of the respective land use right agreement.

**(n) Intangible assets, net**

Acquired intangible assets mainly consist of domain names, customer relationships, non-compete agreements, trademarks and payment license acquired from third parties and from business combination.

*Domain names and trademarks*

Domain name and trademarks purchased from third parties are initially recorded at cost and amortized on a straight-line basis over the estimated economic lives of approximately two to five years.

*Intangible assets arising from business combination*

Identifiable intangibles assets are required to be determined separately from goodwill based on their fair values. In particular, an intangible asset acquired in a business combination should be recognized as an asset separate from goodwill if it satisfies either the "contractual-legal" or "separability" criterion.

Intangible assets with a definite economic life are carried at cost less accumulated amortization. Amortization for identifiable intangibles assets are computed using the straight-line method over the intangible assets' economic lives.

Alternatively, intangible assets acquired in a business combination with indefinite lives are carried out cost less than subsequent accumulated impairment loss. Cost to renew or extend the term of a recognized intangible asset is charged to profit or loss as incurred in the consolidated statements of income and comprehensive income.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(n) Intangible assets, net (Continued)**

Estimated economic lives of the intangible assets are as follows:

<u>Classification</u>	<u>Estimated economic life</u>
Customer relationships	4 - 14 years
Trademarks	2 - 5 years
Non-compete agreement	3 years
Domain names	2 - 3 years
Payment license	Indefinite life

**(o) Investment in equity method investees**

Investments in equity method investees consist of:

- (1) Investments in affiliated companies and joint ventures, over which the Group has significant influence but which it does not control. The Group generally considers an ownership interest of 20% or higher to represent significant influence.
- (2) Limited partnerships when the Group has more than minor ownership interest or more than a minor influence. The Group generally considers investment in limited partnerships of more than 3 to 5 percent to be more than minor.

Investment in equity method investees are accounted for by the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of the equity method investees is recognized in the statement of income and comprehensive income and its share of post-acquisition movements in other comprehensive income are recognized in other comprehensive income. Unrealized gains on transactions between the Group and its equity method investees are eliminated to the extent of the Group's interest in the equity method investees; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an equity method investee equals or exceeds its interest in the equity method investees, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the affiliated investee.

The Group is required to perform an impairment assessment of its investments whenever events or changes in business circumstances indicate that the carrying value of the investments may not be fully recoverable. An impairment loss is recorded when there has been a loss in value of the investments that is other than temporary. The Group assess its equity method investments for other-than-temporary impairment by considering all relevant and available information including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information such as financing needs, the Group's intent and ability to retain the investments for a period of time sufficient to allow for any anticipated recovery in market value, and the severity and duration of the impairment.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(p) Other investments

Other investments consist of:

- (1) Investments in equity securities that have readily determinable fair values and for which the Group does not have the ability to exercise significant influence are reported at fair value with unrealized gains and losses included in net income.
- (2) Investments in debt securities other than trading securities held-to-maturity securities are classified as available-for-sale investments and reported at fair value with unrealized gain and losses included in accumulated other comprehensive loss in shareholders' equity.
- (3) Investments in equity securities without readily determinable fair values are accounted for at cost, adjusted for impairments and observable price changes in orderly transactions for the identical or similar investments of the same issuer.

For available-for-sale debt securities, in event of a decline in fair value that is other-than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss charged in the consolidated statement of income and comprehensive income. The fair values of the investments would not be adjusted for subsequent recoveries in fair values.

For equity securities without readily determinable fair values, at each reporting period, the Group makes qualitative assessment considering impairment indicators to evaluate whether the other investment is impaired. Impairment indicators that the Group considers include, but are not limited to, the following:

- a. a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee;
- b. a significant adverse change in the regulatory, economic, or technological environment of the investee;
- c. a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates;
- d. a bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment;
- e. factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

The respective investment shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value. The impairment loss is recorded in net income equal to the difference between the fair value of the investment and its carrying amount.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(g) Impairment of long-lived assets (other than goodwill and intangible assets with indefinite life)**

The Group evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When these events occur, the Group assesses the recoverability of these long-lived assets by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the future undiscounted cash flow is less than the carrying amount of the assets, the Group recognizes an impairment equal to the difference between the carrying amount and fair value of these assets. The Group recorded no impairment for the years ended December 31, 2016, 2017 and 2018.

**(r) Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired in a business combination.

Goodwill is not amortized but is tested for impairment on an annual basis as of December 31, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. In accordance with Accounting Standards Codification ("ASC") 350-20 "Goodwill", a company firstly has the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Group decides, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a two-step quantitative impairment test is mandatory. The Group may also elect to proceed directly to the two-step impairment test without considering qualitative factors. The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the reporting unit and their carrying amounts will be recorded.

Application of impairment test for goodwill requires significant management judgment, including the identification of the reporting unit, assigning assets, liabilities and goodwill to each reporting unit, and determining the fair value of each reporting unit. The fair value of each reporting unit is determined by analysis of discounted cash flows. The significant assumptions regarding the reporting unit's future operating performance are revenue growth rates, costs of goods and operating expenses growth rates, discount rates and terminal values. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

In 2017 and 2018, management has conducted the qualitative impairment test to compare the carrying value of the reporting units, including assigned goodwill, to its respective fair value. Based on the qualitative impairment assessment, it was determined that it is more likely than not the fair values of the reporting units tested exceeded their carrying amounts and, therefore a quantitative impairment test for goodwill were not required. The management concluded that goodwill was not impaired as of December 31, 2017 and 2018.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(s) Intangible assets with indefinite lives**

Intangible assets with indefinite lives represents primarily the payment license acquired in a business combination in 2016. In determining its indefinite life, the Group considered the following: the expected use of the intangible; the longevity of the license; the legal, regulatory and contractual provisions that affect their maximum useful life; the Group's ability to renew or extend the asset's legal or contractual life without substantial costs; effects of the regulatory environment; maintenance expenditures required to obtain the expected future cash flows from the asset; and considerations for obsolescence, demand, competition and other economic factors.

Intangible assets with indefinite lives is not amortized but is tested for impairment on an annual basis as of December 31, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired.

In 2017 and 2018, management has conducted the qualitative impairment test and the qualitative assessment indicated that it is more likely than not that the Group's indefinite lived intangible assets are not impaired.

**(t) Business combinations and non-controlling interests**

The Group accounts for its business combinations using the acquisition method of accounting in accordance with ASC 805 "Business Combinations". The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities incurred by the Group to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total costs of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill.

For the Group's majority-owned subsidiaries and subsidiaries of VIEs, a non-controlling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Group. Consolidated net income on the consolidated statements of income and comprehensive income includes the net income (loss) attributable to non-controlling interests. The cumulative results of operations attributable to non-controlling interests, are recorded as non-controlling interests on the Group's consolidated balance sheets.

**(u) Debt issuance costs and debt discounts**

Debt issuance costs and debt discounts are amortized as interest expense, using the effective interest method, through the earlier of the maturity date of the convertible senior notes or the date of redemption, if any. Debt issuance costs and debt discounts are recorded as a direct deduction from the face amount of convertible senior notes.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(v) Securitization debt**

The securitization debt securities issued to investors are collateralized by the specified pool of accounts receivable and are payable only out of collections on their respective underlying collateralized assets and guaranteed by the WFOE. The securities can be retained in the form of senior or subordinated securities. The Group holds 100% of the subordinated securities. The securitization securities are reported as current and non-current liabilities in the consolidated balance sheets based on their respective expected repayment dates.

**(w) Revenue recognition**

Effective with the adoption of Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," and the associated ASUs (collectively, "Topic 606") on January 1, 2018, the Group recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Group expects to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the Group determines are within the scope of Topic 606, the Group performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. See Note 2(ao) and Note 4 for additional information.

In periods prior to the adoption of Topic 606, the Group's accounting policy was to recognize revenue when persuasive evidence of an arrangement exists, products are delivered, the price to the buyer is fixed or determinable and collectability is reasonably assured.

**(x) Cost of revenues**

Cost of revenues consists primarily of cost of merchandise sold and inventory write-down. The amounts of inventory write-down were RMB303,233, RMB206,733 and RMB440,823 for the years ended December 31, 2016, 2017 and 2018, respectively. Cost of revenues does not include fulfillment expenses, therefore the Group's cost of revenues may not be comparable to other companies which include such expenses in their cost of revenues.

The Group provides financing to some of its suppliers by advancing them cash for portions of accounts payables the Group owes to them, and receives interest over the financing periods which is presented as a reduction to cost of revenues. The advances to these suppliers related to the Group's financing activities have no offsetting rights against the Group's accounts payables to these suppliers, and are presented as part of other receivables and prepayments in the consolidated balance sheets (Note 6).

**(y) Fulfillment expenses**

Fulfillment expenses primarily consist of payroll, bonus and benefits of logistics staff, logistics centers rental expenses, shipping and handling expenses and packaging expenses.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(z) Marketing expenses**

Marketing expenses primarily consist of payroll, bonus and benefits of marketing staff, advertising costs, agency fees and costs for promotional materials.

Advertising expenses are charged to the statements of income and comprehensive income in the period incurred. The amounts of advertising expenses incurred were RMB1,671,779, RMB1,526,815 and RMB1,651,996 for the years ended December 31, 2016, 2017 and 2018, respectively.

**(aa) Technology and content expenses**

Technology and content expenses primarily consist of payroll, bonus and benefits of the staff in the technology and system department, telecommunications expenses, model fees and photography expenses.

**(ab) General and administrative expenses**

General and administrative expenses primarily consist of payroll, bonus and benefit costs for retail and corporate employees, legal, finance, information systems, rental expenses and other corporate overhead costs.

**(ac) Foreign currency transactions and translations**

The functional currency of the Company, Vipshop HK, Lefeng.com Limited and other offshores subsidiaries is the United States dollar ("US dollar"). The functional currency of all the other significant subsidiaries and the VIEs is RMB. Foreign currency denominated monetary assets and liabilities have been translated into the functional currency at the rates of exchange ruling as of the balance sheet date. Transactions in foreign currencies have been translated into the functional currency at the applicable rates of exchange prevailing on the date transactions occurred. Transaction gains and losses are recognized in the consolidated statements of income and comprehensive income.

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Group's cash, cash equivalents and restricted cash denominated in RMB amounted to RMB4,287,900 and RMB6,615,216 at December 31, 2017 and 2018, respectively.

**(ad) Convenience translation**

Translations of balances in the consolidated balance sheets, consolidated statements of income and comprehensive income, and consolidated statements of cash flows from RMB into US dollar as of and for the year ended December 31, 2018 are solely for the convenience of the readers and were calculated at the rate of 6.8755 representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2018. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US dollar at that rate on December 31, 2018, or at any other rate.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(ae) Taxation**

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. As part of the process of preparing financial statements, the Group is required to estimate its income taxes in each of the jurisdictions in which it operates. The Group accounts for income taxes using the liability method. Under this method, deferred income taxes are recognized for tax consequences in future years of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at each year-end and tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates applicable for the differences that are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, based upon the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

**(af) Value added taxes ("VAT")**

The Group's PRC subsidiaries are subject to VAT at rates ranged from 6% to 17% before May 2018 and 6% to 16% since May 2018 on proceeds received from customers, and are entitled to a deduction for VAT already paid or borne on the goods purchased by it and utilized in the production of goods that have generated the gross sales proceeds and service incurred. The VAT balance is recorded either in other current liabilities or other current receivables on the consolidated balance sheets.

**(ag) Comprehensive income (loss)**

Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. During the periods presented, comprehensive income (loss) is reported in the consolidated statements of income and comprehensive income, and other comprehensive income (loss) includes foreign currency translation adjustments, unrealized gain or loss of available-for-sale debt investments and reclassification adjustments of available-for-sale investments prior to adoption of ASU 2016-01 in 2018.

**(ah) Concentration of credit risk**

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, accounts receivable, short term investments, amounts due from related parties, loan receivables and other receivables and prepayments. The Group places its cash and cash equivalents, restricted cash and short term investments with financial institutions with high-credit ratings and quality. Accounts receivable primarily comprise of amounts receivable from product delivery service providers and receivables from consumer financing services. There are no significant credit risk concentrated with any specific delivery service providers, end customers under consumer financing, microcredit loans or suppliers under financing service arrangements.

Account receivables from product delivery service providers relates to amounts collected from customers by the service providers when products are delivered. The Group conducts a credit evaluations on these service providers and require certain amounts of security deposits from them to

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(ah) Concentration of credit risk (Continued)

manage its credit risk. Amounts due from related parties are prepayments related to purchases of goods and services from the entities controlled by shareholders of the Company. Due to the nature of the relationship, the Group considers there to be no collection risks in regard to amounts due from related parties. With respect to advances to product suppliers, the Group performs on-going credit evaluations of the financial condition of its suppliers. The Group establishes an allowance for doubtful accounts based upon estimates of various factors surrounding the credit risk of delivery service providers, end customers and suppliers, such as credit rating, overdue date and collectability.

(ai) Fair value of financial instruments

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs may be used to measure fair value include:

Level 1 Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 Applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

*Measured at fair value on a recurring basis*

The Group's financial assets and liabilities that were required to be measured at fair value on a recurring basis as of December 31, 2017 and 2018 include equity investments with readily determinable fair value and available-for-sale debt securities. As of December 31, 2017 and 2018, information about

**VIPSHOP HOLDINGS LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**
**(ai) Fair value of financial instruments (Continued)**

inputs into the fair value measurements of the Group's assets that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows.

Description	As of December 31, 2017 RMB	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
		Other investments:		
—Equity investments with readily determinable fair value	352	352	—	—
—Available-for-sale debt securities	145,930	—	145,930	—

Description	As of December 31, 2018 RMB	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
		Other investments:		
—Equity investments with readily determinable fair value	217,036	217,036	—	—
—Available-for-sale debt securities	130,358	—	130,358	—

The equity investments with readily determinable fair value are carried at fair values. The Group measures its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1. Available-for-sale debt securities consist of investments in private companies' redeemable debt that has stated maturity and pay a prospective fixed rate of return. The investments are recorded at fair value on a recurring basis. The fair value is measured using discounted cash flow model based on contractual cash flow and a discount rate of prevailing market yield for products with similar terms as of the measurement date, as such, they are classified within Level 2 measurement.

The carrying values of the Group's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, net, other receivables, net, loan receivables, net, accounts payable, other current liabilities, advances from customers, amounts due from and to related parties, short term loans and short term securitization debt approximate their fair values due to the short term nature of these instruments. The estimated fair value of convertible senior notes as of December 31, 2017 and 2018 were approximately RMB4,090,808 and RMB4,260,195, respectively, as compared to its carrying value of RMB4,094,903 and RMB4,327,268, respectively. Fair value was estimated using quoted market prices and represented a Level 1 measurement.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(ai) Fair value of financial instruments (Continued)**

The carrying value of the Group's short term investments approximates their fair values due to the short term nature and significant inputs are observable or can be derived principally from, or corroborated by, observable market data (Level 2).

*Measured at fair value on a nonrecurring basis*

The estimated fair values of the investment in equity method investees at the time of impairment test were estimated by applying unobservable inputs to the discounted cash flow valuation methodology that are significant to the measurement of the fair value of these assets. The Group measures investment in equity method investees at fair value on a nonrecurring basis when they are deemed to be impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include management judgments, future performance projections, etc. An impairment charge to these investments is recorded when the cost of the investment exceeds its fair value.

The estimated fair value of equity investments without readily determinable fair value is based on impairment and observable price changes in orderly transactions for the identical or similar investments of the same issuer.

Other than the impaired investments in equity method investees (Note 11) and the adjusted equity investments without readily determinable fair value (Note 12), the Group did not have any assets and liabilities that were measured at fair value on a nonrecurring basis.

**(aj) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Other leases are accounted for as capital leases. Payments made under operating leases, net of any incentives received by the Group from the leasing company, are charged to the statements of income and comprehensive income on a straight-line basis over the lease periods.

**(ak) Share-based compensation**

*Employee share-based compensation*

Share-based payments made to employees, including employee share options, and non-vested shares issued to employees which the Group has a repurchase option, are recognized as compensation expenses over the requisite service periods. The Group measures the cost of employee services received in exchange for share-based compensation at the grant date fair value of the awards. The Group recognizes compensation expense on a straight-line basis over the requisite service period for the entire award with graded vesting provided that the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be

**VIPSHOP HOLDINGS LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(ak) Share-based compensation (Continued)**

recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods.

*Non-employee share-based compensation*

Share-based compensation made to non-employees are recognized as compensation expenses ratably over the requisite service periods. The Group measures the cost of non-employee services received in exchange for share-based compensation based on the fair value of the equity instruments issued. The Group measures the fair value of the equity instruments in these transactions using the share price and other measurement assumptions on the measurement date, which is determined as the earlier of the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or the date at which the counterparty's performance is complete.

As the quantity and terms of the equity instruments issued to non-employees are known up front, the Group recognizes the cost incurred during financial reporting periods before the measurement date. The Group measures the equity instruments at their then-current fair values at each of the financial reporting dates, and attributes the changes in those fair values over the future services period until the measurement date has been established.

*Modifications of equity awards*

The Group treats a modification of the terms or conditions of an equity award as an exchange of the original award for a new award. The incremental compensation cost as an effect of a modification is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at that date. Total recognized compensation cost for an equity award shall at least equal the fair value of the award at the grant date unless at the date of the modification the performance or service conditions of the original award are not expected to be satisfied. Thus, the total compensation cost measured at the date of a modification shall be the sum of the portion of the grant-date fair value of the original award for which the requisite service is expected to be rendered (or has already been rendered) at that date, and the incremental cost resulting from the modification. The Group records the incremental fair value of the modified award, as compensation cost on the date of modification for vested awards, or over the remaining service period for unvested awards.

**(al) Earnings per share**

Basic earnings per share is computed by dividing net earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares.

**(am) Treasury shares**

Treasury shares represents ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchase of ordinary shares is accounted for under the

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(am) Treasury shares (Continued)**

cost method whereby the entire cost of the acquired share is recorded as treasury shares. The cost of treasury shares is transferred to "additional paid-in capital" when it is re-issued for the purpose of share options exercised and share awards.

**(an) Segment reporting**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM"), or decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Chief Executive Officer.

The Group's principal operations are currently organized into two major business segments, the Vip.com segment and the Internet finance businesses segment, which are defined based on the products and services provided. Vip.com represents the Group's e-commerce business, while the Internet finance businesses mainly includes the consumer financing, supplier financing and wealth management services.

**(ao) Accounting standards recently adopted**

On January 1, 2018, the Group adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which is the new comprehensive revenue recognition standard that supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry specific guidance. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfil a contract.

In 2015 and 2016, the Financial Accounting Standards Board ("FASB") issued additional ASUs related to Topic 606 that delayed the effective date of the guidance and clarified various aspects of the new revenue guidance, including principal versus agent considerations, identification of performance obligations, and accounting for licenses, and included other improvements and practical expedients. The new guidance was effective for annual and interim periods beginning after December 15, 2017. The Group adopted the ASU on January 1, 2018 for all revenue contracts with customers using the modified retrospective approach, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical accounting under ASC 605.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 2. Summary of significant accounting policies (Continued)

## (ao) Accounting standards recently adopted (Continued)

The following table details the cumulative effect of the changes made to the consolidated January 1, 2018 balance sheet for the adoption of Topic 606:

	Balance at December 31, 2017	Adjustments Due to Topic 606	Balance at January 1, 2018
	RMB	RMB	RMB
<b>Assets</b>			
Accounts receivable, net	4,803,527	530,994	5,334,521
Inventories	6,960,251	(898,641)	6,061,610
<b>Liabilities</b>			
Advances from customers	2,339,914	(1,065,924)	1,273,990
Accrued expenses and other current liabilities	3,537,151	521,907	4,059,058
<b>Equity</b>			
Retained earnings	5,602,681	176,370	5,779,051

The adjustments above related primarily to unfulfilled performance obligations on the sales of product goods to be passed to customers and refund liabilities in relation to return rights.

The following table details the impacts of the adoption of Topic 606 on the consolidated balance sheet as of December 31, 2018:

	December 31, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change
	RMB	RMB	RMB
<b>Assets</b>			
Accounts receivable, net	5,674,731	5,138,714	536,017
Inventories	5,368,106	6,488,200	(1,120,094)
<b>Liabilities</b>			
Advances from customers	1,473,134	2,871,523	(1,398,389)
Accrued expenses and other current liabilities	5,512,605	4,935,318	577,287
<b>Equity</b>			
Retained earnings	7,907,396	7,670,370	237,026

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 2. Summary of significant accounting policies (Continued)

## (ao) Accounting standards recently adopted (Continued)

The following table details the impacts of the adoption of Topic 606 on the consolidated statements of operations and comprehensive income for the year ended December 31, 2018:

	Year Ended December 31, 2018		
	As Reported RMB	Balances Without Adoption of Topic 606 RMB	Effect of Change RMB
<b>Revenue</b>			
Product revenues	81,510,275	80,343,367	1,166,908
Other revenue	3,013,673	2,951,922	61,751
<b>Cost applicable to revenue</b>			
Cost of revenues	67,454,981	66,508,966	946,015
<b>Operating and income tax expenses</b>			
Income tax expense	566,604	520,985	45,619
<b>Net income</b>			
Net income	2,133,472	1,896,447	237,025

In the year ended December 31, 2018, the Group adopted ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Group applied the amendments in the new guidance by means of a cumulative-effect adjustment of RMB0.4 million to the opening of retained earnings on January 1, 2018, due to reclassification from accumulated other comprehensive loss.

In the year ended December 31, 2018, the Group adopted ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This update requires that debt prepayments or debt extinguishment costs be classified as cash outflows for financing activities and provides additional classification guidance for the statement of cash flows. The update also requires that the classification of cash receipts and payments that have aspects of more than one class of cash flows to be determined by applying specific guidance under generally accepted accounting principles. The update also requires that each separately identifiable source or use within the cash receipts and payments be classified on the basis of their nature in financing, investing or operating activities. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(ao) Accounting standards recently adopted (Continued)**

In the year ended December 31, 2018, the Group adopted ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". Current U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard does not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The ASU 2016-16 is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual periods. The Group applied the ASU on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of the new guidance did not have a material impact on the consolidated financial statements.

**(ap) Accounting standards issued but not adopted at December 31, 2018**

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," and associated ASUs related to Topic 842, which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance requires that a lessee recognize assets and liabilities for leases, and recognition, presentation and measurement in the financial statements will depend on its classification as a finance or operating lease. In addition, the new guidance will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting remains largely unchanged from current U.S. GAAP but does contain some targeted improvements to align with the new revenue recognition guidance issued in 2014 (Topic 606). The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and early adoption is permitted.

The ASU requires a modified retrospective transition approach, applying the new standard to all leases existing at the date of initial adoption. An entity may choose to use either (1) the effective date or (2) the beginning of the earliest comparative period presented in the financial statements at the date of initial application. The Group has elected to apply the transition requirements at the January 1, 2019, effective date rather than at the beginning of the earliest comparative period presented. This approach allows for a cumulative effect adjustment in the period of adoption, and prior periods will not be restated. In addition, the Group has elected the package of practical expedients permitted under the transition guidance, which does not require reassessment of prior conclusions related to contracts containing a lease, lease classification and initial direct lease costs. As an accounting policy election, the Group will exclude short-term leases (term of 12 months or less) from the balance sheet presentation and will account for non-lease and lease components in a contract as a single lease component for all asset classes.

The Group analyzed the impact of ASU 2016-02 across all lease arrangements to evaluate and implement the new standard and the Group has substantially completed the implementation of system updates to facilitate compliance with accounting and reporting requirements. The Group continues to enhance accounting systems and update business processes and controls related to the new guidance for leases. Collectively, these activities are expected to enable the Group to meet the new accounting and

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****(ap) Accounting standards issued but not adopted at December 31, 2018 (Continued)**

disclosure requirements upon adoption on January 1, 2019. The Group has finalized the evaluation, impact upon adoption and estimated an increase of lease-related assets and liabilities, approximately RMB451.4 million in the consolidated balance sheets. The impact to the Group's consolidated statements of income and consolidated statements of cash flows is not expected to be material.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Based on the Group's financial instruments and risk management policies as of December 31, 2018, application of this ASU in the future may have impact on the measurement of the Group's financial assets. The expected credit loss model may result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized cost. It should be noted that the above assessments were made based on an analysis of the Group's financial assets and financial liabilities as of December 31, 2018 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of this ASU, the assessment of the potential impact is subject to change.

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The update simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. The update is effective for any annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1,

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

**(ap) Accounting standards issued but not adopted at December 31, 2018 (Continued)**

2017. The guidance should be applied prospectively upon its effective date. The Group is currently evaluating the impact of adopting this guidance.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement," which is part of the FASB disclosure framework project to improve the effectiveness of disclosures in the notes to the financial statements. The amendments in the new guidance remove, modify and add certain disclosure requirements related to fair value measurements covered in Topic 820, "Fair Value Measurement." The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for either the entire standard or only the requirements that modify or eliminate the disclosure requirements, with certain requirements applied prospectively, and all other requirements applied retrospectively to all periods presented. The Group is currently evaluating the impact of adopting this guidance.

In October 2018, the FASB issued ASU No. 2018-17, Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities, which modifies the guidance related to indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interest. ASU 2018-17 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted. The Group is currently evaluating the impact of adopting this guidance.

**3. Significant acquisition and equity transactions**

**(a) Acquisitions in 2016**

In February 2015, the Group acquired a 42.61% equity interest of Feiyuan Logistic Company Ltd. and its subsidiaries ("Feiyuan") and obtained significant influence over it. As a result, Feiyuan become an equity affiliate of the Group. Feiyuan is a company principally providing warehousing, express, transportation and distribution services to E-commerce companies in southeast China.

In January 2016, the Group acquired additional equity interest of 26.18% in Feiyuan with a cash consideration of RMB65,452 and Feiyuan became a subsidiary of the Group since then, as the Group had control over its operating and financing decisions. The Group recorded RMB210,669 in goodwill related to the acquisitions of Feiyuan that was allocated to the logistic reporting unit.

The acquisition was accounted for as a business combination, and the results of operations of Feiyuan are included in the Group's consolidated financial statements from the acquisition date. The Group made estimates and judgments in determining the fair values of acquired assets and liabilities, based on an independent valuation report and management's experiences with similar assets and

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 3. Significant acquisition and equity transactions (Continued)

## (a) Acquisitions in 2016 (Continued)

liabilities. The following table summarizes the estimated fair values for major classes of assets acquired and liabilities assumed at the date of acquisition:

	RMB	Weighted average amortization period at the acquisition date (in years)
Net tangible liabilities acquired	(18,388)	
Intangible assets- customer relationship	17,693	14
Goodwill	210,669	
Deferred tax liabilities	(4,423)	
Non-controlling interest	(59,851)	
Total consideration	<u>145,700</u>	
<b>Consideration transferred</b>		
Cash	65,452	
Fair value of the Group's previously held equity interests in Feiyuan	<u>80,248</u>	
Total consideration	<u>145,700</u>	

The fair value of the Group's previously held equity interests in Feiyuan as at the acquisition date was determined by using the discounted cash flow model. The key inputs from this valuation include a risk-adjusted discount rate and discount of lack of control. No gain or loss was recognized as a result of remeasuring to fair value of the previously held equity interests in Feiyuan.

In May 2016, the Group acquired additional non-controlling equity interest of 28.19% in Feiyuan with a cash consideration of RMB110,001, which did not result in change in control and was accounted for as equity transaction. After these transactions, the Group held 96.98% equity interest of Feiyuan.

In September 2016, the Group completed the acquisition of Zhejiang Ebatong Technology Co. ("Ebatong"), following the completion of the transaction, Ebatong became a wholly-owned subsidiary of the Group. Ebatong is a company which principally provides third party payment service to customers, acquisition of Ebatong was primarily for the purpose of developing the Company's internet payment channel. After the acquisition, Ebatong changed its business registration into Zhejiang Vipshop Payment Co., Ltd. The Group recorded RMB13,291 in goodwill related to the acquisitions of Ebatong that was allocated to the Internet finance reporting unit.

The total cash consideration was RMB410,417 in which RMB336,065, RMB56,571 and RMB17,781 were paid during the years ended December 31, 2016, 2017 and 2018, respectively.

The acquisition cost amounted to RMB4,000 was recorded in general and administrative expenses when it incurred.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 3. Significant acquisition and equity transactions (Continued)

## (a) Acquisitions in 2016 (Continued)

The acquisition had been accounted for as a business combination and the results of operations of Ebatong have been included in the Group's consolidated financial statements from the acquisition date. The Group made estimates and judgments in determining the fair value of acquired assets and liabilities, based on an independent valuation report and management's experiences with similar assets and liabilities. The following table summarizes the estimated fair values for major classes of assets acquired and liabilities assumed at the date of acquisition:

	RMB	Weighted average amortization period at the acquisition date (in years)
Net tangible assets acquired	95,332	
Intangible assets-Payment license	319,660	Indefinite life
Goodwill	13,291	
Total consideration	<u>428,283</u>	
<b>Consideration transferred and liabilities assumed</b>		
Cash	410,417	
Other receivables	17,866	
Total consideration	<u>428,283</u>	

During the year ended December 31, 2016, the Group acquired additional equity interests of certain logistic companies and obtained over 50% voting right. The acquisitions are not individually or in aggregate significant to the Group's net assets and results of operations. These acquisitions have an aggregate purchase price of RMB50,218. The acquisitions were accounted for under purchase accounting and the results of these logistic companies are included in the Group's consolidated results from the acquisition dates. The Group recorded RMB34,365 in goodwill related to the acquisitions of these logistic companies, allocated to the logistic reporting unit. No additional intangible asset was identified during these acquisitions.

Based on the assessment of the acquired companies' financial performance made by the Group, the acquired companies, including its subsidiary during 2016 are not considered material to the consolidated results of operations both individually and in aggregate. Thus pro forma results of operations for these acquisitions in 2016 as well as the results of operations since the date of acquisitions to the period end have not been presented. None of the goodwill recognized during the acquisitions is expected to be deductible for income tax purposes.

## 4. Revenue

From January 1, 2018, the Group accounts for revenue in accordance with Topic 606, "Revenue from Contracts with Customers".

**VIPSHOP HOLDINGS LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**4. Revenue (Continued)*****Product revenue recognition***

The majority of the Group's revenue is derived from product revenue. The Group recognizes revenue from the sale of apparel, fashion goods, cosmetics, home goods and lifestyle products and other merchandise through its online platforms, including its internet website and cellular phone application. The Group utilizes in-house and external delivery service providers to deliver goods to its customers. The Group recognizes revenue at the point of time when the goods have been accepted by the customers. The customers have the options to pay for the goods in advance, upon acceptance of the goods or to pay over an agreed upon instalment period.

Revenue was recorded net of surcharges and value added tax ("VAT") of gross sales. Surcharges are sales related taxes representing the City Maintenance and Construction Tax and Education Surtax. Revenues also include fees charged to customers for shipping and handling expenses. The Group incurs expenses or pays fees to in-house and external delivery service providers, respectively, and records such expenses and fees as shipping and handling expenses.

***Return rights***

The Group offers customers with an unconditional right of return for a period of 7 days upon receipt of the products on sales from its platforms. The Group reduces product revenues by an estimate of expected customer merchandise returns, which is calculated based on historical return patterns, and recorded as a refund liability included in accrued expenses and other current liabilities (Note 15) and the estimated inventories in transit subject to those estimated returns are included in inventories on the consolidated balance sheets.

***Principal vs. agent accounting***

The Group records all product revenue on a gross basis. To determine whether the Group is an agent or principal in the sale of products, the Group considers the following indicators: the Group is primarily responsible for fulfilling the promise to provide the specified goods or services, is subject to inventory risks before the specified goods or services have been transferred to a customer or after transfer of control to the customers, and has discretion in establishing the price of the specified goods or services.

***Membership reward program***

The Group grants Weipin Coins to the customers when they purchase goods from its platforms. Weipin Coins can be offset against payments when customers make their future purchases.

Upon adoption of Topic 606, the Group considers the Weipin Coins as a separate performance obligation and allocates the transaction price proportionally between the product sold and the Weipin Coins granted on a relative standalone selling price basis in consideration of the likelihood of future redemption and the equivalent value per Coin when it is redeemed. There is no significant impact upon adoption of Topic 606 other than the deferred income recorded is considered as a contract liability. As of December 31, 2017 and 2018, the Group recorded deferred income related to Weipin Coins of RMB138,863 and RMB150,240, respectively.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**4. Revenue (Continued)**

New members who register on the Group's platforms or existing members introducing new members to the Group's online platforms will be granted free Weipin Coins. These Weipin Coins are not related to prior sales and are recorded as reduction of revenue at the time of use.

In June 2017, the Group launched a paid membership program called Super VIP, which allows its members to enjoy certain privileges. The revenue related to the membership fee is recognized straight-line over the period of the membership.

**Other revenues**

Other revenues consist of (1) commission from platform access; (2) logistic service to external customers; (3) promotional and advertising service; (4) inventory and warehouse management service and (5) interest income from microcredit and consumer financing.

The Group charges fees to third-party merchants to access the Group's platform for sales of their products. The Group is not primarily responsible for fulfilling the promised contracts, as it does not bear the inventory risk, nor has the discretion in establishing prices. Upon successful sales on the Group's online platforms, the Group will charge the third-party merchants commission fees. Commission fees are recognized on a net basis at the point of sales of products.

Other revenue from providing logistic services to external customers are recognized upon the completion of the performance of services.

Other revenue from promotional and advertising, inventory and warehouse management services are recognized over the period during which the services are provided, net of VAT.

In connection with the Group's product revenues, certain approved customers have the option to pay for the goods over an instalment period up to 24 months. Significant financing component exists in sales paid by instalments. The Group elected the practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component for all instances in which the period between payment and transfer of the goods will be one year or less. For the contracts with instalment period over 12 months, the transaction price is adjusted for the effects of the time value of money which is equivalent to the amounts charged in separate financing transaction between the Group and its customers at contract inception. The revenues earned from the financing service is recognized over the instalment period and included in other revenues.

**Remaining performance obligations**

Remaining performance obligations represent the transaction price allocated to unsatisfied or partially unsatisfied performance obligations. At December 31, 2018, the Group had unfulfilled performance obligations for products goods to be passed to customers of RMB1,410 million, and performance obligations related to Weipin Coins granted to customers and Super VIP membership fee of RMB355 million. The Group expects revenue to be recognized for the remaining performance obligations within the next year. The remaining performance obligations are accounted under advance from customers and deferred income.

The remaining performance obligation in relation to the financing service represents the remaining period of financing benefit to the customer per the agreed upon instalment period.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**4. Revenue (Continued)***Disaggregation of revenue*

The Group disaggregates its revenue from different types of contracts with customers by principal product categories, as the Group believes it best depicts the nature, amount, timing and uncertainty of its revenue and cash flows. See Note 30 for product revenues by principal product categories.

*Contract balances*

The estimated inventories in transit relating to estimated returns are contract assets included in inventories. The balance of contract assets is RMB140,361 and RMB151,117 as of January 1, 2018 and December 31, 2018, respectively.

The Group's contract liabilities consist of prepayments from customers, unredeemed Weipin Coins and Super VIP membership reward program and refund liability related to estimated return. As of January 1, 2018 and December 31, 2018, the balances of the contract liabilities are RMB1,564 million and RMB1,954 million, included in advances from customers, deferred income and accrued expenses and other current liabilities.

All contract liabilities at the beginning of the year ended December 31, 2018 were recognized as revenue during the year ended December 31, 2018 and the all contract liabilities as of year ended December 31, 2018 are expected to be realized in the following year.

**5. Accounts receivable, net**

Components of accounts receivable are as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
Other trade receivables (Note a)	4,611,930	5,302,391
Delivery service providers (Note b)	298,124	458,488
Others	18,364	31,396
Subtotal	4,928,418	5,792,275
Less: allowance for doubtful accounts	(124,891)	(117,544)
Total	4,803,527	5,674,731

Note:

- (a) The Group provides consumer financing to certain customers as part of the Group's Internet financing business. As of December 31, 2017 and 2018, RMB 1.0 billion and RMB1.2 billion receivables from customer financing were collateralized for the issuance of asset-backed debts, respectively. Details of the securitization debt are set out in Note 18.
- (b) For certain sales transactions, third party delivery service providers will collect payments from the Group's customers upon delivery of goods, and remit such payments back to the Group on a periodic basis.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 5. Accounts receivable, net (Continued)

The movement of allowance for doubtful debts during the years are as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Allowance for doubtful accounts:			
Balance at beginning of the year	—	(46,209)	(124,891)
Provision for allowance during the year	(53,316)	(111,183)	(166,396)
Write-offs during the year	7,107	32,501	173,743
Balance at end of the year	<u>(46,209)</u>	<u>(124,891)</u>	<u>(117,544)</u>

## 6. Other receivables and prepayments, net

Components of other receivables and prepayments are as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
Deposits (Note a)	342,703	436,402
Cash advanced to staff	12,847	17,060
Loans to staff	30,702	20,900
VAT recoverable	791,156	770,949
Interest receivable	25,871	100,402
Advances to suppliers related to financing activities (Note b)	1,525,567	1,269,898
Advances to suppliers related to procurement activities	646,027	707,233
Prepaid expense	152,179	119,436
Others	190,241	192,064
Subtotal	<u>3,717,293</u>	<u>3,634,344</u>
Less: allowance for doubtful accounts	<u>(43,097)</u>	<u>(39,608)</u>
Total	<u><u>3,674,196</u></u>	<u><u>3,594,736</u></u>

Note:

- (a) Deposits consist of amounts paid to vendors for advertising and rentals.
- (b) The Group provides financing to some of its suppliers by advancing them cash, and holds portions of accounts payables the Group owed to them as pledges.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**6. Other receivables and prepayments, net (Continued)**

The movement of allowance for doubtful debts during the years are as follow:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Allowance for doubtful accounts:			
Balance at beginning of the year	(11,884)	(23,418)	(43,097)
Provision for allowance during the year	(13,259)	(19,679)	(5,220)
Write-offs during the year	1,725	—	8,709
Balance at end of the year	<u>(23,418)</u>	<u>(43,097)</u>	<u>(39,608)</u>

**7. Short term investments**

As of December 31, 2017 and 2018, the Group's short term investments consist of wealth management funds measured at fair value of RMB245,981 and RMB2,321,244, respectively, which matures within one year and are classified as current assets. The amount of unrealized holding gains as of December 31, 2017 and 2018 were RMB5,981 and RMB48,604, respectively.

All the short term investments were purchased from third-party financial institutions with high credit ratings in China. These investments have fixed maturity dates and pay a target return on the amount invested.

There has been no impairment recognized and no sales of any short term investments before maturities during the periods presented.

**8. Property and equipment, net**

	As of December 31,	
	2017	2018
	RMB	RMB
Cost:		
Buildings	3,892,010	4,113,753
Furniture, fixtures and equipment	2,340,437	2,709,502
Leasehold improvements	372,702	407,330
Motor vehicles	414,247	422,902
Software	108,468	60,858
Construction in process	1,187,157	3,179,701
Sub-total	8,315,021	10,894,046
Less: accumulated depreciation	<u>(1,654,196)</u>	<u>(2,362,563)</u>
Property and equipment, net	<u>6,660,825</u>	<u>8,531,483</u>

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

8. Property and equipment, net (Continued)

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Depreciation expenses were charged to:			
Fulfillment expenses	289,338	329,945	402,942
Marketing expenses	296	305	380
Technology and content expenses	262,073	312,506	282,020
General and administrative expenses	59,269	78,084	84,948
Total	<u>610,976</u>	<u>720,840</u>	<u>770,290</u>

9. Land use rights, net

	As of December 31,	
	2017	2018
	RMB	RMB
Land use right	3,174,446	4,053,855
Less: accumulated amortization	(96,676)	(168,277)
Land use rights, net	<u>3,077,770</u>	<u>3,885,578</u>

The expiry dates of the land use rights are from October 2064 to October 2068.

Amortization expenses charged were RMB37,657, RMB55,545 and RMB71,601 for the years ended December 31, 2016, 2017 and 2018, respectively.

10. Intangible assets, net

	As of December 31, 2017				As of December 31, 2018			
	Cost	Accumulated amortization (Note a)	Impairment	Net amount	Cost	Accumulated amortization (Note a)	Impairment	Net amount
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Domain names	15,040	(15,040)	—	—	15,040	(15,040)	—	—
Customer Relationships	313,303	(287,142)	—	26,161	313,303	(299,317)	—	13,986
Trademarks	888,370	(850,562)	—	37,808	888,538	(885,674)	—	2,864
Non-compete agreement	70,127	(70,127)	—	—	70,127	(70,127)	—	—
Payment license (Note b)	319,660	—	—	319,660	319,660	—	—	319,660
Others	45,035	(10,763)	(16,907)	17,365	44,823	(11,318)	(16,907)	16,598
Total	<u>1,651,535</u>	<u>(1,233,634)</u>	<u>(16,907)</u>	<u>400,994</u>	<u>1,651,491</u>	<u>(1,281,476)</u>	<u>(16,907)</u>	<u>353,108</u>

Note:

- (a) Amortization expenses for intangible assets were RMB363,977, RMB340,816 and RMB47,842 for the years ended December 31, 2016, 2017 and 2018, respectively. The Group expects to record amortization expenses of RMB3,053, RMB2,461, RMB1,549, RMB1,349 and RMB1,271 for the years ending December 31, 2019, 2020, 2021, 2022 and 2023, respectively.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 10. Intangible assets, net (Continued)

- (b) Payment license enables the Group to provide payment services and qualifies as a paying institution, has a legal life of 5 years. The Group renewed the license during the year ended December 31, 2017 and the expiry date will be June 2022. The Group believes it would be able to renew the payment license at minimal cost continuously and has the ability to do so. As a result, the payment license is considered by the Group as having an indefinite life because it is expected to contribute to net cash inflow indefinitely.

## 11. Investment in equity method investees

Investment in equity method investees consist of investments in affiliated companies, over which the Group has significant influence but which it does not control, partnerships that the Group has more than a minor influence and joint ventures. The Group generally considers an ownership interest of 20% or higher to represent significant influence.

Investments in equity method investments as of December 31, 2017 and 2018 were as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
Kunshan Baowei Information Technology Limited <sup>(i)</sup>	—	271,959
Shenzhen Tencent Puhe Limited Partnership <sup>(ii)</sup>	—	293,481
Ovation <sup>(iii)</sup>	46,630	48,292
Others	19,704	53,695
<b>Total</b>	<b>66,334</b>	<b>667,427</b>

The Group's principal equity method investments and its ownership interest (direct and indirect) for each at December 31, 2017 and 2018 are as follows:

- (i) In November 2018, the Group entered into an agreement with another PRC company, to set up a joint venture, Kunshan Baowei Information Technology Limited ("Baowei"), which is incorporated in PRC. The Group was entitled to 45% equity interest, for a total consideration of RMB 272 million pursuant to the agreement.
- (ii) In May 2018, the Group acquired 14% limited partnership interest in Shenzhen Tencent Puhe Limited Partnership ("Puhe"), which is a PRC limited partnership company, for a total consideration of RMB362.5 million.
- (iii) In February 2014, the Group acquired a 23% equity interest in Ovation, which is a British Virgin Island ("BVI") company that engages in research and development, and distribution of beauty products and production and publication of TV programme, for a total consideration of approximately US\$55,777 (approximately RMB339,303) pursuant to a share purchase and subscription agreement with Ovation and certain of its existing shareholders.

During the years ended December 31, 2016, 2017 and 2018, the Group recognized its share of loss of equity method investees in the amount of RMB71,489, RMB22,280 and RMB46,999, respectively. No impairment was recorded during the years ended December 31, 2016, 2017 and 2018.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 12. Other investments

Other investments consist of equity investments with readily determinable fair value, equity investments without readily determinable fair value and available-for-sale debt securities. The carrying amounts and fair values of the Group's other investments are as follows:

	As of December 31, 2017				
	Original cost	Unrealized loss	Accumulated impairment	Translation difference	Estimated Fair value
	RMB	RMB	RMB	RMB	RMB
Equity investments with readily determinable fair value (Note a)	46,779	(442)	(48,634)	2,649	352
Available-for-sale debt securities (Note b)	160,314	—	(15,000)	616	145,930
Equity investments without readily determinable fair value (Note c)	586,712	—	(225,206)	26,134	387,640
Total	<u>793,805</u>	<u>(442)</u>	<u>(288,840)</u>	<u>29,399</u>	<u>533,922</u>

	As of December 31, 2018				
	Original cost	Unrealized gains	Accumulated impairment	Translation difference	Estimated Fair value
	RMB	RMB	RMB	RMB	RMB
Equity investments with readily determinable fair value (Note a)	149,406	105,235	(48,634)	11,029	217,036
Available-for-sale debt securities (Note b)	160,314	—	(35,073)	5,117	130,358
Equity investments without readily determinable fair value (Note c)	1,231,238	68,163	(225,206)	48,962	1,123,157
Total	<u>1,540,958</u>	<u>173,398</u>	<u>(308,913)</u>	<u>65,108</u>	<u>1,470,551</u>

Note:

- (a) Equity investments with readily determinable fair value

Gain on disposal of the investment was recorded to net income at the amount of RMB55,615 during the year ended December 31, 2017. The Group had no disposal during the year ended December 31, 2016 and 2018.

The Group recorded impairment loss RMB48,634 for year ended December 31, 2016, and no impairment losses for both year ended December 31, 2017 and 2018.

The Group recorded unrealized (loss) gain of nil, RMB(442) and RMB105,235 according to the fair value of the respectively investments during the year ended December 31, 2016, 2017 and 2018, respectively.

As a result of the adoption of ASU 2016-01 effective January 1, 2018, the change in fair value for all equity securities is required to be recorded within the consolidated statements of income and comprehensive income and thus the accumulated loss of RMB442 was reclassified from accumulated other comprehensive loss to the opening balance of retained earnings of the year ended December 31, 2018.

- (b) Available-for-sale debt securities

The Group recorded impairment of nil, RMB15,000 and RMB20,073 during year ended December 31, 2016, 2017 and 2018, respectively.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 12. Other investments (Continued)

- (c) Equity investments without readily determinable fair value

The principal additions during the year ended December 31, 2018 are as follows:

- (i) In March 2018, the Group entered into definitive agreement and committed to invest up to US\$250 million into a private equity fund. As of December 31, 2018, the Group invested RMB126.1 million to the fund.
- (ii) In June 2018, the Group invested in Guofu Life Insurance Co., Ltd for consideration of RMB240.0 million, which mainly engaged in domestic insurance services.
- (iii) In June 2018, the Group invested RMB144.4 million in a private company, which mainly engaged in global high-quality food sales via mobile apps.

During the year ended December 31, 2018, the Group recorded RMB68,163 unrealized gain for one of its unlisted equity investments based on observable price changes in orderly transaction for a similar investment. The Group recorded impairment loss of RMB65,940, RMB118,026 and nil for year ended December 31, 2016, 2017 and 2018, respectively.

## 13. Other long-term assets

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2018</u>
	<u>RMB</u>	<u>RMB</u>
Deposit for land use rights	—	105,840
Prepayment for investments (Note a)	240,000	—
Long term trade receivables (Note b)	63,872	221,000
Loan to staff	62,888	67,810
Long term loan receivables	—	5,586
Subtotal	<u>366,760</u>	<u>400,236</u>
Less: allowance for doubtful accounts	—	(3,789)
Total	<u>366,760</u>	<u>396,447</u>

Note:

- (a) The amounts as of December 31, 2017 represented deposits paid to an escrow account for formation of an insurance company with other independent parties. As at December 31, 2018, the establishment process has completed and the deposits were transferred to other investments.
- (b) The Group provides consumer financing to certain customers as part of the Group's internet financing business with instalment payment up to 24 months. The Group recorded the consumer financing receivables which are expected to be settled more than one year as of balance sheet date in the amounts of RMB63,872 and RMB221,000, respectively.

## 14. Goodwill

The carrying amount of goodwill was RMB367,106 as of December 31, 2017 and 2018.

The Group performed the annual impairment analysis as of the balance sheet date. There has been no impairment recognized in goodwill during the periods presented.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 15. Accrued expenses and other current liabilities

	As of December 31,	
	2017	2018
	RMB	RMB
Accrued advertising expense	621,238	821,059
Accrued shipping and handling expenses	336,580	418,187
Accrued payroll and social benefits	801,553	1,027,288
Deposits from delivery service providers	150,035	379,403
Taxes payables (Note a)	860,755	1,218,334
Accrued rental expenses	67,869	73,614
Accrued administrative expenses	229,795	440,784
Amounts received on behalf of third-party merchants (Note b)	300,264	741,109
Interest payable	17,356	26,649
Refund liability (Note c)	—	190,383
Others	151,706	175,795
Total	<u>3,537,151</u>	<u>5,512,605</u>

Note:

- (a) Amounts represent income tax payable, VAT and related surcharges, PRC individual income tax of employees withheld by the Group and tariff, import VAT and consumption tax pursuant to the Circular on Tax Policy for Cross-border E-commerce Retail Imports.
- (b) Amounts relate to the cash collected on behalf of third-party merchants which the Group provides platform access for sales of their products.
- (c) The Group offers customers with an unconditional right of return for a period of 7 days upon receipt of products on sales from its platforms. The Group reduces product revenues and cost of revenues by an estimate of expected customer merchandise returns, which is calculated based on historical return patterns, and recorded as returned liability included in accrued expenses and other current liabilities. Refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled.

## 16. Employee retirement benefit

Full time employees in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to make contributions based on certain percentages of the employees' basic salaries. Other than the contribution, there is no further obligation under these plans. The total contributions and accruals made for such employee benefits were RMB585,073, RMB808,925 and RMB928,826 for the years ended December 31, 2016, 2017 and 2018, respectively.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 17. Short term loans

Components of the outstanding short term loans are as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
RMB denominated	580,600	1,000,000
U.S. dollar denominated	326,710	343,160
Total	907,310	1,343,160

RMB denominated loans:

- (a) During the year ended December 31, 2017, the Group entered into a RMB denominated short term bank facility agreement with Industrial Bank for up to RMB179,000 and the borrowing carries fixed interest rate based on the 3-month People's Bank of China's Deposit Benchmarking Rate plus 3.25% per annum. The facility was fully drawn down and outstanding as of December 31, 2017. The Group fully repaid the loan in August 2018.
- (b) During the year ended December 31, 2017, the Group entered into a short term loan agreement with the Industrial Bank for a loan of RMB172,000, which was secured by the Group's short term investments amounting to RMB200,000 and carries fixed interest rate of 4.35%. These bank borrowings was fully repaid in August, 2018.
- (c) During the year ended December 31, 2017, the Group entered into a loan agreement with Shanghai Bank for a loan of RMB29,600. The loan was secured by the Group's short term investments amounting to RMB30,000 and carried fixed interest rate of 5.75% per annum. This loan was fully paid off in January, 2018.
- (d) During the year ended December 31, 2017, the Group entered into a RMB denominated revolving credit facility agreement with China Merchants Bank for up to RMB1.2 billion and the borrowing carries fixed interest rate. During the year ended December 31, 2017, the facility was drawn down by RMB200.0 million with a fixed interest rate of 4.35% per annum. The loan was secured by the Group's accounts receivable in the amount of RMB207.7 million. The outstanding balance of short term loans under this agreement was RMB200.0 million as of December 31, 2017 and was fully repaid in February, 2018.

During the year ended December 31, 2018, the facility was drawn down by RMB1.0 billion under the same revolving credit facility agreement with China Merchants Bank, of which (i) RMB200.0 million was uncollateralized short term loan with a fixed interest rate based on 6-month to 12-month People's Bank of China's Deposit Benchmarking minus 9.89% per annum; (ii) separate loan agreements of RMB200.0 million, RMB200.0 million and RMB400.0 million during the year ended December 31, 2018, with fixed interest rates of 4.35%, 4.29% and 3.96% per annum, respectively. These three loans were secured by the Group's accounts receivable in the amount of RMB200.0 million, RMB200.0 million and RMB400.0 million, respectively. The outstanding balance under this agreement was RMB1.0 billion as of December 31, 2018 and will be matured in the first quarter of 2019.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**17. Short term loans (Continued)**

U.S. dollar denominated loans:

- (a) During the year ended December 31, 2017, the Group entered into a US\$ denominated short term bank facility agreement with an overseas bank for up to US\$100,000 (approximately RMB650,630), in which US\$50,000 (approximately RMB326,710) was drawn down and outstanding as of December 31, 2017. The facility was pledged by the Group's restricted cash amounting to RMB35,412 and was guaranteed by the Group. The borrowing carries floating interest rate based on the 3-month London Inter-Bank Offered Rate plus 1.05% per annum. The Group made a full repayment in March 2018.
- (b) During the year ended December 31, 2018, the Group entered into a US\$ denominated short term loan agreement with China Merchants Bank for a loan of US\$50,000 (approximately RMB343,160). The loan was pledged by the Group's short term investments amounting to US\$200,000 (approximately RMB1.4 billion) and was guaranteed by the Company. The borrowing carries floating interest rate based on 6-month London Inter-Bank Offered Rate plus 0.45% per annum.

In addition, during the year ended December 31, 2018, the Group also entered into RMB denominated short term bank facility agreements with PRC banks for up to RMB250.0 million. Up to December 31, 2018, the facility was not yet utilized.

The weighted average interest rates for the outstanding short term loans during the year ended December 31, 2017 and 2018 were approximately 3.84% and 3.99%, respectively.

There is no financial covenants in respect of the Group's short term loans as of December 31, 2017 and 2018.

**18. Securitization debt**

The Group securitizes accounts receivable arising from the consumer financing businesses.

During the year ended December 31, 2017, the Group completed two offerings of asset-backed securities ("ABS") on the Shanghai Stock Exchange, at an aggregate amount of RMB800.0 million. The Group held 100% of the subordinated securities at an amount of RMB40.0 million. The outstanding balance of ABS was RMB760.0 million as of December 31, 2017 and was fully repaid during the year ended December 31, 2018.

During the year ended December 31, 2018, the Group completed the third offering of ABS on the Shanghai Stock Exchange at an aggregate amount of RMB500.0 million, of which 100% of the subordinated securities of RMB25.0 million was held by the Group. The outstanding balance of ABS was RMB475.0 million as of December 31, 2018 and will mature in 2019.

During the year ended December 31, 2018, the Group completed an offering of asset-backed notes ("ABN") on the Shanghai Clearing House. The Aggregate amount issued was RMB520.0 million and 100% of the subordinated securities of RMB26.0 million was held by the Group. The outstanding balance of ABN was RMB494.0 million as of December 31, 2018 and will mature in 2019.

The securitization debt is denominated in RMB and the weighted average interest rates during the year ended December 31, 2017 and 2018 were approximately 5.36% and 5.44%.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**19. Convertible senior notes**

On March 17, 2014, the Group issued US\$632,500 (approximately RMB4,391,448) in aggregate principal amount of 1.5% Convertible Senior Notes due 2019 (the "Notes"). The Notes can be converted into the Company's ADSs, each representing 1/5 Class A ordinary share of the Company, par value 0.001 per share (the "ordinary shares"), at the option of the holders, based on an initial conversion rate of 49.693 of the Company's American depositary shares ("ADSs") (4.9693 ADSs before the ADS ratio change effective November 3, 2014) per US\$1,000 principal amount of Notes (US\$20.124 per ADS, or \$201.24 per ADSs before the ADS ratio change). Holders of the Notes have the right to require the Group to repurchase for cash all or part of their Notes on March 15, 2017 or upon the occurrence of certain fundamental changes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date.

The Notes bear interest at a rate of 1.5% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2014.

The net proceeds from the Notes offering were US\$617,191 (approximately RMB4,285,157), after deducting discounts to the initial purchaser of US\$14,231 (approximately RMB98,806) and debt issuance costs of US\$1,078 (approximately RMB7,485). Debt issuance costs and debt discounts are recorded as a direct deduction from the face amount of Convertible Senior Notes, and amortized as interest expenses, using the effective interest method, from issuance date to the first put date of the Notes (March 15, 2017).

On March 15, 2017, part of the Notes holders exercised their option to redeem the Notes, the total redemption amount was US\$3,125 (approximately RMB21,697). The Group repaid all the outstanding principal and interests on March 15, 2019.

**20. Distribution of profit**

Pursuant to the laws applicable to entities incorporated in the PRC, the PRC subsidiaries are prohibited from distributing their statutory capital and are required to appropriate from profit after tax under accounting principles generally accepted in the PRC to other non-distributable reserve funds after offsetting accumulated losses from prior years, until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriation at 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end); the appropriation to the other fund are at the discretion of the subsidiaries.

The general reserve is used to offset future extraordinary losses. A subsidiary may, upon a resolution passed by the shareholders, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the subsidiary. The enterprise expansion reserve is for the expansion of the subsidiary's operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law, and are not distributable as cash dividends to the Group.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**20. Distribution of profit (Continued)**

Relevant PRC statutory laws and regulations permit payment of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The Company's PRC subsidiaries transferred RMB84,873, RMB95,617 and RMB121,069 to the general reserve during the years ended December 31, 2016, 2017 and 2018, respectively.

The balance of restricted net assets was RMB6,637,007 as of December 31, 2018.

**21. Capital structure**

*Dual-class share structure*

On September 15, 2014, the Company's shareholders voted in favor of a proposal to adopt a dual-class share structure, pursuant to which the Company's authorized share capital was reclassified and re-designated into Class A ordinary shares and Class B ordinary shares, with each Class A ordinary share being entitled to one vote and each Class B ordinary share being entitled to ten votes on all matters that are subject to shareholder vote. Both Class A ordinary shares and Class B ordinary shares are entitled to the same dividend right. The holders of the Group's ordinary shares are entitled to such dividends as may be declared by the board of directors subject to the Companies Law. The computation of net earnings per Class A ordinary shares and Class B ordinary shares have been adjusted retroactively for all periods presented to reflect this change. As of December 31, 2017 and 2018, all Class B ordinary shares were held by the Chairman of the Company.

*ADS ratio change*

Effective November 3, 2014, the Group changed its ADS to Class A ordinary share ratio from one ADS representing two Class A ordinary shares to five ADSs representing one Class A ordinary share. The computation of net earnings per ADS have been adjusted retroactively for all periods presented to reflect this change.

*Issuance of ordinary shares*

In December 2017, the Group issued 9,229,437 and 3,955,473 Class A ordinary shares to Tencent Holdings Limited ("Tencent") and JD.com, Inc. ("JD.com"), in the amount of approximately US\$603,605 (approximately RMB3,927,236) and US\$258,688 (approximately RMB1,683,101), respectively.

*Exercise of share options*

During the year ended December 31, 2016, 560,930 Class A ordinary shares were issued respectively as a result of exercises of share options by employees and a consultant. During the year ended December 31, 2017, 454,708 Class A ordinary shares were re-issued from treasury shares as a result of exercise of share options by employees. During the year ended December 31, 2018, 356,736 Class A ordinary shares were issued as a result of exercise of share options by employees.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**21. Capital structure (Continued)**

*Vesting of shares awards*

During the years ended December 31, 2016, 2017 and 2018, 861,815, 23,413 and 1,322,560 Class A ordinary shares were issued respectively as a result of vesting of shares awards granted to employees and consultants.

**22. Treasury shares**

On November 17, 2015, the Company's board of directors approved a share repurchase program whereby the Group may purchase its own ADSs with an aggregate value of up to US\$300 million over the following 24-month period, ending on November 16, 2017. As of December 31, 2016, the Group has repurchased 1,614,135 shares from the market in the consideration of approximately RMB844,711 in aggregate. Part of the considerations for the repurchase of shares in the amount RMB194, 514 were only settled during the year ended December 31, 2016. As of December 31, 2018, the Group has no outstanding treasury shares.

During the years ended December 31, 2016, 2017 and 2018, 257,217, 1,356,918 and nil, representing the full amount of the treasury shares in aggregate respectively, was re-issued to employees of the Group for the purpose of share awards.

**23. Other operating income**

Other operating income consists of government grants and other miscellaneous income. Government grants represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group, tax refunds, or subsidies for asset related investments made by the Group. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

A government grant will only be recognized as other operating income when it is probable that any future economic benefit associated with an item will flow to the Group, and the grant has been received because the amount of such government grants are determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive these government grants in the future. Grants related to depreciable assets are recognized in profit or loss over the periods in which depreciation expense on those assets is recognized, corresponding to the useful lives of the assets.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**23. Other operating income (Continued)**

Other operating income is comprised of:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Government grants	282,866	347,817	553,153
Claims income	65,368	68,993	101,778
ADR reimbursement	—	80,115	36,087
Others	9,795	34,130	66,044
Total other operating income	<u>358,029</u>	<u>531,055</u>	<u>757,062</u>

**24. Income taxes***Cayman Islands*

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

*Hong Kong*

The provision for current income taxes of the subsidiaries operating in Hong Kong has been calculated by applying the current rate of taxation of 16.5% for the years ended December 31, 2016, 2017 and 2018, if applicable.

*The People's Republic of China*

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), domestically owned enterprises and foreign invested enterprises (the "FIEs") are subject to a uniform tax rate of 25%. While the EIT Law equalizes the tax rates for FIEs and domestically-owned enterprises, preferential tax treatment may continue to be given to companies in certain encouraged sectors and to entities classified as high and new technology companies, regardless of whether these are domestically-owned enterprises or FIEs.

In accordance with No. 23 of the State Administration of Taxation Announcement No. 2018: the Administrative Measures on Corporate Income Tax Preferential Policies (Revision 2018), the enterprise shall voluntarily assess and apply the relevant preferential tax rate according to the de facto operating situation and relevant tax regulations, the relevant supporting documents of which shall be retained for any examination by the tax authorities.

The Group's subsidiaries and the variable interest entities in the PRC are all subject to the tax rate of 25% for the periods presented except for some subsidiaries that were entitled to the following preferential tax treatment, based on the Group's assessment and relevant tax regulations:

Pinwei Software was classified as a high and new technology enterprise and entitled to a preferential tax rate of 15%, based on Article 28 of the Law of the People's Republic of China on Enterprise Income Tax for the year ended December 31, 2016. Subsequent to the year ended

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**24. Income taxes (Continued)**

December 31, 2017, Pinwei Software applied and was classified as "State Planning Key Software Enterprise" by the local tax authority and entitled to a preferential tax rate of 10% pursuant to Circular Caishui (2012) 27 starting from the beginning of 2018.

Vipshop Jianyang and Vipshop Chongqing have been recognized as encouraged enterprises in the Western Region in an industry sector encouraged by the PRC government and entitled to a preferential tax rate of 15% for the years ended December 31, 2017 and 2018.

Vipshop Zhuhai was entitled to a preferential tax rate of 15% as it is located in an economy development zone in the PRC and its primary business falls into the scopes of the encouraged industries stipulated in the existing related policies.

The term "encouraged enterprise in an industry sector encouraged by the PRC government" as used herein refers to an enterprise incorporated in certain region and that its primary business falls into the scopes of the encouraged industries stipulated in the existing related policies, including Catalogue of Encouraged Industries in the Western Region, Industrial Restructuring Guidance Catalogue (2011, revised in 2013), Catalogue for the Guidance of Foreign Investment Industries (Revised in 2017), Catalogue of Foreign-invested Advantage Industries in Central-Western Region (Revised in 2017), Circular of the Ministry of Finance and the State Administration of Taxation on the Preferential Enterprise Income Tax Policies and Catalogue for Hengqin New Area of Guangdong Province, Pingtan Comprehensive Experimental Area of Fujian Province and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen City.

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2017 and 2018, the Group had no unrecognized tax benefits. The Group does not anticipate any significant increase to its liability for unrecognized tax benefit within the next 12 months. The Group will classify interest and penalties related to income tax matters, if any, in income tax expense.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 (US\$15) is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion, refusal to pay tax and tax fraud.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 24. Income taxes (Continued)

Income (loss) by tax jurisdictions:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Income from China operations	3,241,171	3,320,283	3,770,270
Loss from non-China operations	(575,087)	(779,430)	(1,023,195)
Total income before tax and share of loss of equity method investees	<u>2,666,084</u>	<u>2,540,853</u>	<u>2,747,075</u>

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Income tax expenses applicable to China and Hong Kong operations			
Current tax (Note)	689,473	780,013	682,309
Deferred tax	(87,645)	(153,873)	(115,705)
Total tax expenses	<u>601,828</u>	<u>626,140</u>	<u>566,604</u>

Note:

All current tax was related to income tax in PRC and Hong Kong.

Under the EIT Law, enterprises are classified as either resident or non-resident. A resident enterprise refers to one that is incorporated under the PRC law or under the law of a jurisdiction outside the PRC with its "de facto management organization" located within the PRC. Non-residential enterprise refers to one that is incorporated under the law of a jurisdiction outside the PRC with its "de facto management organization" located also outside the PRC, but which has either set up institutions or establishments in the PRC or has income originating from the PRC without setting up any institution or establishments in the PRC.

Under the current EIT Implementation Regulations, "de facto management organization" is defined as the organization of an enterprise through which substantial and comprehensive management and control over the business, operations, personnel, accounting and properties of the enterprise are exercised. Under the Enterprises Income Tax Law of the People's Republic of China which was promulgated on March 16, 2007 and took effect as of January 1, 2008 (the "New Tax Law") and the New EIT Implementation Regulations, a resident enterprise's global net income will be subject to a 25% enterprise income tax rate. Uncertainties exist with respect to how the New Tax Law and New EIT Implementation Regulations apply to the Group's overall operations, and more specifically, with regard to tax residency status. On April 22, 2009, the State Administration of Taxation, or the SAT, issued SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. In addition, the SAT issued a bulletin on July 27, 2011 providing more guidance on the implementation of Circular 82 and clarifies matters such as resident status determination. Due to the present uncertainties resulting from the limited PRC tax guidance on this issue, it is unclear that the legal entities organized

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 24. Income taxes (Continued)

outside of PRC should be treated as residents for New Tax Law purposes. Nevertheless, even if one or more of its legal entities organized outside of the PRC were characterized as PRC tax residents, most of them are still in accumulated loss position and no significant impact would be expected on the net current tax payable balance and the net deferred tax balance.

If the entity were to be non-resident for PRC tax purpose, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries the withholding tax would be 10% and in the case of a subsidiary 25% or more directly owned by residents which meet the criteria of beneficial owner in the Hong Kong Special Administrative Region ("Hong Kong SAR"), the withholding tax would be 5%.

Aggregate undistributed earnings of the Group's subsidiaries and the VIEs in the PRC that are available for distribution to the Group of approximately RMB9,981.8 million and RMB12,288.5 million as of December 31, 2017 and 2018 respectively are considered to be indefinitely reinvested under ASC 740-30, *Accounting for Income Taxes—Special Areas*, and accordingly, no provision has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Group. If those earnings were to be distributed or they were determined to be no longer permanently reinvested, the Group would have to record a deferred income tax liability in respect of those undistributed earnings of approximately RMB499.1 million and RMB614.4 million as of December 31, 2017 and 2018 respectively.

A reconciliation of the income tax expense to income before income tax expense and share of loss of equity method investees computed by applying the PRC statutory income tax rate of 25% per the consolidated statements of income and comprehensive income is as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Income before income tax expense and share of loss of equity method investees	2,666,084	2,540,853	2,747,075
Computed income tax expense at PRC EIT tax rate	666,521	635,213	686,769
Effect of non-deductible expenses, including:			
—Share-based compensation expenses	118,913	166,774	167,803
—Other non-deductible expenses	6,408	67,911	65,497
Effect of different tax rates of subsidiaries operating in other jurisdiction	1,693	8,634	10,454
Effect of tax holidays on concessionary rates granted to PRC subsidiaries	(280,523)	(329,048)	(397,437)
Effect of non-taxable income	(17,419)	(30,075)	(58,053)
Change in valuation allowance	105,387	106,731	91,571
Others	848	—	—
Income tax expenses	601,828	626,140	566,604

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**24. Income taxes (Continued)**

The aggregate amount and per share effect of the tax holidays and tax concessions are as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
The aggregate effect	280,523	329,048	397,437
Per share effect:			
Class A and Class B ordinary share:			
—basic	2.42	2.80	3.00
—diluted	2.23	2.62	2.84

The principal components of deferred tax assets are as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
Deferred tax assets:		
Net operating loss carry forwards	287,104	356,293
Allowance for doubtful debts	41,937	44,621
Allowance for other investments	13,980	13,980
Inventory write-down	52,885	126,755
Payroll payable and other accruals	14,963	14,750
Deferred income	131,261	178,910
Others	4,043	6,093
Less: valuation allowance	(261,061)	(352,632)
Total deferred tax assets-non current	<u>285,112</u>	<u>388,770</u>
Deferred tax liability :		
Intangible assets	17,007	4,960
Total deferred tax liability-non-current	<u>17,007</u>	<u>4,960</u>

The amount of tax loss carried forward was RMB1,253,624 and RMB1,700,028 of December 31, 2017 and 2018, respectively, for the Group's certain subsidiaries and VIEs.

The Group has provided a valuation allowance for the deferred tax assets relating to the future benefit of net operating loss carry forwards and other deferred tax assets of certain subsidiaries as of December 31, 2017 and 2018, respectively, as management is not able to conclude that the future realization of some of those net operating loss carry forwards and other deferred tax assets are more likely than not.

**25. Earnings per share**

As of December 31, 2016, 2017 and 2018, there are 909,568, 846,952 and 839,275 employee share options or non-vested ordinary shares, respectively, which could potentially dilute basic net earnings per share in the future, but which were excluded from the computation of diluted net earnings per share in the periods presented, as their effects would have been anti-dilutive.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 25. Earnings per share (Continued)

Basic net earnings per share is based on the weighted average number of ordinary shares outstanding during each period. Diluted net earnings per share is based on the weighted average number of ordinary shares outstanding and incremental weighted average number of ordinary shares from assumed vesting of non-vested shares and exercise of share options, and conversion of the convertible senior notes during each period.

As economic rights and obligations are applied equally to both Class A and Class B ordinary shares, earnings are allocated between the two classes of ordinary shares evenly with the same allocation on a per share basis.

Basic earnings per share and diluted earnings per share have been calculated for the years ended December 31, 2016, 2017 and 2018 as follows:

	Year ended December 31,		
	2016	2017	2018
	Class A and	Class A and	Class A and
	Class B	Class B	Class B
	RMB	RMB	RMB
Basic earnings per share attributable to Vipshop Holdings Limited's ordinary shareholders:			
<b>Numerator:</b>			
Earnings attributable to Class A and Class B ordinary shareholders for computing basic earnings per Class A and Class B ordinary share	2,036,817	1,949,655	2,128,787
<b>Denominator:</b>			
Weighted average number of Class A and Class B ordinary shares outstanding for computing basic earnings per Class A and Class B ordinary share	115,958,088	117,554,229	132,266,157
Basic earnings per Class A and Class B ordinary shares	17.57	16.59	16.09

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 25. Earnings per share (Continued)

Diluted earnings per share for the years ended December 31, 2016, 2017 and 2018 are calculated as follows:

	Year ended December 31,		
	2016	2017	2018
	Class A and Class B	Class A and Class B	Class A and Class B
	RMB	RMB	RMB
Diluted earnings per share:			
<b>Numerator:</b>			
Earnings attributable to Class A and Class B ordinary shareholders for computing basic earnings per Class A and Class B ordinary share	2,036,817	1,949,655	2,128,787
Interest expenses from convertible senior notes	84,147	54,673	57,293
Net earnings attributable to Class A and Class B ordinary shareholders for computing diluted earnings per Class A and Class B ordinary share	<u>2,120,964</u>	<u>2,004,328</u>	<u>2,186,080</u>
<b>Denominator:</b>			
Weighted average number of Class A and Class B ordinary shares outstanding for computing basic earnings per Class A and Class B ordinary share	115,958,088	117,554,229	132,266,157
Dilutive employee share options and non-vested ordinary shares	3,572,930	1,900,201	1,562,347
Dilutive convertible senior notes	<u>6,286,165</u>	<u>6,261,403</u>	<u>6,255,106</u>
Weighted average number of Class A and Class B ordinary shares outstanding for computing diluted earnings per Class A and Class B ordinary share	<u>125,817,183</u>	<u>125,715,833</u>	<u>140,083,610</u>
Diluted earnings per Class A and Class B ordinary shares	16.86	15.94	15.61

The Group granted a number of non-vested ordinary shares to certain executive officers and employees during the years ended December 31, 2016, 2017 and 2018 (refer to Note 29 (b)), these non-vested shares are not included in the computation of basic earnings per share as these non-vested shares do not contain any unforfeitable rights to dividends or dividend equivalents.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 26. Accumulated other comprehensive loss

The changes in accumulated other comprehensive loss by component are as follows:

	Cumulative Translation Adjustments	Unrealized Gain and (Loss) on Available-for-sale Securities	Total
	RMB	RMB	RMB
<b>Balance as of January 1, 2016</b>	(73,996)	3,015	(70,981)
Foreign currency translation, net of tax of nil	(292,152)	—	(292,152)
Fair value changes of available-for-sale investments, net of tax of nil	—	(17,042)	(17,042)
Reclassification adjustment for losses included in net income, net of tax of nil	—	36,567	36,567
<b>Balance as of December 31, 2016</b>	<u>(366,148)</u>	<u>22,540</u>	<u>(343,608)</u>
Foreign currency translation, net of tax of nil	342,348	—	342,348
Fair value changes of available-for-sale investments, net of tax of nil	—	32,633	32,633
Reclassification adjustment for gains included in net income, net of tax of nil	—	(55,615)	(55,615)
<b>Balance as of December 31, 2017</b>	<u>(23,800)</u>	<u>(442)</u>	<u>(24,242)</u>
Adoption of ASU 2016-01	—	442	442
Foreign currency translation, net of tax of nil	(7,083)	—	(7,083)
<b>Balance as of December 31, 2018</b>	<u>(30,883)</u>	<u>—</u>	<u>(30,883)</u>

## 27. Commitments and contingencies

*Operating leases agreements*

The Group leases office space and certain equipment under non-cancellable operating lease agreements that expire at various dates through June 2026. Those lease agreements provide for periodic rental increases based on both contractual incremental rates and inflation rates adjustments over the leased periods. Some of these lease agreements include terms of renewal ranging from one to ten years upon expiry of their respective original lease terms, without purchase options or escalation clause. If these lease agreements are not renewed, the Group is obligated to remove the facilities constructed under certain of its warehouse space lease contracts, although the Group expects such related removal costs to be not significant.

During the three years ended December 31, 2016, 2017 and 2018, the Group incurred rental expenses amounting to RMB248,264, RMB493,248 and RMB595,300, respectively.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**27. Commitments and contingencies (Continued)**

As of December 31, 2018, minimum lease payments under all non-cancellable leases were as follows:

	<u>RMB</u>
Year ending December 31, 2019	398,044
Year ending December 31, 2020	172,549
Year ending December 31, 2021	84,475
Year ending December 31, 2022	49,863
Year ending December 31, 2023	38,426
Thereafter	7,937
Total minimum lease payments	<u>751,294</u>

**Capital commitment**

As of December 31, 2018, the Group has contracted for capital expenditures of RMB2,638,129 (2017: RMB2,345,658).

**Other commitments**

The Group has invested RMB126.1 million into a private equity fund (Note 12(c) (i)) as of December 31, 2018, and further investment will be made upon call from general partner of the fund from time to time to a maximum limit of US\$250 million.

The Group also commits to purchase services from one of its related parties at the amounts of RMB390,378 (US\$60.0 million) from the year ended December 31, 2021 to 2023.

During the year ended December 31, 2017, the Group entered into a cooperative lending arrangement with a bank, whereby the Group and the bank will jointly fund financing to individuals. Under this arrangement, the Group is obligated to compensate the bank, if the bank's lending portion becomes overdue by more than 80 days. The bank's lending portion under the arrangement was approximately RMB117.7 million as of December 31, 2018.

**Contingencies**

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any currently pending legal proceeding to which the Group is a party will have a material effect on its business, results of operations or cash flows.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 28. Related party transactions

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2018:

<u>Name of related parties</u>	<u>Relationship with the Group</u>
Tencent and its subsidiaries ("Tencent Group")	A shareholder with significant influence to the Group
Trendy (China) Group Holdings Limited and its subsidiaries ("Trendy Group")	An entity controlled by a director of the Group

For the years ended December 31, 2016, 2017 and 2018, the Group entered into the following material related party transactions:

	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Purchase of goods	155,093	213,350	340,365
Purchase of services	1,475	1,001	317,921
Purchase of logistic services	137,088	—	—
Provision of services	1,773	1,825	6,300

Details of the balances with related parties are as follows:

## (a) Amounts due from related parties

Amounts due from related parties consist of amounts due from companies controlled or significantly influenced by the Company, its shareholders and directors.

Amounts due from related parties as of December 31, 2017 and 2018 amounted to RMB10,191 and RMB17,475, respectively, mainly including prepayments placed by the Group related to purchases of goods from companies significantly influenced by the Company, its shareholders and directors.

## (b) Amounts due to related parties

The amounts due to companies controlled or significantly influenced by the Company, its shareholders and directors as of December 31, 2017 and 2018 amounted to RMB65,022 and RMB323,108, respectively, and were unsecured and interest free. These amounts are all related to purchases of goods, logistic and other services from these parties.

VIPSHOP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**29. Share-based payments**

**(a) Share incentive plan**

In March 2011, the Group adopted the Vipshop Holdings Limited 2011 Stock Incentive Plan (the "2011 Plan"), which provide up to an aggregate of 7,350,000 Class A ordinary shares of the Group as share based compensation to employees, directors, officers and consultants and other eligible personal of the Group.

In 2012, the Group adopted the 2012 Stock Incentive Plan (the "2012 Plan"), which provide up to an aggregate of 9,000,000 Class A ordinary shares of the Group, and the maximum aggregate number of shares that may be issued per calendar year is 1,500,000 from 2012 until the termination of the 2012 Plan.

In July 2014, the Group adopted the 2014 Stock Incentive Plan (the "2014 Plan"), in which the maximum aggregate number of ordinary shares may be issued under the 2014 Plan is (i) 5,366,998 Class A ordinary shares, and (ii) an automatic increase on January 1 of each year after the effective date of the 2014 Plan by that number of shares representing 1.5% of the Group's then total issued and outstanding share capital as of December 31 of the preceding year, or such less number as determined by the board of directors.

During the years ended December 31, 2016, no share option were granted to executive officers, employees and non-employees of the Group under the 2011, 2012 and 2014 Plans.

In January 2017, the Group granted 900,000 restricted shares to its senior management, and on the same date, the Group also granted 1,320,000 share options to its senior management at an exercise price of US\$68.35 (approximately RMB444.71) per ordinary share pursuant to the Company's 2014 Share Incentive plan. In December 2018, the exercise price of 660,000 share options among the foregoing batch was adjusted to US\$26.30 (approximately RMB180.83) per ordinary share.

The expiration dates of the options were 5 to 10 years from grant date, vesting is subject to the continuous services of the option holders to the Group, and post-termination exercise period ranged from 3 to 9 months. During any authorized leave of absence, the vesting of the option shall be suspended after the leave of absence exceeds a period of 90 days. Vesting of the option shall resume upon the option holders' return to service to the Group. The vesting schedule shall be extended by the length of the suspension.

In the event of termination of the option holders' continuous service for cause, the option holders' right to exercise the option shall terminate concurrently, except otherwise determined by the plan administrator, and the Group shall have the rights to repurchase all vested options purchased by the option holders at a discount price determined by the plan administrator. The share option holders have waived any voting rights with regard to the shares and granted a power of attorney to the Board of Directors of the Group to exercise voting rights with respect to the shares.

The Group uses the Binomial model to determine the estimated fair value for each option granted below with the assistance of an independent valuation firm. The Group estimates that the forfeiture rate for key management and employees will be nil and 13% for 2016, nil and 18% for 2017, and nil and 22% for 2018, respectively.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 29. Share-based payments (Continued)

## (a) Share incentive plan (Continued)

The assumptions used in determining the fair value of the share options on the grant date were as follows:

<u>Assumptions</u>	<u>2017</u>
Expected dividend yield	0%
Risk-free interest rate	1.96%
Expected volatility	61.0%
Expected life	5 years
Exercise multiples	2.80 times
Weighted average fair value of underlying ordinary shares (US\$/share)	25.09

Notes:

- (1) Expected dividend yield:

The expected dividend yield was estimated by the Group based on its dividend policy over the expected life of the options.

- (2) Risk-free interest rate:

Risk-free interest rate was estimated based on the US Treasury Bond as of the valuation date.

- (3) Expected volatility:

The volatility of the underlying ordinary shares was estimated based on historical volatility of the Group for the period before the valuation date with length commensurate to contractual life of the options.

- (4) Expected life:

The expected life was the contractual life of the share options.

- (5) Exercise multiples:

The Group estimated the exercise multiple based on a consideration of various research studies regarding exercise pattern from historical statistical data.

- (6) Fair value of underlying ordinary shares:

After the Group's initial public offering in March 2012, the fair values of ordinary shares were determined based on the closing price in the market.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 29. Share-based payments (Continued)

## (a) Share incentive plan (Continued)

For the years ended December 31, 2016, 2017 and 2018, the share option movements were as follows:

	Options outstanding	Weighted average exercise price per share US\$	Weighted average remaining contractual years to expiry per share	Weighted average fair value at grant date US\$	Weighted average intrinsic value per option US\$	Aggregate intrinsic value US\$
As of January 1, 2016	2,436,871	1.33	5.89 years			
Exercised	(560,930)	1.53	4.61 years			
Forfeited	(3,000)	2.50	4.92 years			
Outstanding as of December 31, 2016	<u>1,872,941</u>	<u>0.78</u>	<u>4.97 years</u>			
Granted	1,320,000	68.35	4.00 years			
Exercised	(454,708)	1.95	3.75 years			
Outstanding as of December 31, 2017	<u>2,738,233</u>	<u>33.50</u>	<u>4.14 years</u>			
Exercised	(356,736)	1.65	2.77 years			
Outstanding as of December 31, 2018	<u>2,381,497</u>	<u>26.61</u>	<u>3.05 years</u>			
Non-vested as of December 31, 2018	687,500					
Options vested and expected to vest as of						
December 31, 2018	2,381,497	26.61	3.05 years	17.76	27.98	66,644,636
Exercisable as of December 31, 2018	1,693,997	18.21	3.07 years	9.58	36.39	61,644,292

For the years ended December 31, 2016, 2017 and 2018, the Group recognized share based payment expenses of RMB7,002, RMB54,505 and RMB65,884 in connection with the share options granted to employees, respectively. The total fair value of shares vested during the years ended December 31, 2016, 2017 and 2018 was RMB7,621, RMB236 and RMB122,864, respectively.

As of December 31, 2018, there was RMB131,395 (2017: RMB162,949) unrecognized compensation cost related to unvested share options granted to executive and employees of the Group. The unvested share options expense relating to the share options of the Group is expected to be recognized over a weighted average period of 2 years on a straight-line basis schedule as of December 31, 2018.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 29. Share-based payments (Continued)

## (b) Non-vested shares

During 2016, 2017 and 2018, a total of 1,815,919, 2,900,580 and 1,102,576 non-vested shares were granted to executive officers, employees, members of Audit Committee and consultants of the Group under the 2012 and 2014 Plan, respectively.

Most of the non-vested shares granted have a vesting period of four years of employment services with the first one-fourth vesting on the first anniversary from grant date, and the remaining three fourth vesting on a monthly basis over a three-year period ending on the fourth anniversary of the grant date. The non-vested shares are not transferable and may not be sold or pledged and the holder has no voting or dividend right on the non-vested shares. In the event a non-vested shareholder's employment for the Group is terminated for any reason prior to the fourth anniversary of the grant date, the holder's right to the non-vested shares will terminate effectively. The outstanding non-vested shares shall be forfeited and automatically transferred to and reacquired by the Group without any consideration.

For the years ended December 31, 2016, 2017 and 2018, the non-vested shares movement was as follows:

	<b>Non-vested shares outstanding</b>
Outstanding as of January 1, 2016	2,094,709
Granted	1,815,919
Vested	(1,119,032)
Forfeited	(371,731)
Outstanding as of December 31, 2016	<u>2,419,865</u>
Granted	2,900,580
Vested	(925,623)
Forfeited	(464,564)
Outstanding as of December 31, 2017	<u>3,930,258</u>
Granted	1,102,576
Vested	(1,322,560)
Forfeited	(786,772)
Outstanding as of December 31, 2018	<u><u>2,923,502</u></u>

The Group recognized compensation expense over the four year service periods on a straight line basis, and applied a forfeiture rate of nil for key management for 2016, 2017 and 2018, while the forfeiture rate is 13%, 18% and 22% for employees for the years ended December 31, 2016, 2017 and 2018, respectively. The aggregate fair value of the restricted shares at grant dates was RMB824,474, RMB1,082,797 and RMB527,552 during the years ended December 31, 2016, 2017 and 2018 respectively. The fair values of non-vested shares are measured at the respective fair values of the Company's ordinary shares on the grant-dates.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**29. Share-based payments (Continued)****(b) Non-vested shares (Continued)**

For the years ended December 31, 2016, 2017 and 2018, the Group recognized share based payment expenses of RMB468,651, RMB612,593 and RMB605,326 in connection with the non-vested shares granted to employees, respectively.

As of December 31, 2018 there was RMB1,202,977 (2017: RMB1,432,463) unrecognized compensation cost related to non-vested shares which is expected to be recognized over a weighted average vesting period of 2.32 years. The weighted average granted fair value per share of non-vested shares granted during the years ended December 31, 2016, 2017 and 2018 was US\$67.66 (approximately RMB469.76), US\$55.51 (approximately RMB361.18) and US\$65.59 (approximately RMB478.47) respectively.

**(c) Share-based compensation expenses**

For the years ended December 31, 2016, 2017 and 2018, share-based compensation expenses have been included in the following balances on the consolidated statements of income and comprehensive income:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Fulfillment expenses	(38,428)	(73,235)	(73,151)
Marketing expenses	(38,459)	(40,364)	(41,063)
Technology and content expenses	(183,122)	(206,073)	(203,594)
General and administrative expenses	(215,644)	(347,426)	(353,402)
	<u>(475,653)</u>	<u>(667,098)</u>	<u>(671,210)</u>

**30. Segment information****Segment revenue and results**

The Group has determined that it operates in two operating segments: (1) Vip.com, (2) Internet finance business.

The Group derives the results of the segments directly from its internal management reporting system. The CODM measures the performance of each segment based on metrics of revenue and income (loss) from operations and uses these results to evaluate the performance of, and to allocate resources to, each of the segments. The Group currently does not allocate assets, share-based compensation expenses and certain operating expenses to its segments, as the CODM does not use such information to allocate resources to or evaluate the performance of the operating segments.

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

## 30. Segment information (Continued)

The table below provides a summary of the Group's operating segment results for the years ended December 31, 2016, 2017 and 2018:

	Year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Net revenues			
Vip.com	56,567,945	72,875,234	84,159,609
Internet finance business	114,735	249,726	753,752
Inter-segment revenues (Note a)	(91,378)	(212,647)	(389,413)
Total net revenues	56,591,302	72,912,313	84,523,948
Income (loss) from operations			
Vip.com	3,665,649	4,063,238	3,353,658
Internet finance business	(172,750)	(366,025)	(215,459)
Unallocated expenses (Note b)	(785,190)	(1,006,767)	(717,086)
Total income from operations	2,707,709	2,690,446	2,421,113
Total other (expenses) income	(41,625)	(149,593)	325,962
Income before income tax expense and share of loss of equity method investees	2,666,084	2,540,853	2,747,075

Depreciation of property and equipment, net (included in the measurement of segment profit or loss):

	Year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Total depreciation of property and equipment, net			
Vip.com	610,293	714,656	715,087
Internet finance business	683	6,184	55,203
	610,976	720,840	770,290

Note:

- (a) Inter-segment revenues mainly consist of payment processing and financing services provided by the Internet finance business to Vip.com and promotion services provided by Vip.com to the Internet finance business.
- (b) Unallocated expenses include share-based compensation and amortization of intangible assets resulting from assets and business acquisitions, which are not allocated to segments.

**VIPSHOP HOLDINGS LIMITED**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**30. Segment information (Continued)**

Interest income and expenses (included in the measurement of segment profit or loss):

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
<b>Interest income</b>			
Vip.com	105,495	192,052	232,494
Internet finance business	29,931	4,252	36,946
Inter-segment interest income	(28,382)	(95,179)	(26,568)
	<u>107,044</u>	<u>101,125</u>	<u>242,872</u>
<b>Interest expense</b>			
Vip.com	(84,151)	(55,821)	(103,504)
Internet finance business	(29,426)	(121,793)	(82,808)
Inter-segment interest income	28,382	95,179	26,568
	<u>(85,195)</u>	<u>(82,435)</u>	<u>(159,744)</u>

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
<b>Net loss of investments accounted by equity method</b>			
Vip.com	(71,489)	(22,280)	(46,999)
Internet finance business	—	—	—
	<u>(71,489)</u>	<u>(22,280)</u>	<u>(46,999)</u>

The following assets information in the Internet finance segments are reviewed by the CODM:

	Year ended December 31,	
	2017	2018
	RMB	RMB
<b>Total assets</b>		
Vip.com	30,158,119	34,867,619
Internet finance business	7,824,701	8,695,044
	<u>37,982,820</u>	<u>43,562,663</u>
<b>Investments in equity method investees</b>		
Vip.com	66,334	667,427
Internet finance business	—	—
	<u>66,334</u>	<u>667,427</u>
<b>Total expenditure for additions of long-lived assets</b>		
Vip.com	2,459,874	3,556,067
Internet finance business	14,576	37,893
	<u>2,474,450</u>	<u>3,593,960</u>

## VIPSHOP HOLDINGS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share and per share data, unless otherwise stated)

**30. Segment information (Continued)****Other segment information**

Product revenues relate to sales of apparel, shoes and bags and other products.

Other revenues relate to revenues from product promotion and online advertising, and commission fees charged to third-party merchants which the Group provides platform access for sales of their product, and revenues from logistic and warehouse services provided to vendors of the Group.

	Year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Product revenues			
Apparel	20,381,929	24,642,418	30,446,797
Shoes and bags	7,734,909	8,340,015	8,442,178
Cosmetics	7,574,423	10,607,267	11,700,310
Sportswear and sporting goods	3,518,007	4,747,077	5,699,740
Home goods and other lifestyle products	6,622,624	9,875,682	9,808,677
Toys, kids and baby	5,535,834	6,978,246	8,013,615
Other goods	3,914,174	5,980,948	7,398,958
	<u>55,281,900</u>	<u>71,171,653</u>	<u>81,510,275</u>
Other revenues	1,309,402	1,740,660	3,013,673
Total net revenues	<u>56,591,302</u>	<u>72,912,313</u>	<u>84,523,948</u>

**Geographic information**

Substantially all revenues and long-lived assets of Group are derived from and located in the PRC.

**VIPSHOP HOLDINGS LIMITED**  
**Schedule I—Condensed Financial Information**  
**Statements of Income and Comprehensive Income**  
**(All amounts in thousands)**

	Year ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	US\$
General and administrative expenses	(490,939)	(696,832)	(694,847)	(101,061)
Other operating income	—	77,513	36,087	5,249
Loss from operations	(490,939)	(619,319)	(658,760)	(95,812)
Interest expenses	(84,148)	(54,665)	(57,293)	(8,333)
Share of results of equity method investees	(65,492)	(21,319)	1,642	239
Equity income of subsidiaries and VIEs	2,677,396	2,644,958	2,843,198	413,526
Net income	<u>2,036,817</u>	<u>1,949,655</u>	<u>2,128,787</u>	<u>309,620</u>
Other comprehensive income, net of tax of nil:				
Foreign currency translation adjustments	(292,152)	342,348	(7,083)	(1,030)
Share of comprehensive income/(loss) of subsidiaries	19,525	(22,982)	—	—
Comprehensive income attributable to Vipshop Holdings Limited's shareholders	<u>1,764,190</u>	<u>2,269,021</u>	<u>2,121,704</u>	<u>308,590</u>

## VIPSHOP HOLDINGS LIMITED

## Schedule I—Condensed Financial Information

## Balance Sheets

(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2017 RMB	2018 RMB	2018 US\$
<b>ASSETS</b>			
Cash and cash equivalents	327,314	212	31
Investment in an equity method investee	46,630	48,292	7,024
Investment in subsidiaries and VIEs	9,093,924	11,937,122	1,736,182
Amount due from subsidiaries and VIEs	8,941,899	9,614,563	1,398,380
<b>TOTAL ASSETS</b>	<b>18,409,767</b>	<b>21,600,189</b>	<b>3,141,617</b>
<b>LIABILITIES AND EQUITY</b>			
Accrued expenses and other current liabilities	20,345	11,106	1,613
Convertible senior notes	4,094,903	4,327,268	629,375
Total liabilities	4,115,248	4,338,374	630,988
<b>EQUITY</b>			
Class A ordinary shares (US\$0.0001 par value, 483,489,642 shares authorized, and 114,716,587 and 116,395,883 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	74	75	11
Class B ordinary shares (US\$0.0001 par value, 16,510,358 shares authorized, and 16,510,358 and 16,510,358 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	11	11	2
Additional paid-in capital	8,715,995	9,385,216	1,365,023
Retained earnings	5,602,681	7,907,396	1,150,083
Accumulated other comprehensive loss	(24,242)	(30,883)	(4,490)
Total shareholders' equity	14,294,519	17,261,815	2,510,629
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>18,409,767</b>	<b>21,600,189</b>	<b>3,141,617</b>

**VIPSHOP HOLDINGS LIMITED**
**Schedule I—Condensed Financial Information**
**STATEMENTS OF CASH FLOWS**

(All amounts in thousands)

	Year ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US\$
<b>Cash flow from operating activities:</b>				
Net income	2,036,817	1,949,655	2,128,787	309,620
<b>Adjustments to reconcile net income to net cash by operating activities:</b>				
Equity income of subsidiaries and variable interest entities	(2,677,396)	(2,644,958)	(2,843,198)	(413,526)
Share of results of equity method investees	65,492	21,319	(1,642)	(239)
Share-based compensation expenses	475,653	667,098	671,210	97,623
Amortization of debt issuance cost	35,824	5,950	—	—
<b>Changes in operating assets and liabilities:</b>				
Investment in subsidiaries and VIEs	—	—	176,370	25,652
Accrued expenses and other current liabilities	23,924	53,870	(10,115)	(1,472)
Deferred income	35,688	(44,109)	—	—
<b>Net cash (used in) generated from operating activities</b>	<b>(3,998)</b>	<b>8,825</b>	<b>121,412</b>	<b>17,658</b>
<b>Cash flows from investing activities:</b>				
Amounts due from (to) subsidiaries and VIEs	192,523	(5,277,028)	(452,366)	(65,794)
<b>Net cash provided by (used in) investing activities</b>	<b>192,523</b>	<b>(5,277,028)</b>	<b>(452,366)</b>	<b>(65,794)</b>
<b>Cash flows from financing activities:</b>				
Repurchase of ordinary shares	(193,619)	—	—	—
Proceeds from issuance of ordinary shares upon exercise of share options	5,747	5,969	3,947	574
Partial redemption of convertible senior notes	—	(21,697)	—	—
Proceeds from issuance of ordinary shares to new investors	—	5,610,337	—	—
<b>Net cash (used in) provided by financing activities</b>	<b>(187,872)</b>	<b>5,594,609</b>	<b>3,947</b>	<b>574</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>44</b>	<b>(44)</b>	<b>(95)</b>	<b>(13)</b>
<b>Net increase in cash and cash equivalents</b>	<b>697</b>	<b>326,362</b>	<b>(327,102)</b>	<b>(47,575)</b>
Cash and cash equivalents at beginning of the period	255	952	327,314	47,606
<b>Cash and cash equivalents at end of the period</b>	<b>952</b>	<b>327,314</b>	<b>212</b>	<b>31</b>

**VIPSHOP HOLDINGS LIMITED**

**NOTE TO SCHEDULE I**

**(All amounts in thousands, except for share or per share data)**

Schedule I has been provided pursuant to the requirement of Rule 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, cash flows and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of the consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of end of the most recently completed fiscal year.

As of December 31, 2018, RMB6,637,007 of the restricted capital and reserves are not available for distribution respectively, and as such, the condensed financial information of Vipshop Holdings Limited ("Parent Company") has been presented. Relevant PRC laws and regulations also restrict the subsidiaries in PRC, the VIEs and VIEs' subsidiaries from transferring a portion of their net assets to the Company in the form of loans and advances or cash dividends. No dividends have been paid by the subsidiaries in the PRC of the Company or the VIEs to the Company during the periods presented. Total restricted net assets of the Group represent net assets of the subsidiaries in the PRC, the VIEs and VIE's subsidiaries. The balance of restricted net assets was RMB6,637,007 as of December 31, 2018.

During each of the three years in the period ended December 31, 2018, no cash dividend was declared and paid by the Parent Company.

As of December 31, 2018, there were no material contingencies, significant provisions of long-term obligations, and mandatory dividend or redemption requirements of redeemable shares or guarantees of the Company, except for those which have been separately disclosed in the Consolidated Financial Statement, if any.

**Basis of preparation**

The condensed financial information of the Parent Company has been prepared using the same accounting policies as set out in its consolidated financial statements, except that the Parent Company has used the equity method to account for its investment in its subsidiaries, VIEs and VIEs' subsidiaries. Accordingly, the condensed financial information presented herein represents the financial information of the Parent Company.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote discloses certain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the accompanying Consolidated Financial Statements.



Form of Exclusive Business Cooperation Agreement

This Business Cooperation Agreement (“this Agreement”) is made and entered into by and between the following Parties on \_\_\_\_\_ in \_\_\_\_\_, the People’s Republic of China (“China” or “PRC”):

Party A: \_\_\_\_\_;

Party B: \_\_\_\_\_.

Each of Party A and Party B shall be hereinafter referred to as a “Party” respectively, and as the “Parties” collectively.

Whereas,

- 1. Party A is a wholly-foreign-owned enterprise established in China, and has the necessary resources to provide technical and consulting services set forth hereunder;
- 2. Party B is a domestic limited liability company established in China, and is entitled to engage in or propose engaging in online sales business according to PRC laws (“Principal Business”);
- 3. Party A is willing to provide Party B with exclusive technical, consulting and other services in relation to the Principal Business during the term of this Agreement utilizing its own advantages in human resources, technology and information, and Party B is willing to accept such services provided by Party A or Party A’s designee(s), each on the terms set forth herein;

Now, therefore, through mutual discussion, the Parties have reached the following agreements:

1 Services Provided by Party A

- 1.1 Party B hereby appoints Party A as Party B’s exclusive services provider to provide Party B with complete business support and technical and consulting services during the term of this Agreement, in accordance with the terms and conditions of this Agreement and to the extent permitted by the currently effective laws of China, which may include all services within the business scope of Party B as may be determined from time to time by Party A, such as but not limited to technical services, business consultations, equipment or property leasing, marketing consultancy, system integration, product research and development, and system maintenance.

1.2 Party B agrees to accept all the consultations and services provided by Party A. Party B further agrees that unless with Party A's prior written consent, during the term of this Agreement, Party B shall not accept any similar consultations and/or services provided by any third party and shall not establish similar corporation relationship with any third party regarding the matters contemplated by this Agreement. Party A may appoint other parties, who may enter into certain agreements described in Section 1.3 with Party B, to provide Party B with the consultations and/or services under this Agreement.

### 1.3 Service Providing Methodology

1.3.1 Party A and Party B agree that during the term of this Agreement, Party B may enter into further technical service agreements or consulting service agreements with Party A or any other party designated by Party A, which shall provide the specific contents, manner, personnel, and fees for the specific technical services and consulting services.

1.3.2 To fulfill this Agreement, Party A and Party B agree that during the term of this Agreement, Party B may enter into equipment or property leases with Party A or any other party designated by Party A which shall permit Party B to use Party A's relevant equipment or property based on the needs of the business of Party B.

## 2 The Calculation and Payment of the Service Fees

Both Parties agree that, in consideration of the services provided by Party A, Party B shall pay to Party A the fees (the "**Service Fees**") equal to 100% of the net income of Party B, provided that Party A, at its sole discretion, shall have the right to adjust the rate of Service Fees based on the services rendered by Party A in that month and the operational needs of Party B through prior written notice. The Service Fees shall be due and payable on a monthly basis; within 30 days after the end of each month, Party B shall (a) deliver to Party A the management accounts and operating statistics of Party B for such month, including the net income of Party B during such month (the "**Monthly Net Income**"), and (b) pay 100% of such Monthly Net Income, or other amount agreed by Party A, to Party A (each such payment, a "**Monthly Payment**"). Within ninety (90) days after the end of each fiscal year, Party B shall (a) deliver to Party A audited financial statements of Party B for such fiscal year, which shall be audited and certified by an independent certified public accountant approved by Party A, and (b) pay an amount to Party A equal to the shortfall, if any, of the net income of Party B for such fiscal year, as shown in such audited financial statements, as compared to the aggregate amount of the Monthly Payments paid by Party B to Party A in such fiscal year.

### **3 Intellectual Property Rights and Confidentiality Clauses**

- 3.1 Party A shall have exclusive and proprietary rights and interests in all rights, ownership, interests and intellectual properties arising out of or created during the performance of this Agreement, including but not limited to copyrights, patents, patent applications, software, technical secrets, trade secrets and others.
- 3.2 The Parties acknowledge that the existence and the terms of this Agreement and any oral or written information exchanged between the Parties in connection with the preparation and performance this Agreement are regarded as confidential information. Each Party shall maintain confidentiality of all such confidential information, and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that: (a) is or will be in the public domain (other than through the receiving Party's unauthorized disclosure); (b) is under the obligation to be disclosed pursuant to the applicable laws or regulations, rules of any stock exchange, or orders of the court or other government authorities; or (c) is required to be disclosed by any Party to its shareholders, investors, legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such shareholders, investors, legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Section. Disclosure of any confidential information by the staff members or agencies hired by any Party shall be deemed disclosure of such confidential information by such Party, which Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.
- 3.3 The Parties agree that this Section shall survive changes to, and rescission or termination of, this Agreement.

### **4 Representations and Warranties**

- 4.1 Party A hereby represents and warrants as follows:
- 4.1.1 Party A is a wholly foreign owned enterprise legally registered and validly existing in accordance with the laws of China.
- 4.1.2 Party A's execution and performance of this Agreement is within its corporate capacity and the scope of its business operations; Party A has taken necessary corporate actions and given appropriate authorization and has obtained the consent and approval from third parties and government agencies, and will not violate any restrictions in law or otherwise binding or having an impact on Party A.

4.1.3 This Agreement constitutes Party A's legal, valid and binding obligations, enforceable in accordance with its terms.

4.2 Party B hereby represents and warrants as follows:

4.2.1 Party B is a domestic limited liability company legally registered and validly existing in accordance with the laws of China.

4.2.2 Party B's execution and performance of this Agreement is within its corporate capacity and the scope of its business operations; Party B has taken necessary corporate actions and given appropriate authorization and has obtained the consent and approval from third parties and government agencies, and will not violate any restrictions in law or otherwise binding or having an impact on Party B.

4.2.3 This Agreement constitutes Party B's legal, valid and binding obligations, and shall be enforceable against it.

## **5 Effectiveness and Term**

5.1 This Agreement is executed on the date first above written and shall take effect as of such date. Unless earlier terminated in accordance with the provisions of this Agreement or relevant agreements separately executed between the Parties, the term of this Agreement shall be 10 years.

5.2 The term of this Agreement may be extended if confirmed in writing by Party A prior to the expiration thereof. The extended term shall be determined by Party A, and Party B shall accept such extended term unconditionally. Any extended term of this Agreement shall be further extended at Party A's election.

5.3 The Parties agree that this Agreement shall replace the Original Business Cooperation Agreement after this Agreement becomes effective.

## **6 Termination**

6.1 Unless renewed in accordance with the relevant terms of this Agreement, this Agreement shall be terminated upon the date of expiration hereof.

6.2 During the term of this Agreement, unless Party A commits gross negligence, or a fraudulent act, against Party B, Party B shall not terminate this Agreement prior to its expiration date. Nevertheless, Party A shall have the right to terminate this Agreement upon giving 30 days' prior written notice to Party B at any time.

6.3 The rights and obligations of the Parties under Articles 3, 7 and 8 shall survive the termination of this Agreement.

## **7 Governing Law and Resolution of Disputes**

- 7.1 The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the resolution of disputes hereunder shall be governed by the laws of China.
- 7.2 In the event of any dispute with respect to the construction and performance of the provisions of this Agreement, the Parties shall negotiate in good faith to resolve the dispute. In the event the Parties fail to reach an agreement on the resolution of such a dispute within 30 days after any Party's request for resolution of the dispute through negotiations, any Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission South China Sub-Commission for arbitration, in accordance with its then-effective arbitration rules. The arbitration shall be conducted in Guangzhou, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on both Parties.
- 7.3 Upon the occurrence of any disputes arising from the construction and performance of this Agreement or during the pending arbitration of any dispute, except for the matters under dispute, the Parties to this Agreement shall continue to exercise their respective rights under this Agreement and perform their respective obligations under this Agreement.

## **8 Indemnification**

Party B shall indemnify and hold harmless Party A from any losses, injuries, obligations or expenses caused by any lawsuit, claims or other demands against Party A arising from or caused by the consultations and services provided by Party A to Party B pursuant this Agreement, except where such losses, injuries, obligations or expenses arise from the gross negligence or willful misconduct of Party A.

## **9 Notices**

- 9.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail, postage prepaid, by a commercial courier service or by facsimile transmission to the address of such Party set forth below. A confirmation copy of each notice shall also be sent by email. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:
- 9.1.1 Notices given by personal delivery, by courier service or by registered mail, postage prepaid, shall be deemed effectively given on the date of delivery or refusal at the address specified for notices.

9.1.2 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).

9.2 For the purpose of notices, the addresses of the Parties are as follows:

**Party A:**  
Address: \_\_\_\_\_  
Attn: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

**Party B:**  
Address: \_\_\_\_\_  
Attn: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

9.3 Any Party may at any time change its address for notices by a notice delivered to the other Party in accordance with the terms hereof.

**10 Assignment**

10.1 Without Party A's prior written consent, Party B shall not assign its rights and obligations under this Agreement to any third party.

10.2 Party B agrees that Party A may assign its obligations and rights under this Agreement to any third party upon a prior written notice to Party B but without the consent of Party B.

**11 Severability**

In the event that one or several of the provisions of this Agreement are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any aspect. The Parties shall strive in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law and the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

## **12 Amendments and Supplements**

Any amendments and supplements to this Agreement shall be in writing. The amendment agreements and supplementary agreements that have been signed by the Parties and that relate to this Agreement shall be an integral part of this Agreement and shall have the same legal validity as this Agreement.

## **13 Language and Counterparts**

This Agreement is written in both Chinese and English language in two copies, each Party having one copy with equal legal validity; in case there is any conflict between the Chinese version and the English version, the Chinese version shall prevail.

*[The Remainder of this page is intentionally left blank]*

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Exclusive Business Cooperation Agreement as of the date first above written.

**Party A:** \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Legal Representative

**Party B:** \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Legal Representative



### Schedule A

The following schedule sets forth other major similar agreements the registrant entered into with each of its consolidated affiliated entities. Other than the information set forth below, there is no material difference between such other agreements and this exhibit.

<u>Consolidated Affiliated Entities</u>	<u>Executing Parties</u>	<u>Execution Date</u>
Guangzhou Vipshop E-Commerce Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Guangzhou Vipshop E-Commerce Co., Ltd.	July 13, 2017
Guangzhou Vipshop Information Technology Co., Ltd.	Party A: Guangzhou Vipshop Computer Service Co., Ltd (currently known as Vipshop (China) Co., Ltd.) Party B: Guangzhou Vipshop Information Technology Co., Ltd.	October 8, 2011
Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	December 15, 2017
Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	Party A: Lefeng (Shanghai) Information Technology Go., Ltd. Party B: Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	June 24, 2014

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Form of Equity Interest Pledge Agreement

This Equity Interest Pledge Agreement (“this Agreement”) has been executed by and among the following parties on \_\_\_\_\_ in \_\_\_\_\_ the People’s Republic of China (“China”):

Party A: \_\_\_\_\_

Address: \_\_\_\_\_

Party B: \_\_\_\_\_

Party C: \_\_\_\_\_

Party D: \_\_\_\_\_

Address: \_\_\_\_\_

In this Agreement, Party B and Party C shall be collectively referred to as the “Pledgors”; each of Party A, Party B, Party C and Party D shall be referred to as a “Party” respectively, and collectively referred to as the “Parties.”

Whereas:

1. Pledgors are citizens of China, and totally hold 100% of the equity interest in Party D. Party D is a limited liability company registered in Guangzhou, China, engaging in technical consulting service. Party D acknowledges the respective rights and obligations of Pledgors and Pledgee under this Agreement, and intends to provide any necessary assistance in registering the Pledge with the competent governmental authorities;
2. Pledgee is a wholly foreign-owned enterprise registered in China. Pledgee and Party D owned by Pledgors have executed an Exclusive Business Cooperation Agreement on \_\_\_\_\_ as set forth in the Attachment 3 of this Agreement (the “Business Cooperation Agreement”);
3. Pledgee and Party B have executed a Loan Agreement on \_\_\_\_\_ as set forth in the Attachment 5 of this Agreement (the “Loan Agreement”);
4. Pledgee, Pledgors and Party D have executed a Exclusive Option Agreement on \_\_\_\_\_ (the “Exclusive Option Agreement”);

5. Pledgors are all the shareholders of Party D.
6. To ensure that Party D, Pledgors fully performs its or his obligations under the Business Cooperation Agreement, the Loan Agreement and/or the Exclusive Option Agreement and pay the consulting and service fees and repay the loan and the accrued interest thereunder to Pledgee when the same becomes due, Pledgors hereby pledge to Pledgee all of the equity interest they now and in the future hold in Party D (whether or not the percentage of the equity interest is changed in the future) as collateral for payment of the consulting and service fees by Party D under the Business Cooperation Agreement and repayment of the loan and the accrued interest by Party B under the Loan Agreement.

To perform the provisions of the Business Cooperation Agreement, the Framework Agreement, the Loan Agreement and/or the Exclusive Option Agreement, the Parties have agreed to execute this Agreement upon the following terms.

## 1. Definitions

Unless otherwise provided herein, the terms below shall have the following meanings:

- 1.1 Pledge: shall refer to the security interest granted by Pledgors to Pledgee pursuant to Article 2 of this Agreement, i.e., the right of Pledgee to be compensated on a preferential basis with the conversion, auction or sales price of the Equity Interest.
- 1.2 Equity Interest: shall refer to all of the equity interest lawfully now held and hereafter acquired by Pledgors in Party D (whether or not the percentage of the equity interest is changed in the future).
- 1.3 Term of Pledge: shall refer to the term set forth in Section 3 of this Agreement.
- 1.4 Business Cooperation Agreement: shall refer to the Exclusive Business Cooperation Agreement executed by and between Party D and Pledgee on \_\_\_\_\_, as such may be amended from time to time.
- 1.5 Event of Default: shall refer to any of the circumstances set forth in Article 7 of this Agreement.
- 1.6 Notice of Default: shall refer to the notice issued by Pledgee in accordance with this Agreement declaring an Event of Default.

## 2. The Pledge

As collaterals for the timely and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of any or all of the payments due by Party D, including without limitation, the consulting and services fees payable to Pledgee under the Business Cooperation Agreement, and the timely and complete repayment when due the loan and the accrued interest under the Loan Agreement by Party B, the Pledgors hereby pledge to Pledgee a first security interest in all of Pledgors' rights, title and interests, whether now owned or hereafter acquired by Pledgors, in the Equity Interest of Party D.

## 3. Term of Pledge

- 3.1 The Pledge shall become effective on such date when the pledge of the Equity Interest contemplated herein has been registered with relevant administration for industry and commerce (the "AIC"). The Pledge shall be continuously valid until all payments due under the Business Cooperation Agreement, the Framework Agreement, the Loan Agreement and the Exclusive Option Agreement have been fulfilled by Party D. Pledgors and Party D shall (1) register the Pledge in the shareholders' register of Party D within 3 business days following the execution of this Agreement, and (2) submit an application to the AIC for the registration of the Pledge of the Equity Interest contemplated herein within 10 business days following the execution of this Agreement. The parties covenant that for the purpose of registration of the Pledge (including re-registration of the Pledge when the percentage of equity interest the Pledgors hold in Party D), the Parties hereto shall submit to the AIC the Equity Interest Pledge Contract as set forth in the Attachment 4 of this Agreement in the form required by the AIC at the location of Party D which shall truly reflect the information of the Pledge hereunder (the "AIC Pledge Contract"). For matters not specified in the AIC Pledge Contract, the parties shall be bound by the provisions of this Agreement. Pledgors and Party D shall submit all necessary documents and complete all necessary procedures, as required by the PRC laws and regulations and the relevant AIC, to ensure that the Pledge of the Equity Interest shall be registered with the AIC as soon as possible after filing.
- 3.2 During the Term of Pledge, in the event Party D fails to pay the exclusive consulting or service fees in accordance with the Business Cooperation Agreement, or Party B fails to repay and loan and the accrued interest in accordance with the Loan Agreement, Pledgee shall have the right, but not the obligation, to dispose of the Pledge in accordance with the provisions of this Agreement.

## 4. Custody of Records for Equity Interest subject to Pledge

- 4.1 During the Term of Pledge set forth in this Agreement, Pledgors shall deliver to Pledgee's custody the original capital contribution certificate for the Equity Interest (the Attachment 2) and the original shareholders' register containing the Pledge (the Attachment 1) within five (5) working days from the execution of this Agreement or from completion of the re-registration of shareholding when percentage of equity interest changed (in that case, Pledgors shall deliver to Pledgee's custody the updated original capital contribution certificate for the Equity Interest and the updated original shareholders' register containing the Pledge as attachment to this Agreement). Pledgee shall have custody of such original documents during the entire Term of Pledge set forth in this Agreement.

4.2 Pledgee shall have the right to collect dividends generated by the Equity Interest during the Term of Pledge.

**5. Representations and Warranties of Pledgors**

5.1 Pledgors are the sole legal and beneficial owners of the Equity Interest.

5.2 Pledgee shall have the right to dispose of and transfer the Equity Interest in accordance with the provisions set forth in this Agreement.

5.3 Upon execution, this Agreement shall constitute the Pledgors's legal, valid and binding obligations in accordance with the provisions herein.

5.4 Except for the Pledge, Pledgors have not placed any security interest or other encumbrance on the Equity Interest.

5.5 There is no pending disputes or litigation proceeding related to the Equity Interest.

**6. Covenants and Further Agreements of Pledgors**

6.1 Pledgors hereby covenant to Pledgee, that during the term of this Agreement, Pledgors shall:

6.1.1 not transfer the Equity Interest, place or permit the existence of any security interest or other encumbrance on the Equity Interest, or disposal of the Equity Interest in any other means, without the prior written consent of Pledgee, except for the performance of the Exclusive Option Agreement executed by Pledgors, Pledgee and Party D on the execution date of this Agreement;

6.1.2 comply with the provisions of all laws and regulations applicable to the pledge of rights, and within five (5) working days of receipt of any notice, order or recommendation issued or prepared by relevant competent authorities regarding the Pledge, shall present the aforementioned notice, order or recommendation to Pledgee, and shall comply with the aforementioned notice, order or recommendation or submit objections and representations with respect to the aforementioned matters upon Pledgee's reasonable request or upon consent of Pledgee;

- 6.1.3 promptly notify Pledgee of any event or notice received by Pledgors that may have an impact on Pledgee's rights to the Equity Interest or any portion thereof, as well as any event or notice received by Pledgors that may have an impact on any guarantees and other obligations of Pledgors arising out of this Agreement.
- 6.2 Pledgors agree that the rights acquired by Pledgee in accordance with this Agreement with respect to the Pledge shall not be interrupted or harmed by Pledgors or any heirs or representatives of Pledgors or any other persons through any legal proceedings.
- 6.3 To protect or perfect the security interest granted by this Agreement for payment of the consulting and service fees under the Business Cooperation Agreement and repayment of the loan and the accrued interest under the Loan Agreement, Pledgors hereby undertake to execute in good faith and to cause other parties who have interests in the Pledge to execute all certificates, agreements, deeds and/or covenants required by Pledgee. Pledgors also undertake to perform and to cause other parties who have interests in the Pledge to perform actions required by Pledgee, to facilitate the exercise by Pledgee of its rights and authority granted thereto by this Agreement, and to enter into all relevant documents regarding ownership of Equity Interest with Pledgee or designee(s) of Pledgee (natural persons/legal persons). Pledgors undertake to provide Pledgee within a reasonable time with all notices, orders and decisions regarding the Pledge that are required by Pledgee.
- 6.4 Pledgors hereby undertake to comply with and perform all guarantees, promises, agreements, representations and conditions under this Agreement. In the event of failure or partial performance of its guarantees, promises, agreements, representations and conditions, Pledgors shall indemnify Pledgee for all losses resulting therefrom.
- 6.5 Pledgors hereby acknowledge that the transfer of equity interest under the Original Equity Interest Pledge Agreement shall not release the pledge of such equity interest.

## **7. Event of Breach**

- 7.1 The following circumstances shall be deemed Event of Default:
- 7.1.1 Party D fails to fully and timely fulfill any liabilities under the Business Cooperation Agreement or the Framework Agreement, including without limitation failure to pay in full any of the consulting and service fees payable under the Business Cooperation Agreement, or breaches any other obligations of Party D thereunder; or Party B fails to fully and timely fulfill any liabilities under the Loan Agreement, including without limitation failure to repay in full any of the loan or the accrued interest repayable under the Loan Agreement, or breaches any other obligations of Party B thereunder;

- 7.1.2 Pledgors or Party D has committed a material breach of any provisions of this Agreement;
  - 7.1.3 The Pledgors and Party D fail to register the Pledge in the shareholders' register of Party D or fail to complete the Registration of Pledge stipulated in Section 3.1;
  - 7.1.4 Except as expressly stipulated in Section 6.1.1, Pledgors transfer or purport to transfer or abandon the Equity Interest pledged or assign the Equity Interest pledged without the written consent of Pledgee; and
  - 7.1.5 The successor or custodian of Party D is capable of only partially performing or refuse to perform the payment obligations under the Business Cooperation Agreement, or the successor or custodian of Party B is capable of only partially performing or refuse to perform the repayment obligations under the Loan Agreement.
- 7.2 Upon notice or discovery of the occurrence of any circumstances or event that may lead to the aforementioned circumstances described in Section 7.1, Pledgors shall immediately notify Pledgee in writing accordingly.
- 7.3 Unless an Event of Default set forth in this Section 7.1 has been successfully resolved to Pledgee's satisfaction within twenty (20) working days after Pledgee delivers a notice to Pledgors requesting ratification of such Event of Default, Pledgee may issue a Notice of Default to Pledgors in writing at any time thereafter, demanding Pledgors to immediately dispose of the Pledge in accordance with the provisions of Article 8 of this Agreement.

## **8. Exercise of Pledge**

- 8.1 Prior to the full payment of the consulting and service fees described in the Business Cooperation Agreement and full repayment of the loan and the accrued interest under the Loan Agreement, without Pledgee's written consent, Pledgors shall not assign the Pledge or the Equity Interest in Party D.
- 8.2 Pledgee may issue a Notice of Default to Pledgors when exercising the Pledge.
- 8.3 Subject to the provisions of Section 7.3, Pledgee may exercise the right to enforce the Pledge at the time when, or at any time after, the issuance of the Notice of Default in accordance with Section 8.2. Once Pledgee elects to enforce the Pledge, Pledgors shall cease to be entitled to any rights or interests associated with the Equity Interest.

- 8.4 In the event of default, Pledgee is entitled to dispose of the Equity Interest pledged in accordance with applicable PRC laws. Only to the extent permitted under applicable PRC laws, Pledgee has no obligation to account to Pledgors for proceeds of disposition of the Equity Interest, and Pledgors hereby waive any rights they may have to demand any such accounting from Pledgee; Likewise, in such circumstance Pledgors shall have no obligation to Pledgee for any deficiency remaining after such disposition of the Equity Interest pledged.
- 8.5 When Pledgee disposes of the Pledge in accordance with this Agreement, Pledgors and Party D shall provide necessary assistance to enable Pledgee to enforce the Pledge in accordance with this Agreement.

## **9. Assignment**

- 9.1 Without Pledgee's prior written consent, Pledgors shall not have the right to assign or delegate its rights and obligations under this Agreement.
- 9.2 This Agreement shall be binding on Pledgors and its successors and permitted assigns, and shall be valid with respect to Pledgee and each of its successors and assigns.
- 9.3 At any time, Pledgee may assign any and all of its rights and obligations under the Business Cooperation Agreement and the Loan Agreement to its designee(s) (natural/legal persons), in which case the assigns shall have the rights and obligations of Pledgee under this Agreement, as if it were the original party to this Agreement. When the Pledgee assigns the rights and obligations under the Business Cooperation Agreement or the Loan Agreement, upon Pledgee's request, Pledgors shall execute relevant agreements or other documents relating to such assignment.
- 9.4 In the event of a change in Pledgee due to an assignment, Pledgors shall, at the request of Pledgee, execute a new pledge agreement with the new pledgee on the same terms and conditions as this Agreement, and register for change of the same with the competent AIC.
- 9.5 Pledgors shall strictly abide by the provisions of this Agreement and other contracts jointly or separately executed by the Parties hereto or any of them, including the Exclusive Option Agreement and the Power of Attorney granted to Pledgee, perform the obligations hereunder and thereunder, and refrain from any action/omission that may affect the effectiveness and enforceability thereof. Any remaining rights of Pledgors with respect to the Equity Interest pledged hereunder shall not be exercised by Pledgors except in accordance with the written instructions of Pledgee.

## **10. Termination**

Upon the full payment of the consulting and service fees under the Business Cooperation Agreement, the full repayment of the loan and the accrued interest under the Loan Agreement and upon termination of Party B and Party D's obligations under the Business Cooperation Agreement and the Loan Agreement, this Agreement shall be terminated, and Pledgee shall then cancel or terminate this Agreement as soon as reasonably practicable.

**11. Handling Fees and Other Expenses**

All fees and out of pocket expenses relating to this Agreement, including but not limited to legal costs, costs of production, stamp tax and any other taxes and fees, shall be borne by Party D.

**12. Confidentiality**

The Parties acknowledge that the existence and the terms of this Agreement and any oral or written information exchanged between the Parties in connection with the preparation and performance this Agreement are regarded as confidential information. Each Party shall maintain confidentiality of all such confidential information, and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that: (a) is or will be in the public domain (other than through the receiving Party’s unauthorized disclosure); (b) is under the obligation to be disclosed pursuant to the applicable laws or regulations, rules of any stock exchange, or orders of the court or other government authorities; or (c) is required to be disclosed by any Party to its shareholders, investors, legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such shareholders, investors, legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Section. Disclosure of any confidential information by the staff members or agencies hired by any Party shall be deemed disclosure of such confidential information by such Party, which Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

**13. Governing Law and Resolution of Disputes**

- 13.1 The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the resolution of disputes hereunder shall be governed by the laws of China.
- 13.2 In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement on the dispute within 30 days after either Party’s request to the other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission South China Sub-Commission for arbitration, in accordance with its Arbitration Rules. The arbitration shall be conducted in Guangzhou, and the language used in arbitration shall be Chinese. The arbitration award shall be final and binding on all Parties.
- 13.3 Upon the occurrence of any disputes arising from the construction and performance of this Agreement or during the pending arbitration of any dispute, except for the matters under dispute, the Parties to this Agreement shall continue to exercise their respective rights under this Agreement and perform their respective obligations under this Agreement.

**14. Notices**

- 14.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail, postage prepaid, by a commercial courier service or by facsimile transmission to the address of such party set forth below. A confirmation copy of each notice shall also be sent by E-mail. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:
- 14.2 Notices given by personal delivery, by courier service or by registered mail, postage prepaid, shall be deemed effectively given on the date of delivery or refusal at the address specified for notices.
- 14.3 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).
- 14.4 For the purpose of notices, the addresses of the Parties are as follows:

**Party A:** \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Attn: \_\_\_\_\_  
 Phone: \_\_\_\_\_  
 Facsimile: \_\_\_\_\_

**Party B:** \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Phone: \_\_\_\_\_

**Party C:** \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Phone: \_\_\_\_\_

**Party D:** \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Attn: \_\_\_\_\_  
 Phone: \_\_\_\_\_  
 Facsimile: \_\_\_\_\_

- 14.5 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

## 15. Severability

In the event that one or several of the provisions of this Contract are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Contract shall not be affected or compromised in any respect. The Parties shall strive in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law and the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

## 16. Attachments

The attachments set forth herein shall be an integral part of this Agreement.

## 17. Effectiveness

- 17.1 Any amendments, changes and supplements to this Agreement shall be in writing and shall become effective upon completion of the governmental filing procedures (if applicable) after the affixation of the signatures or seals of the Parties.
- 17.2 The Parties agree that this Agreement shall replace the Original Equity Interest Pledge Agreement after this Agreement becomes effective.
- 17.3 This Agreement is written in Chinese and English in four copies. Each Party shall hold one copy respectively. Each copy of this Agreement shall have equal validity. In case there is any conflict between the Chinese version and the English version, the Chinese version shall prevail.

*[The Remainder of this page is intentionally left blank]*

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Equity Interest Pledge Agreement as of the date first above written.

**Party A:** \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Legal Representative

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IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Equity Interest Pledge Agreement as of the date first above written.

**Party B:** \_\_\_\_\_

\_\_\_\_\_

**Party C:** \_\_\_\_\_

\_\_\_\_\_

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IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Equity Interest Pledge Agreement as of the date first above written.

**Party D:** \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Legal Representative

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**Attachments:**

1. Shareholders' Register of \_\_\_\_\_;
  2. The Capital Contribution Certificate for \_\_\_\_\_;
  3. Exclusive Business Cooperation Agreement;
  4. Equity Interest Pledge Contract;
  5. Loan Agreement.
-

## Schedule A

The following schedule sets forth other major similar agreements the registrant entered into with each of its consolidated affiliated entities and its shareholders. Other than the information set forth below, there is no material difference between such other agreements and this exhibit.

<u>Consolidated Affiliated Entities</u>	<u>Executing Parties</u>	<u>Execution Date</u>
Guangzhou Vipshop E-Commerce Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Eric Ya Shen Party C: Arthur Xiaobo Hong Party D: Guangzhou Vipshop E-Commerce Co., Ltd.	July 13, 2017
Guangzhou Vipshop Information Technology Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Eric Ya Shen Party C: Arthur Xiaobo Hong Party D: Guangzhou Vipshop Information Technology Co., Ltd.	December 23, 2015
Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Eric Ya Shen Party C: Arthur Xiaobo Hong Party D: Vipshop (China) Co., Ltd. Party D: Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	December 15, 2017
Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	Party A: Lefeng (Shanghai) Information Technology Co., Ltd. Party B: Eric Ya Shen Party C: Zhihui Yu Party D: Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	June 24, 2014

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**Form of Exclusive Option Agreement**

This Exclusive Option Agreement (“**this Agreement**”) is executed by and among the Parties below as of \_\_\_\_\_, in \_\_\_\_\_, the People’s Republic of China (“**China**”):

- Party A:** \_\_\_\_\_;
- Party B:** \_\_\_\_\_;
- Party C:** \_\_\_\_\_;
- Party D:** \_\_\_\_\_.

In this Agreement, Party A and Party B shall be collectively referred to as the “**Shareholders**”; each of Party A, Party B, Party C and Party D shall be referred to as a “**Party**” respectively, and collectively referred to as the “**Parties.**”

**Whereas:**

1. The Shareholders collectively hold 100% of the equity interest in Party D;
2. The Shareholders jointly and severally agree to grant Party C an exclusive right through this Agreement, and Party C agrees to accept such exclusive right to purchase all or part equity interest held by the Shareholders in Party D;
3. Party C is a wholly foreign-owned enterprise registered in China.

4. In consideration of the entering into and the performance by Party C of the Business Cooperation Agreement and to ensure that Party D should perform its obligations under the Business Cooperation Agreement upon mutual discussion and negotiation, the Parties have reached the following agreement:

1. **Sale and Purchase of Equity Interest**

1.1 **Option Granted**

The Shareholders hereby, jointly and severally, irrevocably grant Party C an irrevocable and exclusive right to purchase, or designate one or more persons (each, a “**Designee**”) to purchase the equity interests in Party D now or then held by the Shareholders (regardless whether the Shareholders’ capital contribution and/or percentage of shareholding is changed or not in the future) once or at multiple times at any time in part or in whole at Party C’s sole and absolute discretion to the extent permitted by Chinese laws and at the price described in Section 1.3 herein (such right being the “**Equity Interest Purchase Option**”). Except for Party C and the Designee(s), no other person shall be entitled to the Equity Interest Purchase Option or other rights with respect to the equity interests of the Shareholders. Party D hereby agrees to the grant by the Shareholders of the Equity Interest Purchase Option to Party C. The term “person” as used herein shall refer to individuals, corporations, partnerships, partners, enterprises, trusts or any other type of economic entity.

1.2 **Steps for Exercise of Equity Interest Purchase Option**

Subject to the provisions of the laws and regulations of China, Party C may exercise the Equity Interest Purchase Option by issuing a written notice to the Shareholders (the “**Equity Interest Purchase Option Notice**”), specifying: (a) Party C’s decision to exercise the Equity Interest Purchase Option; (b) the portion of equity interests to be purchased from the Shareholders (the “**Optioned Interests**”); and (c) the date for purchasing the Optioned Interests.

1.3 **Equity Interest Purchase Price**

The purchase price of the Optioned Interests (the “**Base Price**”) shall be RMB 10. If appraisal is required by the laws of China at the time when Party C exercises the Equity Interest Purchase Option, the Parties shall negotiate in good faith and based on the appraisal result make necessary adjustment to the Equity Interest Purchase Price so that it should be the lowest price permissible under the then applicable laws of China (collectively, the “**Equity Interest Purchase Price**”).

#### 1.4 Transfer of Optioned Interests

For each exercise of the Equity Interest Purchase Option:

- 1.4.1 The Shareholders shall cause Party D to promptly convene a shareholders meeting, at which a resolution shall be adopted approving the Shareholders' transfer of the Optioned Interests to Party C and/or the Designee(s);
- 1.4.2 Each of the Shareholders shall make written statements regarding his/her consent to the transfer of the equity interest to Party C and/or the Designee(s) and waiving any right of first refusal related thereto.
- 1.4.3 The Shareholders shall execute a share transfer contract with respect to each transfer with Party C and/or each Designee (whichever is applicable), in accordance with the provisions of this Agreement and the Equity Interest Purchase Option Notice regarding the Optioned Interests;
- 1.4.4 The relevant Parties shall execute all other necessary contracts, agreements or documents, obtain all necessary government licenses and permits and take all necessary actions to transfer valid ownership of the Optioned Interests to Party C and/or the Designee(s), unencumbered by any security interests, and cause Party C and/or the Designee(s) to become the registered owner(s) of the Optioned Interests. For the purpose of this Section and this Agreement, "security interests" shall include securities, mortgages, third party's rights or interests, any stock options, acquisition right, right of first refusal, right to offset, ownership retention or other security arrangements, but shall be deemed to exclude any security interest created by this Agreement and the Shareholders' Equity Interest Pledge Agreement. "The Shareholders' Equity Interest Pledge Agreement" as used in this Section and this Agreement shall refer to the Equity Interest Pledge Agreement executed by and among Party C, the Shareholders and Party D on the date of this Agreement, whereby the Shareholders pledge all of their equity interests in Party D to Party C, in order to guarantee Party D's performance of its obligations under the Exclusive Business Cooperation Agreement executed by and between Party D and Party C on \_\_\_\_\_.

## 2. Covenants

### 2.1 Covenants regarding Party D

The Shareholders (as the shareholders of Party D) and Party D hereby covenant as follows:

- 2.1.1 Without the prior written consent of Party C, they shall not in any manner supplement, change or amend the articles of association and bylaws of Party D, increase or decrease its registered capital, or change its structure of registered capital in other manners;

- 2.1.2 They shall maintain Party D's corporate existence in accordance with good financial and business standards and practices by prudently and effectively operating its business and handling its affairs;
- 2.1.3 Without the prior written consent of Party C, they shall not at any time following the date hereof, sell, transfer, mortgage or dispose of in any manner any assets of Party D or legal or beneficial interest in the business or revenues of Party D, or allow the encumbrance thereon of any security interest;
- 2.1.4 Without the prior written consent of Party C, they shall not incur, inherit, guarantee or suffer the existence of any debt, except for (i) debts incurred in the ordinary course of business other than through loans; and (ii) debts disclosed to Party C for which Party C's written consent has been obtained;
- 2.1.5 They shall always operate all of Party D's businesses during the ordinary course of business to maintain the asset value of Party D and refrain from any action/omission that may affect Party D's operating status and asset value;
- 2.1.6 Without the prior written consent of Party C, they shall not cause Party D to execute any major contract, except the contracts in the ordinary course of business (for purpose of this subsection, a contract with a value exceeding RMB 100,000 shall be deemed a major contract);
- 2.1.7 Without the prior written consent of Party C, they shall not cause Party D to provide any person with any loan or credit;
- 2.1.8 They shall provide Party C with information on Party D's business operations and financial condition at Party C's request;
- 2.1.9 If requested by Party C, they shall procure and maintain insurance in respect of Party D's assets and business from an insurance carrier acceptable to Party C, at an amount and type of coverage typical for companies that operate similar businesses;
- 2.1.10 Without the prior written consent of Party C, they shall not cause or permit Party D to merge, consolidate with, acquire or invest in any person;
- 2.1.11 They shall immediately notify Party C of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to Party D's assets, business or revenue;

- 2.1.12 To maintain the ownership by Party D of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- 2.1.13 Without the prior written consent of Party C, they shall ensure that Party D shall not in any manner distribute dividends to its shareholders, provided that upon Party C's written request, Party D shall immediately distribute any or all distributable profits to its shareholders; and
- 2.1.14 At the request of Party C, they shall appoint any persons designated by Party C as the director and/or executive director of Party D.

## 2.2 Covenants of the Shareholders and Party D

The Shareholders hereby covenants as follows:

- 2.2.1 Without the prior written consent of Party C, the Shareholders shall not sell, transfer, mortgage or dispose of in any other manner any legal or beneficial interest in the equity interests in Party D held by the Shareholders, or allow the encumbrance thereon of any security interest, except for the pledge placed on these equity interests in accordance with the Shareholders' Equity Interest Pledge Agreement;
- 2.2.2 The Shareholders shall cause the shareholders' meeting and/or the board of directors and/or executive director of Party D not to approve the sale, transfer, mortgage or disposition in any other manner of any legal or beneficial interest in the equity interests in Party D held by the Shareholders, or allow the encumbrance thereon of any security interest, without the prior written consent of Party C, except for the pledge placed on these equity interests in accordance with the Shareholders' Equity Interest Pledge Agreement;
- 2.2.3 The Shareholders shall cause the shareholders' meeting or the board of directors and/or executive director of Party D not to approve the merger or consolidation with any person, or the acquisition of or investment in any person, without the prior written consent of Party C;
- 2.2.4 The Shareholders shall immediately notify Party C of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the equity interests in Party D held by the Shareholders;
- 2.2.5 The Shareholders shall cause the shareholders' meeting or the board of directors and/or executive director of Party D to vote their approval of the transfer of the Optioned Interests as set forth in this Agreement and to take any and all other actions that may be requested by Party C;

- 2.2.6 To the extent necessary to maintain the Shareholders' ownership in Party D, the Shareholders shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- 2.2.7 The Shareholders shall appoint any designee of Party C as the director and/or executive director of Party D, at the request of Party C;
- 2.2.8 At the request of Party C at any time, the Shareholders shall promptly and unconditionally transfer their equity interests in Party D to Party C's Designee(s) in accordance with the Equity Interest Purchase Option under this Agreement, and the Shareholders hereby waive their rights of first refusal (if any) to the share transfer by the other existing shareholder of Party D (if any); and
- 2.2.9 The Shareholders shall strictly abide by the provisions of this Agreement and other contracts jointly or separately executed by and among the Shareholders, Party D and Party C, perform the obligations hereunder and thereunder, and refrain from any action/omission that may affect the effectiveness and enforceability thereof. To the extent that the Shareholders have any remaining rights with respect to the equity interests subject to this Agreement hereunder or under the Shareholders' Equity Interest Pledge Agreement or under the Power of Attorney granted in favor of Party C, the Shareholders shall not exercise such rights except in accordance with the written instructions of Party C.

### **3. Representations and Warranties**

The Shareholders and Party D hereby represent and warrant to Party D, jointly and severally, as of the date of this Agreement and each date of transfer of the Optioned Interests, that:

- 3.1 They have the authority to execute and deliver this Agreement and any share transfer contracts to which they are a Party concerning the Optioned Interests to be transferred thereunder (each, a "**Transfer Contracts**"), and to perform their obligations under this Agreement and any Transfer Contracts. The Shareholders and Party D agree to enter into Transfer Contracts consistent with the terms of this Agreement upon Party C's exercise of the Equity Interest Purchase Option. This Agreement and the Transfer Contracts to which each of Shareholders and Party D are a Party constitute or will constitute their legal, valid and binding obligations and shall be enforceable against them in accordance with the provisions thereof;

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- 3.2 The execution and delivery of this Agreement or any Transfer Contracts and the obligations under this Agreement or any Transfer Contracts shall not: (i) cause any violation of any applicable laws of China; (ii) be inconsistent with the articles of association, bylaws or other organizational documents of Party D; (iii) cause the violation of any contracts or instruments to which they are a party or which are binding on them, or constitute any breach under any contracts or instruments to which they are a party or which are binding on them; (iv) cause any violation of any condition for the grant and/or continued effectiveness of any licenses or permits issued to either of them; or (v) cause the suspension or revocation of or imposition of additional conditions to any licenses or permits issued to either of them;
- 3.3 The Shareholders have good and merchantable title to the equity interests in Party D they hold. Except for the Shareholders' Equity Interest Pledge Agreement, the Shareholders have not placed any security interest on such equity interests;
- 3.4 Party D has a good and merchantable title to all of its assets, and has not placed any security interest on the aforementioned assets;
- 3.5 Party D does not have any outstanding debts, except for (i) debt incurred in the ordinary course of business; and (ii) debts disclosed to Party C for which Party C's written consent has been obtained;
- 3.6 Party D has complied with all laws and regulations of China applicable to asset acquisitions; and
- 3.7 There are no pending or threatened litigation, arbitration or administrative proceedings relating to the equity interests in Party D, assets of Party D or Party D.

### **4. Effective Date**

- 4.1 This Agreement shall become effective upon the date hereof, and remain effective for a term of 10 years, and may be renewed for an additional period at Party D's election and decision. Any extended term of this Agreement shall be further extended at Party D's election.

### **5. Governing Law and Resolution of Disputes**

#### **5.1 Governing Law**

The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the resolution of disputes hereunder shall be governed by the formally published and publicly available laws of China. Matters not covered by formally published and publicly available laws of China shall be governed by international legal principles and practices.

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5.2 Methods of Resolution of Disputes

In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement on the dispute within 30 days after either Party's request to the other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission South China Sub-Commission for arbitration, in accordance with its then effective arbitration rules. The arbitration shall be conducted in Guangzhou, and the language used in arbitration shall be Chinese. The arbitration award shall be final and binding on all Parties.

6. Taxes and Fees

Each Party shall pay any and all transfer and registration tax, expenses and fees incurred thereby or levied thereon in accordance with the laws of China in connection with the preparation and execution of this Agreement and the Transfer Contracts, as well as the consummation of the transactions contemplated under this Agreement and the Transfer Contracts.

7. Notices

7.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail, postage prepaid, by a commercial courier service or by facsimile transmission to the address of such Party set forth below. A confirmation copy of each notice shall also be sent by email. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:

7.1.1 Notices given by personal delivery, by courier service or by registered mail, postage prepaid, shall be deemed effectively given on the date of delivery or refusal at the address specified for notices.

7.1.2 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).

7.2 For the purpose of notices, the addresses of the Parties are as follows:

**Party A:** \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_

**Party B:** \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_

**Party C:**  
Address: \_\_\_\_\_  
Attn: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

**Party D:**  
Address: \_\_\_\_\_  
Attn: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

7.3 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

**8. Confidentiality**

The Parties acknowledge that any oral or written information exchanged among them with respect to this Agreement is confidential information. Each Party shall maintain the confidentiality of all such information, and without obtaining the written consent of other Parties, it shall not disclose any relevant information to any third parties, except in the following circumstances: (a) such information is or will be in the public domain (provided that this is not the result of a public disclosure by the receiving party); (b) information disclosed as required by applicable laws or rules or regulations of any stock exchange; or (c) information required to be disclosed by any Party to its legal counsel or financial advisor regarding the transaction contemplated hereunder, and such legal counsel or financial advisor are also bound by confidentiality duties similar to the duties in this section. Disclosure of any confidential information by the staff members or agency hired by any Party shall be deemed disclosure of such confidential information by such Party, which Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

**9. Further Warranties**

The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.

## 10. Miscellaneous

### 10.1 Amendment, change and supplement

Any amendment, change and supplement to this Agreement shall require the execution of a written agreement by all of the Parties.

### 10.2 Entire agreement

Except for the amendments, supplements or changes in writing executed after the execution of this Agreement, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.

### 10.3 Headings

The headings of this Agreement are for convenience only, and shall not be used to interpret, explain or otherwise affect the meanings of the provisions of this Agreement.

### 10.4 Language

This Agreement is written in both Chinese and English language in four copies, each Party having one copy with equal legal validity; in case there is any conflict between the Chinese version and the English version, the Chinese version shall prevail.

### 10.5 Severability

In the event that one or several of the provisions of this Agreement are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any respect. The Parties shall strive in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law and the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

### 10.6 Successors/Transferees

This Agreement shall be binding on and shall inure to the interest of the respective successors of the Parties and the permitted assigns of such Parties.

Notwithstanding another other provisions under this Agreement to the contrary, Shareholders and Party D shall not transfer their rights and obligations hereunder to any other third parties unless Party C has given prior written consent.

Shareholders and Party D hereby agree that Party C has the right to transfer its rights and obligation hereunder to any third party at Party C's sole discretion. Party C will notify other Parties hereto of such transfer and the transfer is not subject to any consents from other Parties.

10.7 Survival

10.7.1 Any obligations that occur or that are due as a result of this Agreement upon the expiration or early termination of this Agreement shall survive the expiration or early termination thereof.

10.7.2 The provisions of Sections 5, 7, 8 and this Section 10.7 shall survive the termination of this Agreement.

10.8 Waivers

Any Party may waive the terms and conditions of this Agreement, provided that such a waiver must be provided in writing and shall require the signatures of the Parties. No waiver by any Party in certain circumstances with respect to a breach by other Parties shall operate as a waiver by such a Party with respect to any similar breach in other circumstances.

*[The Remainder of this page is intentionally left blank]*

IN WITNESS WHEREOF, the Parties have executed, or caused their respective duly authorized representatives to execute, this Exclusive Option Agreement as of the date first above written.

**Party A:** \_\_\_\_\_

\_\_\_\_\_

**Party B:** \_\_\_\_\_

\_\_\_\_\_

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IN WITNESS WHEREOF, the Parties have executed, or caused their respective duly authorized representatives to execute, this Exclusive Option Agreement as of the date first above written.

**Party C:** \_\_\_\_\_

By: \_\_\_\_\_

Name:

Title: Legal Representative

**Party D:** \_\_\_\_\_

By: \_\_\_\_\_

Name:

Title: Legal Representative

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### Schedule A

The following schedule sets forth other major similar agreements the registrant entered into with each of its consolidated affiliated entities and its shareholders. Other than the information set forth below, there is no material difference between such other agreements and this exhibit.

<u>Consolidated Affiliated Entities</u>	<u>Executing Parties</u>	<u>Execution Date</u>
Guangzhou Vipshop E-Commerce Co., Ltd.	Party A: Eric Ya Shen Party B: Arthur Xiaobo Hong Party C: Vipshop (China) Co., Ltd. Party D: Guangzhou Vipshop E-Commerce Co., Ltd.	July 13, 2017
Guangzhou Vipshop Information Technology Co., Ltd.	Party A: Eric Ya Shen Party B: Arthur Xiaobo Hong Party C: Vipshop (China) Co., Ltd. Party D: Guangzhou Vipshop Information Technology Co., Ltd.	December 23, 2015
Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	Party A: Eric Ya Shen Party B: Arthur Xiaobo Hong Party C: Vipshop (China) Co., Ltd. Party D: Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	December 15, 2017
Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	Party A: Eric Ya Shen Party B: Zhihui Yu Party C: Lefeng (Shanghai) Information Technology Co., Ltd. Party D: Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	June 24, 2014

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Form of Power of Attorney

I, \_\_\_\_\_, a Chinese citizen with Chinese Identification Card No.: \_\_\_\_\_, and a holder of \_\_\_% of the entire registered capital in \_\_\_\_\_ (“My Shareholding”), hereby irrevocably authorize \_\_\_\_\_ (the “WFOE”) to exercise the following rights relating to My Shareholding during the term of this \_\_\_\_\_ Power of Attorney:

The WFOE is hereby authorized to act on behalf of myself as my exclusive agent and attorney with respect to all matters concerning My Shareholding, including without limitation to: 1) attend shareholders’ meetings of \_\_\_\_\_; 2) exercise all the shareholder’s rights and shareholder’s voting rights I am entitled to under the laws of China and \_\_\_\_\_’s Articles of Association, including but not limited to the sale or transfer or pledge or disposition of My Shareholding in part or in whole; and 3) designate and appoint on behalf of myself the legal representative, the executive director and/or director, supervisor, the chief executive officer and other senior management members of \_\_\_\_\_.

Without limiting the generality of the powers granted hereunder, the WFOE shall have the power and authority under this Power of Attorney to execute the Transfer Contracts stipulated in Exclusive Option Agreement, to which I am required to be a party, on behalf of myself, and to effect the terms of the Share Pledge Agreement and Exclusive Option Agreement, both dated the date hereof, to which I am a party.

All the actions associated with My Shareholding conducted by the WFOE shall be deemed as my own actions, and all the documents related to My Shareholding executed by the WFOE shall be deemed to be executed by me. I hereby acknowledge and ratify those actions and/or documents by the WFOE.

The WFOE is entitled to re-authorize or assign its rights related to the aforesaid matters to any other person or entity at its own discretion and without giving prior notice to me or obtaining my consent.

This Power of Attorney is coupled with an interest and shall be irrevocable and continuously valid from the date of execution of this Power of Attorney, so long as I am a shareholder of \_\_\_\_\_.

During the term of this Power of Attorney, I hereby waive all the rights associated with My Shareholding, which have been authorized to WFOE through this Power of Attorney, and shall not exercise such rights by myself.

This Power of Attorney is written in Chinese and English; in case there is any conflict between the Chinese version and the English version, the Chinese version shall prevail.

By: \_\_\_\_\_

Witness: \_\_\_\_\_  
Name: \_\_\_\_\_



## Schedule A

The following schedule sets forth other major similar powers of attorney executed by shareholders of the registrant's consolidated affiliated entities. Other than the information set forth below, there is no material difference between such other powers of attorney and this exhibit.

<u>Consolidated Affiliated Entities</u>	<u>Executing Parties</u>	<u>Execution Date</u>
Guangzhou Vipshop E-Commerce Co., Ltd.	Eric Ya Shen Arthur Xiaobo Hong	July 13, 2017 July 13, 2017
Guangzhou Vipshop Information Technology Co., Ltd.	Eric Ya Shen Arthur Xiaobo Hong	December 23, 2015 December 23, 2015
Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	Eric Ya Shen Arthur Xiaobo Hong	December 15, 2017 December 15, 2017
Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	Eric Ya Shen Zhihui Yu	June 24, 2014 June 24, 2014

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### Form of Loan Agreement

This Loan Agreement (the “**Agreement**”) is made and entered into by and between the Parties below as of \_\_\_\_\_ in \_\_\_\_\_, the People’s Republic of China (“**China**” or the “**PRC**”):

- (1) \_\_\_\_\_ (the “**Lender**”), a wholly foreign-owned enterprise, organized and existing under the laws of the PRC, with its address at \_\_\_\_\_;
- (2) \_\_\_\_\_ (the “**Borrower**”), a citizen of China with Chinese Identification No.: \_\_\_\_\_.

The Lender and the Borrower shall each be hereinafter referred to as a “Party” respectively, and they shall be collectively referred to as the “Parties.”

**Whereas:**

1. As of the date hereof, the Borrower holds \_\_\_\_\_% of equity interests in \_\_\_\_\_ (the “**Borrower Company**”). All of the equity interest now held and hereafter acquired by the Borrower in the Borrower Company shall be referred to as the “**Borrower Equity Interest**;
2. The Lender confirms that it agrees to provide the Borrower with a loan to be used in this Agreement. The Borrower confirms that he/she has received a loan equaling RMB \_\_\_\_\_ to be used for the purposes set forth under this Agreement.

After friendly consultation, the Parties agree as follows:

**1 Loan**

- 1.1 In accordance with the terms and conditions of this Agreement, the Lender agrees to provide to the Borrower a loan in the amount of RMB \_\_\_\_\_ (the “**Loan**”). During the term of this Agreement, the Lender shall within one (1) month after execution of this Agreement provide the Loan to the Borrower. The term of the Loan shall be long term. During the term of the Loan, the Borrower shall immediately repay the full amount of the Loan in the event that any of the following circumstances occur:
  - 1.1.1 30 days elapse after the Borrower receives a written notice from the Lender requesting repayment of the Loan;
  - 1.1.2 The Borrower’s death, lack, or limitation of civil capacity;
  - 1.1.3 The Borrower ceases (for any reason) to be a shareholder of the Borrower Company or its affiliates, or the Borrower ceases to be an employee of the Lender, the Borrower Company or their affiliates;
  - 1.1.4 The Borrower engages in or is involved in criminal activities;
  - 1.1.5 According to the applicable laws of China, foreign investors are permitted to invest in the principle business that is currently conducted by the Borrower Company in China with a controlling stake and/or in the form of wholly foreign-owned enterprises, the relevant competent authorities of China begin to approve such investments, and the Lender exercises the exclusive option under the Exclusive Option Agreement (including its amendments from time to time, the “**Exclusive Option Agreement**”) described in this Agreement.

- 1.2 The Loan provided by the Lender under this Agreement shall inure to the Borrower's benefit only and not to the Borrower's successor(s) or assign(s).
- 1.3 The Borrower agrees to accept the aforementioned Loan provided by the Lender, and hereby agrees and warrants using the Loan solely for the contribution or increase of the registered capital of the Borrower Company, or for the working capital of the Borrower Company. Without the Lender's prior written consent, the Borrower shall not use the Loan for any purpose other than as set forth herein.
- 1.4 The Lender and the Borrower hereby agree and acknowledge that the Borrower's method of repayment shall be at the sole discretion of the Lender, and shall at the Lender's option take the form of the Borrower's transferring the Borrower Equity Interest in whole to the Lender or the Lender's designated persons (legal or natural persons) pursuant to the Lender's exercise of its right to acquire the Borrower Equity Interest under the Exclusive Option Agreement, and any proceeds from the transfer of the Borrower Equity Interest (to the extent permissible) shall be used by the Borrower to repay the Loan to the Lender, in accordance with this Agreement and in the manner designated by the Lender.
- 1.5 The Lender and the Borrower hereby agree and acknowledge that to the extent permitted by the applicable laws, the Lender shall have the right but not the obligation to purchase or designate other persons (legal or natural persons) to purchase the Borrower Equity Interest in part or in whole at any time, at the price stipulated in the Exclusive Option Agreement.
- 1.6 The Borrower also undertakes to execute an irrevocable Power of Attorney (including its amendments from time to time, the "**Power of Attorney**"), which authorizes the Lender or a legal or natural person designated by the Lender to exercise all of the Borrower's rights as a shareholder of the Borrower Company.
- 1.7 When the Borrower transfers the Borrower Equity Interest to the Lender or the Lender's designated person(s), in the event that the transfer price of such equity interest is equal to or lower than the principal of the Loan under this Agreement, the Loan under this Agreement shall be deemed an interest-free loan. In the event that the transfer price of such equity interest exceeds the principal of the Loan under this Agreement, the excess over the principal shall be deemed the interest of the Loan under this Agreement payable by the Borrower to the Lender.

**2 Representations and Warranties**

- 2.1 Between the date of this Agreement and the date of termination of this Agreement, the Lender hereby makes the following representations and warranties to the Borrower:
- 2.1.1 The Lender is a corporation duly organized and legally existing in accordance with the laws of China;
  - 2.1.2 The Lender has the legal capacity to execute and perform this Agreement. The execution and performance by the Lender of this Agreement is consistent with the Lender's scope of business and the provisions of the Lender's corporate bylaws and other organizational documents, and the Lender has obtained all necessary and proper approvals and authorizations for the execution and performance of this Agreement; and
  - 2.1.3 This Agreement constitutes the Lender's legal, valid, and binding obligations enforceable in accordance with its terms.
- 2.2 Between the date of this Agreement and the date of termination of this Agreement, the Borrower hereby makes the following representations and warranties:
- 2.2.1 The Borrower has the legal capacity to execute and perform this Agreement. The Borrower has obtained all necessary and proper approvals and authorizations for the execution and performance of this Agreement;
  - 2.2.2 This Agreement constitutes the Borrower's legal, valid, and binding obligations enforceable in accordance with its terms; and
  - 2.2.3 There are no disputes, litigations, arbitrations, administrative proceedings, or any other legal proceedings relating to the Borrower, nor are there any potential disputes, litigations, arbitrations, administrative proceedings, or any other legal proceedings relating to the Borrower.

### 3 Borrower's Covenants

- 3.1 As and when he/she becomes, and for so long as he/she remains a shareholder of the Borrower Company, the Borrower irrevocably covenants that during the term of this Agreement, the Borrower shall cause the Borrower Company:
- 3.1.1 to strictly abide by the provisions of the Exclusive Option Agreement and the Exclusive Business Cooperation Agreement (including its amendments from time to time, the “**Exclusive Business Cooperation Agreement**”) and the Exclusive Purchase Framework Agreement (including its amendments from time to time, the “**Framework Agreement**”) to which the Borrower Company is a party, and to refrain from any action/omission that may affect the effectiveness and enforceability of the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement and the Framework Agreement.
  - 3.1.2 at the request of the Lender (or a party designated by the Lender), to execute the contracts/agreements on business cooperation with the Lender (or a party designated by the Lender), and to strictly abide by such contracts/agreements;
  - 3.1.3 to provide the Lender with all of the information on the Borrower Company’s business operations and financial condition at the Lender’s request;
  - 3.1.4 to immediately notify the Lender of the occurrence or possible occurrence of any litigation, arbitration, or administrative proceedings relating to the Borrower Company’s assets, business, or income;
  - 3.1.5 at the request of the Lender, to appoint any persons designated by the Lender as directors of the Borrower Company;
- 3.2 the Borrower covenants that during the term of this Agreement, he/she shall:
- 3.2.1 endeavor to keep the Borrower Company engaged in its principle businesses and to keep the specific business scope of its business license;
  - 3.2.2 abide by the provisions of this Agreement, the Power of Attorney, the Equity Interest Pledge Agreement (including its amendments from time to time, the “**Equity Interest Pledge Agreement**”) and the Exclusive Option Agreement to which the Borrower is a party, perform his/her obligations under this Agreement, the Power of Attorney, the Equity Interest Pledge Agreement and the Exclusive Option Agreement, and refrain from any action/omission that may affect the effectiveness and enforceability of this Agreement, the Power of Attorney, the Equity Interest Pledge Agreement and the Exclusive Option Agreement;
  - 3.2.3 not sell, transfer, mortgage or dispose of in any other manner the legal or beneficial interest in the Borrower Equity Interest, or allow the encumbrance thereon of any security interest, except in accordance with the Equity Interest Pledge Agreement;

- 3.2.4 cause any shareholders' meeting and/or the board of directors of the Borrower Company to not approve the sale, transfer, mortgage or disposition in any other manner of any legal or beneficial interest in the Borrower Equity Interest, or allow the encumbrance thereon of any security interest, except to the Lender or the Lender's designated person;
- 3.2.5 cause any shareholders' meeting and/or the board of directors of the Borrower Company to not approve the merger or consolidation of the Borrower Company with any person, or its acquisition of or investment in any person, without the prior written consent of the Lender;
- 3.2.6 immediately notify the Lender of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Borrower Equity Interest;
- 3.2.7 to the extent necessary to maintain his/her ownership of the Borrower Equity Interest, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defense against all claims;
- 3.2.8 without the prior written consent of the Lender, refrain from any action/omission that may have a material impact on the assets, business and liabilities of the Borrower Company;
- 3.2.9 appoint any designee of the Lender as director of the Borrower Company, at the request of the Lender;
- 3.2.10 to the extent permitted by the laws of China, at the request of the Lender at any time, promptly and unconditionally transfer all of the Borrower Equity Interest to the Lender or the Lender's designated representative(s) at any time, and cause the other shareholders of the Borrower Company to waive their right of first refusal with respect to the share transfer described in this Section;
- 3.2.11 to the extent permitted by the laws of China, at the request of the Lender at any time, cause the other shareholders of the Borrower Company to promptly and unconditionally transfer all of their equity interests to the Lender or the Lender's designated representative(s) at any time, and the Borrower hereby waives his/her right of first refusal (if any) with respect to the share transfer described in this Section;
- 3.2.12 in the event that the Lender purchases the Borrower Equity Interest from the Borrower in accordance with the provisions of the Exclusive Option Agreement, use such purchase price obtained thereby to repay the Loan to the Lender; and
- 3.2.13 without the prior written consent of the Lender, not cause the Borrower Company to supplement, change, or amend its articles of association in any manner, increase or decrease its registered capital or change its share capital structure in any manner.

**4 Liability for Default**

- 4.1 If the Borrower conducts any material breach of any term of this Agreement, the Lender shall have the right to terminate this Agreement and require the Borrower to compensate all damages; this Section 4.1 shall not prejudice any other rights of the Lender herein.
- 4.2 The Borrower shall not terminate this Agreement in any event unless otherwise required by the applicable laws.
- 4.3 In the event that the Borrower fails to perform the repayment obligations set forth in this Agreement, the Borrower shall pay an overdue interest of 0.01% per day for the outstanding payment, until the day the Borrower repays the full principal of the Loan, overdue interests and other payable amounts.

**5 Notices**

- 5.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail, prepaid postage, commercial courier service or by facsimile transmission to the address of such Party set forth below. A confirmation copy of each notice shall also be sent by email. The dates on such notices shall be deemed to have been effectively given shall be determined as follows:
  - 5.1.1 Notices given by personal delivery, courier service, registered mail or prepaid postage, shall be deemed effectively given on the date of delivery.
  - 5.2.1 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of the transmission).
- 5.2 For the purpose of notices, the addresses of the Parties are as follows:

Lender: \_\_\_\_\_  
Address: \_\_\_\_\_  
Attn: \_\_\_\_\_  
Phone: \_\_\_\_\_

Borrower: \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_

- 5.3 Any Party may at any time change its address for notices by having a notice delivered to the other Party in accordance with the terms hereof.

## **6 Confidentiality**

The Parties acknowledge that the existence and the terms of this Agreement and any oral or written information exchanged between the Parties in connection with the preparation and performance of this Agreement are regarded as confidential information. Each Party shall maintain the confidentiality of all such confidential information, and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that: (a) is or will be in the public domain (other than through the receiving Party's unauthorized disclosure); (b) is under the obligation to be disclosed pursuant to the applicable laws or regulations, rules of any stock exchange, or orders of the court or other government authorities; or (c) is required to be disclosed by any Party to its shareholders, directors, employees, legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such shareholders, directors, employees, legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Section. Disclosure of any confidential information by the shareholders, director, employees of or agencies engaged by any Party shall be deemed disclosure of such confidential information by such Party and such Party shall be held liable for breach of this Agreement.

## **7 Governing Law and Resolution of Disputes**

- 7.1 The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the resolution of disputes shall be governed by the laws of China.
- 7.2 In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement on the dispute within 30 days after either Party's request to the other Party for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the South China International Economic and Trade Arbitration Commission for arbitration, in accordance with its then effective arbitration rules. The arbitration shall be conducted in Guangzhou. The arbitration award shall be final and binding on all Parties.
- 7.3 Upon the occurrence of any disputes arising from the construction and performance of this Agreement or during the pending arbitration of any dispute, except for the matters under dispute, the Parties to this Agreement shall continue to exercise their respective rights under this Agreement and perform their respective obligations under this Agreement.

**8 Miscellaneous**

- 8.1 This Agreement should become effective upon execution by the Parties, and shall expire upon the date of full performance by the Parties of their respective obligations under this Agreement.
- 8.2 This Agreement shall be written in both Chinese and English language in two copies, each Party having one copy. In case of any conflicts between the Chinese version and the English Version, the Chinese version shall prevail.
- 8.3 This Agreement may be amended or supplemented through written agreement by and between the Lender and the Borrower. Such written amendment agreement and/or supplementary agreement executed by and between the Lender and the Borrower are an integral part of this Agreement, and shall have the same legal validity as this Agreement.
- 8.4 In the event that one or several of the provisions of this Agreement are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any respect. The Parties shall strive in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.
- 8.5 The attachments (if any) to this Agreement shall be an integral part of this Agreement and shall have the same legal validity as this Agreement.
- 8.6 Any obligations that occur or that are due as a result of this Agreement upon the expiration or early termination of this Agreement shall survive the expiration or early termination thereof. The provisions of Sections 4, 6, 7 and this Section 8.6 shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Loan Agreement as of the date first above written.

**Lender:** \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Legal Representative

**Borrower:** \_\_\_\_\_

By: \_\_\_\_\_

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## Schedule A

The following schedule sets forth other major similar agreements the registrant entered into with each of its consolidated affiliated entities and its shareholders. Other than the information set forth below, there is no material difference between such other agreements and this exhibit.

<u>Consolidated Affiliated Entities</u>	<u>Executing Parties</u>	<u>Execution Date</u>		<u>Amount</u>
Guangzhou Vipshop E-Commerce Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Eric Ya Shen	July 13, 2017	RMB	140,000,000
	Party A: Vipshop (China) Co., Ltd. Party B: Arthur Xiaobo Hong	July 13, 2017	RMB	70,000,000
Guangzhou Vipshop Information Technology Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Eric Ya Shen	December 22, 2015	RMB	550,000,000
Pin Jun Tong Enterprise Management & Consulting Co., Ltd.	Party A: Vipshop (China) Co., Ltd. Party B: Eric Ya Shen	December 15, 2017	RMB	650,000,000
	Party A: Vipshop (China) Co., Ltd. Party B: Arthur Xiaobo Hong	December 15, 2017	RMB	350,000,000
Shanghai Pinjian E-Commerce Co., Ltd. (currently known as Tianjin Pinjian E-Commerce Co., Ltd.)	Party A: Lefeng (Shanghai) Information Technology Co., Ltd. Party B: Eric Ya Shen	June 24, 2014	RMB	3,750,000
	Party A: Lefeng (Shanghai) Information Technology Co., Ltd. Party B: Zhihui Yu	June 24, 2014	RMB	1,250,000

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**Vipshop Holdings Limited**  
**List of Significant Consolidated Entities**

Name	Jurisdiction of Incorporation
<b>Significant Subsidiaries:</b>	
Vipshop International Holdings Limited	Hong Kong
Vipshop (China) Co., Ltd.	PRC
Vipshop (Zhaoqing) E-Commerce Co., Ltd.	PRC
Vipshop (Jianyang) E-Commerce Co., Ltd.	PRC
Vipshop (Kunshan) E-Commerce Co., Ltd.	PRC
Vipshop (Tianjin) E-Commerce Co., Ltd.	PRC
Guangzhou Pinwei Software Co., Ltd.	PRC
Vipshop (Zhuhai) E-Commerce Co., Ltd.	PRC
Vipshop (Hubei) E-Commerce Co., Ltd.	PRC
Chongqing Vipshop E-Commerce Co., Ltd.	PRC
Shanghai Pinzhong Commercial Factoring Co., Ltd.	PRC
<b>Significant Consolidated Affiliated Entities:</b>	
Guangzhou Vipshop E-Commerce Technology Co., Ltd.	PRC

\* Other consolidated affiliated entities of Vipshop Holdings Limited have been omitted from this list since, considered in the aggregate as a single entity, they would not constitute a significant subsidiary as of December 31, 2018.

**Certification by the Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Eric Ya Shen, certify that:

1. I have reviewed this annual report on Form 20-F of Vipshop Holdings Limited (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 18, 2019

By: /s/ Eric Ya Shen  
Name: Eric Ya Shen  
Title: Chief Executive Officer

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**Certification by the Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Donghao Yang, certify that:

1. I have reviewed this annual report on Form 20-F of Vipshop Holdings Limited (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 18, 2019

By: /s/ Donghao Yang  
Name: Donghao Yang  
Title: Chief Financial Officer

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**Certification by the Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Vipshop Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Ya Shen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 18, 2019

By: /s/ Eric Ya Shen  
Name: Eric Ya Shen  
Title: Chief Executive Officer

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**Certification by the Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Vipshop Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donghao Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 18, 2019

By: /s/ Donghao Yang  
Name: Donghao Yang  
Title: Chief Financial Officer

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements (No. 333-181559, No. 333-199515, and No. 333-222218) on Form S-8 of our reports dated April 18, 2019, relating to (1) the consolidated financial statements and the financial statement schedule of Vipshop Holdings Limited (the “Company”), its subsidiaries, its consolidated variable interest entities (“VIEs”) and VIEs’ subsidiaries (collectively, the “Group”) (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the translation of Renminbi amounts into U.S. dollars for the convenience of the readers), and (2) the effectiveness of the Group’s internal control over financial reporting, appearing in the Annual Report on Form 20-F of the Company for the year ended December 31, 2018.

/s/ Deloitte Touche Tohmatsu

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Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

April 18, 2019

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**HAN KUN LAW OFFICES**  
**Suite 906, Office Tower C1, Oriental Plaza, 1 East Chang An Avenue, Beijing 100738, P. R. China**  
**TEL: (86 10) 8525-5500 ; FAX: (86 10) 852 5-5511/ 5522**

Date: April 18, 2019

**VIPSHOP HOLDINGS LIMITED**

No. 20 Huahai Street,  
Liwan District, Guangzhou 510370  
People's Republic of China

Dear Sir/Madam:

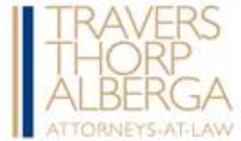
We hereby consent to the reference to our firm in Vipshop Holdings Limited's annual report on Form 20-F for the fiscal year ended December 31, 2018, which will be filed by Vipshop Holdings Limited on April 18, 2019 with the Securities and Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and further consent to the incorporation by reference of the summaries of our opinions that appear in the annual report on Form 20-F into the Registration Statements (No. 333-181559, No. 333-199515, and 333-222218) on Form S-8.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours Sincerely,

/s/ HAN KUN LAW OFFICES  
\_\_\_\_\_  
HAN KUN LAW OFFICES

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**Office:** +852 2801 6066  
**Mobile:** +852 9718 8740  
**Email:** rthorp@tta.lawyer

Vipshop Holdings Limited  
No. 20 Huahai Street,  
Liwan District, Guangzhou 510370  
People's Republic of China

18 April 2019

Dear Sirs

**Re: Vipshop Holdings Limited**

We consent to the reference to our firm under the heading “Item 10.E. Additional Information — Taxation” on Form 20-F for the year ended 31 December 2018, which will be filed with the Securities and Exchange Commission in the month of April 2019, and further consent to the incorporation by reference of the summary of our opinion that appear in the annual report on Form 20-F into the registration statements of Vipshop Holdings Limited (File No. 333-181559, File No. 333-199515 and File No. 333-222218) on Form S-8.

Yours faithfully

**/s/ TRAVERS THORP ALBERGA**  
**TRAVERS THORP ALBERGA**

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[www.traversthorpalberga.com](http://www.traversthorpalberga.com) Central HONG KONG  
Cayman Islands & British Virgin Islands Attorneys-at-Law  
**Resident Hong Kong Partners:** Anthony Travers  
Richard Thorp, Jos Briggs, Anna Peccarino

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