

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

FORM 20-F

(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, 2019
- 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

(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's Name Into English)
Cayman Islands
(Jurisdiction of Incorporation or Organization)
No. 20 Huahai Street
Liwan District, Guangzhou 510370
People's Republic of China
(Address of Principal Executive Offices)
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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:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
American depositary shares, each representing 0.2 Class A ordinary shares, par value \$0.0001 per share Class A ordinary shares, par value \$0.0001 per share*	VIPS	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: 117,584,362 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, 2019.

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 Accelerated Filer Non-Accelerated Filer
Emerging Growth Company

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 provided pursuant to Section 13(a) of the Exchange Act.

† 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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

In this annual report, unless otherwise indicated or unless the context otherwise requires:

- “active customers” refers to registered members who have purchased from our online sales business or our online marketplace platforms at least once during the relevant period;
- “ADSs” refers to the American depositary shares, each of which represents 0.2 Class A ordinary shares of our company, par value US\$0.0001 per share;
- “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 our Vipshop Online Platform 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;
- “GMV” refers to gross merchandise value, the total Renminbi value of all products and services sold through our online sales business, online marketplace platform, offline stores, and Shan Shan Outlets during the relevant period, including our websites and mobile apps, third-party websites and mobile apps, Vipshop offline stores and Vipmaxx offline stores (since 2019), and Shan Shan Outlets (since we acquired it in July 2019), which were fulfilled by either our company or our third-party merchants, regardless of whether or not the goods were delivered or returned. GMV includes shipping charges paid by buyers to sellers. For prudent considerations, we do not consider products or services to be sold if the relevant orders were placed and canceled pre-shipment and only included orders that left our or other third-party vendors’ warehouses;
- 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 through our online sales business and on our online marketplace platforms (excluding, for the avoidance of doubt, orders from our offline stores and outlets), net of orders returned;
- “Vipshop Online Platform” refers to our Vipshop App mobile application, Vipshop WeChat Mini-Program, and our *vip.com* website; and
- “we,” “us,” or “our company” refers to Vipshop Holdings Limited and its subsidiaries and consolidated affiliated entities.

Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

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Our reporting currency is Renminbi because our business is primarily conducted in China and most of our revenue is denominated in Renminbi. This annual report contains translations from Renminbi to U.S. dollars solely for the convenience of the reader. Unless otherwise stated, all translations from Renminbi to U.S. dollars were made at a rate of RMB6.9618 to US\$1.00, which was the certified noon buying rate in effect as of December 31, 2019, as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. The certified noon buying rate in effect as of April 17, 2020 was RMB7.0711 to US\$1.00. We make no representation that any Renminbi or U.S. dollar amounts referred to in this annual report could have been, or could be, converted to U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange.

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, 2017, 2018, and 2019 and the selected consolidated balance sheets data as of December 31, 2018 and 2019 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, 2015 and 2016, and our selected consolidated balance sheets data as of December 31, 2015, 2016, and 2017 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,					
	2015	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except percentages, number of shares, and per share and per ADS data)					
Selected Consolidated Statements of Income Data:						
Product revenues	39,409,961	55,281,900	71,171,653	81,510,275	88,721,311	12,744,019
Other revenues	793,251	1,309,402	1,740,660	3,013,673	4,273,107	613,793
Total net revenues	40,203,212	56,591,302	72,912,313	84,523,948	92,994,418	13,357,812
Cost of revenues ⁽¹⁾	(30,306,723)	(42,994,688)	(56,618,471)	(67,454,981)	(72,314,190)	(10,387,283)
Gross profit	9,896,489	13,596,614	16,293,842	17,068,967	20,680,228	2,970,529
Operating expenses ⁽²⁾						
—Fulfillment expenses ⁽³⁾	(3,667,031)	(4,904,526)	(6,899,654)	(7,489,393)	(7,317,706)	(1,051,123)
—Marketing expenses	(2,089,348)	(2,837,680)	(2,978,621)	(3,240,450)	(3,323,927)	(477,452)
—Technology and content expenses	(1,076,520)	(1,563,582)	(1,808,452)	(2,000,894)	(1,568,107)	(225,244)
—General and administrative expenses	(1,301,472)	(1,941,146)	(2,447,724)	(2,674,179)	(4,064,264)	(583,795)
—Goodwill impairment loss	—	—	—	—	(278,263)	(39,970)
Total operating expenses	(8,134,371)	(11,246,934)	(14,134,451)	(15,404,916)	(16,552,267)	(2,377,584)
Other operating income	308,431	358,029	531,055	757,062	645,413	92,708
Income from operations	2,070,549	2,707,709	2,690,446	2,421,113	4,773,374	685,653

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	For the Year Ended December 31,					
	2015	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except percentages, number of shares, and per share and per ADS data)					
Income before income taxes and share of (loss)/gain of equity method investees	2,050,520	2,666,084	2,540,853	2,747,075	4,942,805	709,990
Income tax expenses	(457,745)	(601,828)	(626,140)	(566,604)	(983,554)	(141,279)
Share of (loss)/gain of equity method investees	(84,063)	(71,489)	(22,280)	(46,999)	27,182	3,904
Net income	1,508,712	1,992,767	1,892,433	2,133,472	3,986,433	572,615
Net loss/(income) attributable to non-controlling interests	80,953	44,050	57,222	(4,685)	30,399	4,367
Net income attributable to our shareholders	1,589,665	2,036,817	1,949,655	2,128,787	4,016,832	576,982
Shares used in calculating earnings per share Class A and Class B ordinary shares:						
—Basic	115,736,092	115,958,088	117,554,229	132,266,157	133,524,129	133,524,129
—Diluted	120,168,063	125,817,183	125,715,833	140,083,610	136,081,415	136,081,415
Net earnings per Class A and Class B ordinary share						
Net income attributable to our shareholders—Basic	13.74	17.57	16.59	16.09	30.08	4.32
Net income attributable to our shareholders—Diluted	13.23	16.86	15.94	15.61	29.58	4.25
Net earnings per ADS (1 Class A ordinary share equals 5 ADSs)						
—Basic	2.75	3.51	3.32	3.22	6.02	0.86
—Diluted	2.65	3.37	3.19	3.12	5.92	0.85

Notes:

- Excludes shipping and handling expenses, and includes inventory write-down that amounted to RMB293.9 million, RMB303.2 million, RMB206.7 million, RMB440.8 million, and RMB347.5 million (US\$49.9 million) for the years ended December 31, 2015, 2016, 2017, 2018, and 2019, respectively.
- Include share-based compensation expenses as follows:

	For the Year Ended December 31,					
	2015	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Fulfillment expenses	(18,665)	(38,428)	(73,235)	(73,151)	(112,683)	(16,186)
Marketing expenses	(19,938)	(38,459)	(40,364)	(41,063)	(35,038)	(5,033)
Technology and content expenses	(126,274)	(183,122)	(206,073)	(203,594)	(180,493)	(25,926)
General and administrative expenses	(138,064)	(215,644)	(347,426)	(353,402)	(359,869)	(51,692)
Total	(302,941)	(475,653)	(667,098)	(671,210)	(688,083)	(98,837)

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- (3) Include shipping and handling expenses, which amounted to RMB1.71 billion, RMB2.58 billion, RMB3.83 billion, RMB4.50 billion, and RMB4.63 billion (US\$665.4 million) for the years ended December 31, 2015, 2016, 2017, 2018, and 2019, respectively.

	As of December 31,					
	2015	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Selected Consolidated Balance Sheets Data:						
Cash, cash equivalents and restricted cash	3,324,384	4,109,577	10,221,992	10,038,472	7,719,285	1,108,805
Total current assets	12,153,276	14,580,872	25,916,138	27,325,637	23,028,041	3,307,771
Total assets	20,035,522	25,094,453	37,982,820	43,562,663	48,582,678	6,978,465
Total liabilities	16,422,255	19,312,649	23,732,244	26,351,870	26,332,981	3,782,496
Total shareholders' equity	3,613,267	5,781,804	14,250,576	17,210,793	22,249,697	3,195,969

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. 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, 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.

In addition, we seek to expand into the offline retail business to supplement our online business. We acquired 100% equity interests in Shan Shan Commercial Group Co., Ltd., or Shan Shan Outlets, a leading player in the offline outlet management industry in China, in accordance with a share purchase agreement entered into in July 2019. We also opened offline retail stores under our own Vipshop brand in 2019 to expand cooperation with our brand partners and help them clear their inventories more effectively. As of December 31, 2019, we had approximately 200 Vipmaxx offline stores and approximately 300 Vipshop offline stores. We cannot assure you 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 sufficient experience in or capabilities for offline operations, including offline store management. 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.

Furthermore, we have participated in the Internet finance sector for a few years. 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 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.

Pandemics, epidemics, or fear of spread of contagious diseases could disrupt our operations or Chinese or global economies, which could materially and adversely affect our business, financial condition, and results of operations.

Global pandemics, epidemics in China or elsewhere in the world, or fear of spread of contagious diseases, such as Ebola virus disease (EVD), coronavirus disease 2019 (COVID-19), Middle East respiratory syndrome (MERS), severe acute respiratory syndrome (SARS), H1N1 flu, H7N9 flu, and avian flu could disrupt our business operations in China and elsewhere in the world, reduce or restrict our fulfillment capacity, or result in regional or global economic distress, which may materially and adversely affect our business, financial condition, and results of operations. Any one or more of these events or recurrence may adversely affect our sales results, or even for a prolonged period of time, which could materially and adversely affect our business, financial condition, and results of operations.

The current COVID-19 pandemic has already adversely affected many aspects of our business. Since February 2020, we have experienced, and expect to continue to experience, a meaningful decline in our sales and profitability as a result of the reduced demand from our customers due to their reduced need of leaving households during the outbreak. In addition, our China-based facilities underwent temporary closure in February 2020, and most of our employees had worked from home for weeks, both as part of China's nationwide efforts to contain the spread of the COVID-19. Our service capacity and operational efficiency were therefore negatively affected in February and early March 2020. Since March 2020, we and our suppliers and business partners have been gradually recovering from the general shutdown and delay in commencement of operations in China. The abilities of our product and service suppliers to maintain sufficient inventories and timely deliver products and services have been adversely affected by their insufficient workforce as a result of temporary travel restrictions in China and the necessity to comply with disease control protocols in our business facilities, especially those located in critical regions such as Hubei Province, China. The global spread of COVID-19 may also affect our overseas suppliers. While the duration of this disruption to our business and related financial impacts cannot be reasonably estimated at this time, we expect that our consolidated results of operations for the first half of 2020 will be affected with potential continuing impacts on subsequent periods. The global spread of COVID-19 pandemic in a significant number of countries around the world has resulted in, and may intensify, global economic distress, and the extent to which it may affect our results of operations will depend on future developments, especially the effectiveness of the global containment of the COVID-19, which are highly uncertain and cannot be predicted. We cannot assure you that the COVID-19 pandemic can be eliminated or contained in the near future, or at all, or a similar outbreak will not occur again. If the COVID-19 pandemic and the resulting disruption to our business were to extend over a prolonged period, it could materially and adversely affect our business, financial condition, and results of operations.

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 a curated selection of discounted products desired by our customers, we expect to face additional challenges in the selection of products and services. Our ability to offer suitable products catering to consumers' needs at attractive discounts depends on the effectiveness of our merchandising team as well as our IT system that collects and provides accurate and reliable information on consumer interests. In addition, we have implemented measures, such as mostly working with brands directly, to ensure that only authentic products are offered on our platform. Any 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 mother and baby care products. While our representatives

generally check the products that we sell to confirm their authenticity, quality, and proper labeling, we cannot assure you that all of 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 by third-party delivery companies, 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 third-party delivery companies fail to provide our product delivery and return services in a convenient and 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 brand 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 brand among our customers and brand partners have significantly contributed to the growth of our business. Maintaining and enhancing the recognition and reputation of our brand is critical to our business and competitiveness. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brand and, if not properly managed, may negatively impact our brand and reputation. These factors include our ability to:

- provide satisfactory user experience as consumer preferences evolve and as we expand into new product categories;
- offer desirable branded merchandises at appealing discounts on a daily basis;
- increase brand awareness among existing and potential customers through various marketing and promotional activities and word-of-mouth referrals;
- maintain the popularity, attractiveness, and quality of the products that 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 brand. 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, 2017, 2018, and 2019, we worked with over 13,000, 17,000, and 18,000 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 primarily rely on third-party delivery companies for our product order fulfillment, and if these third-party delivery companies fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.

We are committed to providing superior order fulfillment services to our customers. We primarily rely on high-quality third-party delivery companies to fulfill our product delivery demand, and have built our in-house warehousing systems with nationwide coverage over the years. In November 2019, we terminated our own delivery service unit and entered into a strategic cooperation agreement with SF Holding Co., Ltd., or SF Holding, to utilize the delivery services of SF Holding to optimize the efficiency of our logistics operations, decrease our fulfillment expenses, and provide our customers with superior delivery services.

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 our third-party delivery

partners, 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 may need to require further shortened delivery time at increasing fulfillment expenses. Delivery of our products could also be affected or interrupted by merger, acquisition, insolvency, or government shut-down of the third-party delivery companies we engage to make deliveries. If our products are not delivered in proper condition or on a timely basis, our business and reputation could suffer.

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;
- focus on and expertise in the apparel category;
- ability to offer a curated selection of products catering to consumer preferences;
- 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, 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.

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 our business grows, 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 and our non-standardized product category offerings, 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 procurements. 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 RMB206.7 million, RMB440.8 million, and RMB347.5 million (US\$49.9 million) in inventory write-down in the years ended December 31, 2017, 2018, and 2019, 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 and 2019 due to the repositioning of our business focus towards the apparel category since 2018 and the implementation of our new Super VIP Membership program in 2018, 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 cosmetics, home goods, mother and baby care products, accessories, wellness products, consumer electronic products, and other lifestyle products. 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.

If we are not able to manage our logistics network successfully, our growth potential, results of operations and business could be materially and adversely affected.

Our logistics network, currently consisting of both regional logistics hubs and local distribution centers, is essential to our business operations. We plan to complete construction of certain logistics centers, and to maintain our logistics network to accommodate increasing volumes of customer orders, enhance customer experience, and provide sufficient coverage across China. However, we cannot assure you that our plans to maintain the operation of our own logistics centers will be successful. We cannot assure you that we can complete the on-going constructions of our logistics centers in a cost-efficient manner. Nor can we assure you that we will be able to recruit and retain qualified managerial and operational personnel to support our logistics network. If we are unable to effectively control expenses related to the maintenance of our logistics network, 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 2019.

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, 2019, we spent RMB126.7 million (US\$18.3 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.

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 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 be subject to fraud, customer data leakage, and other illegal activities in connection with the various payment methods we offer. 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 service providers, such as Tenpay. In 2019, over 95% of our total orders were collected through online payment services, of which Tenpay was used to process a significant portion of our total orders, and our Vipshop Payment service was used to process a meaningful 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, is highly sensitive to general economic changes. Although our discount retail business is typically counter-cyclical, online purchases tend to decline significantly during recessionary periods and approximately 95% 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, and global pandemics such as the COVID-19 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, 2017, 2018, and 2019, we worked with over 13,000, 17,000, and 18,000 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 amounts 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 partners 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, 2019, we owned 1,903 registered trademarks, 169 copyrights (including copyrights with respect to 156 software products developed by us relating to various aspects of our operations), and 326 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 suppliers, 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 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 other related businesses. In July 2019, we entered into a share purchase agreement with Ningbo Xingtong Chuangfu Equity Investment Partnership and Shan Shan Group Co., Ltd. in connection with the acquisition of 100% equity interests in Shan Shan Outlets. In October 2019, we agreed to invest up to RMB2 billion in another private equity fund focusing on technology-enabled consumer, retail, and other related businesses.

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 regional logistics hubs and 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 data back-up and system redundancy solutions. 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 have limited experience in operating an Internet finance business, and 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, providing both consumer financing and supplier financing services. In 2019, we scaled back our Internet finance business, which currently serves as a supporting function for our core online retail business. We cooperate with banks and third-party consumer financing companies to provide consumer loans to our customers, and charge the banks and third-party consumer financing companies a certain percentage of channel fees. Operating in this highly-regulated and fast-changing business sector involves risks and challenges. Our lack of familiarity with the Internet finance sector may make it difficult for us to capture the demands and preferences in the market and provide financial service products that meet our customers' requirements and preferences. We may not be able to achieve customer satisfactory.

Additionally, the risk of nonpayment of loans is inherent in the financing business. Although we have largely terminated providing loans to customers and suppliers by ourselves to reduce the credit risks we bear directly, we are not fully exempt from all the risks associated with potential bad debts. Defaults in payment for loans by our customers and suppliers expose us to bad debts. 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. 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.

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 in connection with 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 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 in order 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, several of our offices in Guangzhou, China 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, 2019, 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, 2019 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, 2019. 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, 2019. 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.

COVID-19 had a severe and negative impact on the Chinese and the global economy in the first quarter of 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is likely to be severe. China had a negative gross domestic product, or GDP growth in the first quarter of 2020, which broke the record of the continued GDP growth in China for the past decades. 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. Unrest, terrorist threats, and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations, and tariffs. The terms of the United Kingdom's exit from the European Union, commonly referred to as the "Brexit," remain undetermined, resulting in market volatility and exchange rate fluctuations from time to time both globally and most specifically in the United Kingdom and rest of the Europe. The Brexit has created significant uncertainty about the future relationship between the United Kingdom and the European Union. These developments, or the perception that any of them could occur, may adversely affect European and worldwide economic and market conditions. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations, and financial condition.

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. 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 reduced 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. Any recurrence of 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, domestic multi-party communication, store-and-forward and call center), including commercial Internet content provision business. The Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision) require that the major foreign investor in a value-added telecommunication service provider in China must have experience in providing value-added telecommunications services overseas and maintain a good track record. 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, which is in the renewal process. 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, based on its understanding of the relevant PRC laws, rules, and regulations, 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 became 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." The Implementing Regulation of the Foreign Investment Law adopted by the State Council on December 12, 2019 did not provide further clarification for such "other means" either. The current laws and regulations leave leeway for the future legislations to be promulgated by competent PRC legislative institutions to 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 down in recent years. 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 four 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 violations 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. On November 4, 2019, the SEC announced that SEC and PCAOB had dialogue with the “Big Four” accounting firms, which emphasized the need for effective and consistent global firm oversight of member firms, including those operating in China. On February 19, 2020, the SEC and the PCAOB further issued a joint statement on continued dialogue with “Big Four” accounting firms on audit quality in China, highlighting that PCAOB continues to be prevented from inspecting the audit work and practices of PCAOB-registered audit firms in China on a comparable basis to other non-U.S. jurisdictions. On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including China, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB’s inability to inspect audit work paper and practices of accounting firms in China, with respect to their audit work of U.S. reporting companies. However, it remains unclear what further actions SEC and PCAOB will take to address the problem.

Inspections of other firms that PCAOB has conducted outside of 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. This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in the ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct 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, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China’s, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges of issuers included on the SEC’s list for three consecutive years. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected. It is unclear if this proposed legislation would be enacted. Furthermore, there has been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States.

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 our results of operations and the value of 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, is based on rates set by the People’s Bank of China. Renminbi has fluctuated against U.S. dollars, at times significantly and unpredictably. The value of Renminbi against U.S. dollars and other currencies is affected by changes in China’s political and economic conditions and by China’s foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against 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 the U.S. dollar 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.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. 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 adequately hedge our exposure or 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 currency. As a result, fluctuations in exchange rates may materially and adversely affect the value of your investment.

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 a local bank authorized by SAFE. Any foreign loan procured by our PRC subsidiaries is required to be registered or filed with SAFE or its local branches or satisfy relevant requirements as provided in SAFE Circular 28. 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. There is no statutory limit in effect on the amount of capital contribution that we can make to our PRC subsidiaries, provided that the PRC subsidiaries complete the relevant filing and registration procedures. With respect to loans to the PRC subsidiaries by us, (i) if the relevant PRC subsidiaries adopt the traditional foreign exchange administration mechanism, the outstanding amount of the loans shall not exceed the difference between the total investment and the registered capital of the PRC subsidiaries; and (ii) if the relevant PRC subsidiaries adopt the mechanism as provided in the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing issued by the PBOC on January 12, 2017, or the PBOC Notice No. 9, the outstanding amount of the loans shall not exceed 250% of the net asset of the relevant PRC subsidiary.

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. On October 23, 2019, SAFE promulgated the Circular on Further Promoting the Facilitation of Cross-Border Trade and Investment, or the SAFE Circular 28. The SAFE Circular 28 allows all FIEs (including those without an investment business scope) to utilize and convert their foreign exchange capital for making equity investment in China if certain

requirements prescribed therein are satisfied. However, as the SAFE Circular 28 was newly promulgated, uncertainties still exist in relation to its interpretation and implementation. 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, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and certain other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the anti-monopoly law enforcement agency be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. 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. 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 2019. 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. 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.

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 2019, the trading prices of our ADSs on NYSE have ranged from US\$5.28 to US\$14.61 per ADS, and the last reported trading price on April 24, 2020 was US\$16.09 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 134,483,982 Class A and Class B ordinary shares outstanding, including 117,973,624 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 depository 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 depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository 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 depository 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 depository. However, the depository 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 depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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 (2020 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, 2020, Mr. Eric Ya Shen beneficially owned approximately 58.2% 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.

A non-United States corporation, such as our company, will be a passive foreign investment company, “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 value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. Depending upon the market price of our ADSs and the nature of our assets and income over time, we could be classified as a 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, 2019 and do not anticipate becoming a PFIC in the current taxable year or 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 PFIC status is a factual determination made annually after the close of each taxable year, including ascertaining the fair market value of our assets 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, 2019, we mainly rely on the following six principal subsidiaries of Vipshop China for our business operations:

- Vipshop (Kunshan) E-Commerce Co., Ltd., or Vipshop Kunshan;
- Vipshop (Jianyang) E-Commerce Co., Ltd., or Vipshop Jianyang;
- Vipshop (Zhaoqing) E-Commerce Co., Ltd., or Vipshop Zhaoqing;
- Vipshop (Tianjin) E-Commerce Co., Ltd. or Vipshop Tianjin;
- Vipshop (Hubei) E-Commerce Co., Ltd., Vipshop Hubei; and
- Chongqing Vipshop E-Commerce Co., Ltd., or Vipshop Chongqing.

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, 2018, and 2019, 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 base of customers and brand partners. As of December 31, 2019, we had approximately 378 million registered members and approximately 171 million cumulative customers, and promoted and sold products for over 31,000 popular domestic and international brands.

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 value-driven customers in China seeking lifestyle enhancements. We have built a highly engaged and loyal customer base that contributes to our growth while also enabling us to attract new customers through word-of-mouth referrals. The majority of our customers have purchased products from us more than once. Our total number of repeat customers was 41.2 million, 46.1 million, and 55.0 million in 2017, 2018, and 2019, respectively, representing 71.3%, 76.1%, and 79.7%, respectively, of the total number of our active customers during the same periods. Orders placed by our repeat customers accounted for 95.1%, 96.6%, and 97.6%, 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 work with top delivery companies with nationwide coverage to ensure reliable and timely delivery of our orders. We offer consumer financing and supplier financing services to facilitate and refine the shopping experience of our customers and strengthen our cooperative relationships 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 events. We believe that our efficient operational and managerial systems combined with our robust IT infrastructure set a solid foundation for our continued 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.

In 2017, 2018, and 2019, we fulfilled approximately 335.0 million, 437.4 million, and 566.3 million customer orders, respectively, and we generated total net revenues of RMB72.91 billion, RMB84.52 billion, and RMB92.99 billion (US\$13.36 billion), respectively. In 2017, 2018, and 2019, we generated net income of RMB1.89 billion, RMB2.13 billion, and RMB3.99 billion (US\$572.6 million), respectively. Our net income in 2017, 2018, and 2019 reflected non-cash share-based compensation expenses in an aggregate amount of RMB667.1 million, RMB671.2 million, and RMB688.1 million (US\$98.8 million), respectively. GMV for 2017, 2018, and 2019 was RMB108.4 billion, RMB131.0 billion, and RMB148.2 billion, 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, 2019, we have offered diversified product offerings from over 31,000 popular domestic and international brands, including apparel for women, men, and children, handbags and shoes, cosmetics, mother and baby care products, consumer electronic products, home goods, and other lifestyle products. We carefully select well-known and popular mid-tier 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 treasure-hunting 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, the *vip.com* website and the Vipshop WeChat Mini-Program.

Currently, Vipshop App is 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 the 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 the Vipshop App, adding new features and engaging celebrities from time to time to promote our brand and the 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 timelier replenishment of out-of-stock goods and more efficient interface to enhance their shopping experience. As of December 31, 2019, 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 an opportunity for us to further enhance customer experience and increase customer stickiness. In 2019, we launched our Vipshop WeChat Mini-Program, which offers key features of our Vipshop App and allows users to access our platform directly through WeChat App, one of the most widely used social networks in China.

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 sale. For each featured brand, customers 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 events 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 they typically last for three or more days. Each item is available in limited quantities and remains on sale only while supplies last. We plan our daily sales events in advance to offer a balanced and diversified 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 first-time shoppers are prompted to supply shipping details and payment details, while 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 or after the order has been placed.

We launched a variety of channels on our Vipshop Online Platform to meet our customers' diversified needs for brands and products. Specifically, we operate a channel for branded cosmetics and skin care products called Vipshop Beauty, a channel for furniture, bed and bath, kitchenware and consumer electronics products called Vipshop Home, a channel for mother and baby care products called Vipshop Kids, a channel for direct purchase of overseas branded products called Vipshop International, and a channel for consumer financing called Vipshop Finance. In addition to regular flash sales events, brands offering the best merchandises and deals get to participate in our two prime traffic channels, Fengqiang and Kuaiqiang, both known for offering greater discounts than the average sales events. We believe the introduction of these channels provides brands with more options to monetize their inventory more efficiently.

In addition to our Vipshop Online Platform, we also operate some offline stores in China to supplement our online business. As of December 31, 2019, we had approximately 200 Vipmaxx offline stores and approximately 300 Vipshop offline stores. Further, in July 2019, we entered into a share purchase agreement and acquired Shan

Shan Outlets, a leading player in the offline outlet management industry in China, to gain presence in the offline outlet business in China. In 2019, sales through these offline 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 brand partners, enabling our Vipshop Online Platform to become the preferred destination of online shopping for fashionable, brand-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, 2017, 2018, and 2019, we worked with over 13,000, 17,000, and 18,000 brand partners, respectively. None of the brands accounted for more than 2% of our total revenues in 2017, 2018, and 2019. 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 via various channels within our ecosystem and in meeting their demand for marketing, customer data analysis and inventory management will attract new brand partners and build stronger ties with 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 1,300 members as of December 31, 2019, 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, customers 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, safety, sanitary and quality certifications, 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 standards and good reputation that can meet our customers' expectations.

We generally enter into 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 which we have established long-term relationships, we often enter into 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 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 a deep 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 diversified product offering across different categories.

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We effectively collect, 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 events to enhance the timeliness and relevancy of our product offerings, we also provide some of these data to our brand partners to help them improve their product development and sales and marketing strategies in order to further promote additional sales opportunities with us.

Inventory Management

For brands we have established long-term relationships with, 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 certain 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, 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. Additionally, we can continue to sell any excess inventory through our offline stores.

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 continuously offer high-quality products and achieve greater customer satisfaction.

Our Product and Service Offerings

Product Categories

We offer a broad spectrum of apparel, handbags and shoes, 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, 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.
<i>Sportswear and sporting goods</i>	Sportswear, sports gear and footwear for tennis, badminton, soccer, swimming, and other sporting activities.
<i>Consumer electronic products</i>	Consumer electronic products, covering a wide range of demands, including computers, cell phones, 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 other cosmetics.
<i>Home goods and other lifestyle products</i>	Home goods with an extensive selection of home furnishings, including bed and bath products, home decor, dining and tabletop items, and small household appliances.
<i>Luxury goods</i>	Luxury or 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 meaningfully lower and competitive with those offered to other online 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, our installment plan.

Our developing supplier financing business targets our suppliers’ need of liquidity and facilitates our inventory procurement. Wei Yidai, 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 and payment through third-party online payment services, such as Tenpay.

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. We work with top delivery companies with nationwide coverage, such as SF Express and Tongda Operators, to ensure reliable and timely delivery of our orders.

Logistics Network and Warehouse Management System

Our logistics network consists of regional logistics hubs and local distribution centers. We have regional logistics hubs strategically deployed across China. We maintain local distribution centers to facilitate the 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 when a purchase order is confirmed with the brand partners, to when the products are stocked in our logistics centers, and eventually when the product is packaged and picked up for shipment to a customer. As we offer a curated selection of brands and products for each daily sale, 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 2017, 2018, and 2019, we processed approximately 335.0 million, 437.4 million, and 566.3 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 model increases utilization of our warehouses while enabling certain suppliers to manage their supplies more efficiently. In 2019, we launched the JITX model which allows single-supplier orders from certain reliable brand partners to be shipped directly from the suppliers to the end customers. We process orders containing products from multiple suppliers in our mega warehouses across China.

Delivery Services

We deliver orders placed on our Vipshop Online Platform to all areas in China through leading reputable third-party delivery companies with nationwide coverage, such as SF Express and Tongda Operators. In particular, in November 2019, we terminated our delivery service unit operated by a subsidiary of Pin Jun Tong, namely Pinjun. Upon termination of Pinjun’s delivery service unit, in November 2019, we entered into a cooperation agreement with SF Holding (which operates the SF Express business) to enhance our cooperation with SF Holding, and utilize its delivery services to optimize the efficiency of our logistics operations, decrease our fulfillment expenses and provide our customers with superior delivery services. We expect third-party delivery companies, especially SF Holding, to deliver substantially all of our orders in the foreseeable future.

For luxury goods orders, we deliver the products with an “anti-tampering lock” device to further enhance customer trust.

We leverage our large-scale operations and reputation to obtain favorable contractual terms from third-party delivery companies. To reduce the risk of reliance on any single delivery company, we work with most of the major delivery companies in China. We regularly monitor and review the delivery companies’ performance and their compliance with our contractual terms.

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 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 related 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. For creditworthy customers on our platform, we return purchase price they paid before receiving the returned products. 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. We also outsource customer service to high-quality third-party service centers. As of December 31, 2019, our customer service center, located in our Guangzhou headquarters, had approximately 1,200 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.

Marketing

Prior to 2013, we did not incur substantial marketing expense and were 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. In 2014, we strategically began to reinvest our profits into marketing to gain market share. Since the second quarter of 2014, we have been increasing marketing expenses to strengthen our brand awareness, attract new customers, and expand our market share especially within product categories such as apparel, cosmetics, and mother and baby care products.

We continued to enhance the element of “thrill and excitement” associated with the customer shopping experience in order to promote word-of-mouth referrals and repeat customer purchases on our Vipshop Online Platform. We invest in various marketing channels, especially digital marketing channels, to acquire new customers and reactivate existing customers. In addition, we encourage our customers to share their shopping experiences. We offer an “easy-to-share” function that enables our customers to post their experiences via social media platforms in China, such as WeChat, which increases their customer stickiness while also serving as a means to attract new customers.

Technology

Our systems play an important role in the success of our business, and are designed to enhance operational efficiency and site scalability. We rely on a combination of our internally developed proprietary technologies, open source solutions, and commercially available licensed technologies to optimize every aspect of our operations for the benefit of our customers and brand partners. The combination of systems is divided into front-end and back-end modules, both built on top of state-of-the-art modern technologies. Together, they form a reliable technology platform that brings optimized customer experiences and supports efficient business operations.

Our front-end modules, which refer to modules supporting the user-interfaces of our platform, mainly include product display, member account management, category browsing, product searches, online shopping cart, order processing functions, payment, chatbots, and customer support 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 quick access to the product display they are interested in and facilitating a smooth online shopping experience.

Our back-end modules, which refer to modules supporting our business operations, mainly include customer service, ERP, warehouse and logistics management, product information management, business intelligence, and

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administration management systems. Our customer service system mainly consists of our customer relationship management system. Our ERP system is customized to integrate our business operations with brand partners on orders, accounting, and product distribution. Our warehouse and logistics management system primarily consists of our warehouse management system, automating our warehouse and logistics operations and allowing us to efficiently manage our inventories, track our products, and deliver the orders to our customers in a timely fashion. We have designed our product information management system to perform a variety of functions. Other than basic product information management, it also offers category management, price and inventory management, and product lifecycle management for our online and offline businesses. These systems greatly enhance the efficiency of our operations.

Our customer relationship management and business intelligence systems enable us to effectively use our proprietary transaction data to further analyze and study customer behavior and customer preferences. We regularly use this information in planning our marketing initiatives for upcoming events and making profile-based personalized recommendations to enhance our customers' shopping experiences. Our business intelligence system is built with our proprietary cloud computing infrastructure, providing insights for all aspects of our business operations and site functionalities.

On site operations, we have developed disaster tolerant systems for our key business modules which include real-time data mirroring, daily data back-up, and system redundancy solutions. We also adopted a "DevOps" methodology, which enables us to respond quickly towards business requests, significantly decreasing our development cost and improving our time-to-market. Our site is built upon real event processing platforms, and it leverages service-oriented architecture supported by internally developed cloud solutions. This enables us to achieve significant internal efficiency. Cybersecurity is another key aspect of site operations. Leveraging the real-time event processing systems that keep our site running smoothly, we have improved our protection against online and offline fraud and potential cyber-attacks such as DDoS.

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, 2019, we owned 1,903 registered trademarks, 169 copyrights (including copyrights to 156 software products developed by us relating to various aspects of our operations), and 326 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 highly 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;

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- focus on and expertise in the apparel category;
- ability to offer a curated selection of products catering to consumer preferences;
- 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 effectively 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 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 other related businesses. As of December 31, 2019, the aggregate amount of contribution we made to the private equity fund was RMB535.4 million (US\$76.9 million).

In July 2019, we entered into a share purchase agreement with Ningbo Xingtong Chuangfu Equity Investment Partnership and Shan Shan Group Co., Ltd., in connection with the acquisition of 100% equity interests in Shan Shan Outlets, a leading player in the offline outlet management industry in China. The total consideration for the acquisition of Shan Shan Outlets was RMB2.95 billion, of which RMB2.93 billion had been paid as of December 31, 2019, and the remaining consideration was paid in January 2020.

In October 2019, we agreed to invest in the capacity of a passive investor, up to RMB2 billion in a private equity fund, which focuses on technology-enabled consumer, retail, and other related businesses. As of December 31, 2019, the aggregate amount of contribution we made to the private equity fund was RMB110 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

The PRC Foreign Investment Law adopted by the NPC on March 15, 2019, and the Regulation for Implementing the Foreign Investment Law adopted by the PRC State Council on December 26, 2019 both

became 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 “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 (Negative List) (2019 Version).

Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2019 Version) and Industry Guidelines of Encouraged Foreign Investment (2019 Version)

The Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2019 Version), or the 2019 Negative List, and the Industry Guidelines of Encouraged Foreign Investment (2019 Version), which were promulgated jointly by MOFCOM and NDRC on June 30, 2019 and became effective on July 30, 2019, collectively replaced and abolished the Guidance Catalog of Industries for Foreign Investment (2017 Revision) and the Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2018 Version) regulating foreign investment in China. Pursuant to the 2019 Negative List, foreign investors should refrain from making investment in any of the prohibited sectors specified in the 2019 Negative List, and foreign investors are required to obtain permits for access to other sectors that are listed in the 2019 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, 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 and was most recently updated on June 6, 2019. 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 Canceling 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.

Vipshop E-Commerce currently holds 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 is preparing to apply for an ICP License, which is required for providing commercial Internet information services; Vipshop Information currently holds a VATS License valid until July 2020 for domestic call center services, which is in the renewal process.

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 2019 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, domestic multi-party communication, store-and-forward and call center. 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. Furthermore, according to the 2019 Negative List, the restrictions on equity ratio held by foreign Investors in companies operating domestic multi-party communication, store-and-forward and call center business were also removed, allowing foreign investors to own more than 50% of equity interest in a company operating such 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 other than Tianjin Pinjian is currently owned by PRC citizens, namely, Mr. Eric Ya Shen and Mr. Arthur Xiaobo Hong. Tianjin Pinjian is currently owned by Mr. Eric Ya Shen and Mr. Zhihui Yu. As part of our efforts to streamline our contractual arrangements among our consolidated affiliated entities during 2017, 2018 and 2019, 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. On November 28, 2019, the PRC Secretary Bureau of the Cyberspace Administration, the General Office of the MIIT, the General Office of the Ministry of Public Security and the General Office of the SAMR jointly issued the Measures for the Determination of the Collection and Use of Personal Information by Apps in Violation of Laws and Regulations, which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and social supervision by netizens.

Furthermore, on April 10, 2019, the Ministry of Public Security promulgated the Guidelines for Internet Personal Information Security Protection, which establishes the management mechanism, security technical measures and business workflows for personal information security protection. The Provisions on the Cyber Protection of Children's Personal Information issued by the Office of the Central Cyberspace Affairs Commission came into effect on October 1 2019, which requires, among others, that network operators who collect, store, use, transfer and disclose personal information of children under the age of 14 shall establish special rules and user agreements for the protection of children's personal information, inform the children's guardians in a noticeable and clear manner, and shall obtain the consent of the children's guardians.

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 Information, 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, December 2021, July 2021, March 2024, December 2023, August 2023, December 2020, April 2022, and March 2024, respectively. Vipshop China is in the process of renewing its Publication Operation Permit, which expired in March 2020.

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. According to our consultation with the competent press and public administrative authority in Guangzhou, Hubei, and Zhaoqing, our subsidiaries in these three locations are not required to obtain the "online distribution" notation on the Publication Operation Permit. As of the date of this annual report, Vipshop Jianyang, Vipshop Kunshan, 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 Hubei, 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. On June 12, 2019, the State Post Bureau and the Ministry of Commerce promulgated the Guiding Opinions on Regulating the Interconnection and Sharing of Data between Express Delivery and E-commerce Industries, which provides that if e-commerce participants agree to deliver commodities through express delivery, an e-commerce operator will be supported in providing the necessary delivery data to an express delivery service provider through the agreed means of data transmission. The e-commerce platform operator cannot, by restricting the interconnection and sharing of data, hinder the e-commerce participants from freely choosing the express delivery service. When collecting and sharing user information, e-commerce operators and enterprises engaged in express delivery business must abide by the provisions of laws and administrative regulations on information protection, and cannot be used for purposes unrelated to the delivery service they provide.

Besides, on March 24, 2016, the State Administration of Taxation, the Ministry of Finance, and the General Administration of Customs jointly issued the Circular on Tax Policy for Cross-Border E-commerce Retail Imports, which took effect on April 8, 2016. Pursuant to this circular, goods imported through the cross-border e-commerce retail are subject to tariff, import value-added tax, or VAT, and consumption tax based on the types of goods. Individuals purchasing any goods imported through cross-border e-commerce retail are taxpayers,

while e-commerce companies, companies operating e-commerce transaction platforms or logistic companies shall be the withholding agents regarding such taxes.

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 through a subsidiary of Vipshop Information, which holds an insurance agency business operating permit that allows us to sell insurance products on behalf of insurance companies. 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. 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.

On October 18, 2019, the General Office of the China Banking and Insurance Regulatory Commission issued the Notice of Strengthening the Supervision and Administration of Commercial Factoring Enterprises, which provides that commercial factoring enterprises must conduct business operations in accordance with laws and regulations, and may not commit any of the following conduct or provide any of the following services: (i) absorbing, or absorbing in any disguised form, public deposits, (ii) borrowing funds through online lending information intermediary institutions, various local trading places, asset management institutions, privately offered investment funds and other institutions; (iii) borrowing funds from other commercial factoring enterprises or doing so in any disguised form; (iv) providing loans for its account or for the account of another party; (v) engaging in the collection of accounts receivable or debts irrelevant to commercial factoring in a specialized manner or conducting the same on behalf of another party; (vi) factoring financing based on any illegal underlying transaction contract, consignment contract, accounts receivable with disputable ownership, or a claim for payment arising from any bill or other negotiable securities; and (vii) other activities prohibited by the state.

Regulation on Courier Services and Road Transportation Services

The State Council promulgated the Interim Regulation on Express Delivery on March 2, 2018, which was amended on March 2, 2019. The Ministry of Transport has promulgated the Administrative Measures for Courier Market in January 2013, and the Administrative Measures for Courier Service Operation Permit (2019 Revision) in November 2019. 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 most recently amended in 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, which was most recently amended in June 2019. 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.

In November 2019, we terminated our delivery service unit operated by Pinjun.

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 Jianshang, 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, 2019, we registered 169 copyrights, including 156 software programs in China.

Regulations on Trademarks

Trademarks are protected by the PRC Trademark Law which was adopted in 1982 and most recently amended in 2019 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 1,757 trademarks in China and 146 trademarks overseas as of December 31, 2019.

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 October 23, 2019, SAFE promulgated the SAFE Circular 28, effective on the same date, which allows FIEs (including those without an investment business scope) to utilize and convert their foreign exchange capital for making equity investment in China if certain requirements prescribed therein are satisfied.

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 Foreign

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Investment Law issued on March 15, 2019 and effective on January 1, 2020, the Implementation Rules of the Foreign Investment Law issued on December 26, 2019 and effective on January 1, 2020, and the Company Law issued on December 29, 1993 and most recently amended on October 26, 2018.

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. 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 2019. 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%. The applicable withholding tax rate for us with respect to dividends from Vipshop China is 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 October 2019, SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Treaties, or SAT Circular 35, which became effective on January 1, 2020. SAT Circular 35 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 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.

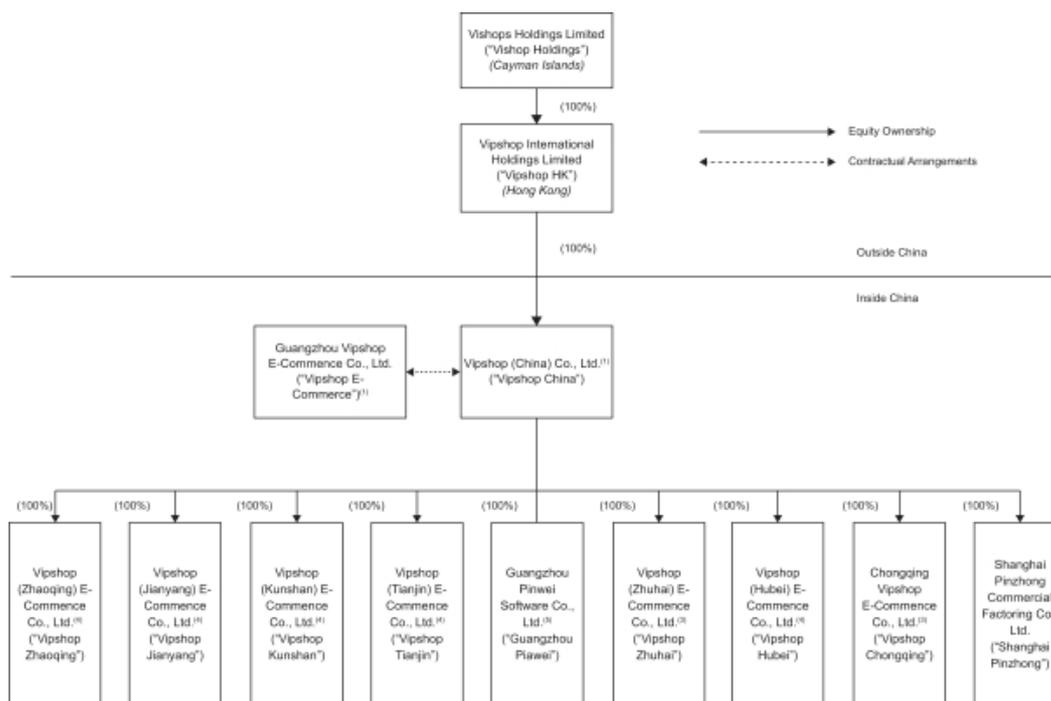
On October 28, 2010, NPC promulgated the PRC Social Insurance Law, which became effective on July 1, 2011 and was amended on December 29, 2018. In accordance with the PRC Social Insurance Law and other relevant laws and regulations, China establishes a social insurance system including basic pension 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, 2018, and 2019, 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 were transferred to Vipshop E-Commerce in 2018.

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, 2017, 2018, and 2019, our subsidiaries contributed in aggregate approximately 97.8%, 97.1%, and 96.1%, respectively, of our total consolidated net revenues, exclusive of revenues derived from our consolidated affiliated entities. As of December 31, 2017, 2018, and 2019, our holding company and our subsidiaries accounted for an aggregate of 85.5%, 86.3%, and 78.7%, 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 Zhihui 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, as described in this annual report, comply with all PRC laws and regulations currently in effect;
- 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, each of our PRC subsidiaries and our consolidated affiliated entities, as described in this annual report, (i) has all necessary corporate power and authority to conduct its business as described in its business scope under its business license; (ii) has its business license in full force and effect; and (iii) 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 inquires, 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

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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. In the second half of 2015, we purchased property in Pazhou, Guangzhou, and started constructing our new office headquarters of approximately 170,000 square meters in 2016. We anticipate completion in the second half of 2020. In addition to the office headquarters under construction in Pazhou, Guangzhou, as of December 31, 2019, we had approximately 70,000 square meters of office space and approximately 3.1 million square meters of warehouse space across China and overseas, of which approximately 2.6 million square meters of warehouse space is owned by our company.

A summary of our owned and leased properties as of December 31, 2019 is shown below:

<u>Location/Business</u>	<u>Space (in square meters)</u>	<u>Usage of Property</u>
Guangzhou—Owned	168,519	Office space
Guangzhou—Leased	50,555	Office space
Shanghai—Owned	18,385	Office space
Shanghai—Leased	110	Office space
Beijing—Leased	25	Office space
Other cities in China—Leased	871	Office space
<i>Sub-total</i>	238,465	
China Domestic—Owned ⁽¹⁾	2,634,365	Logistics centers
China Domestic—Leased ⁽¹⁾	442,498	Logistics centers
Cross Border ⁽²⁾	30,369	Logistics centers
<i>Sub-total</i>	3,107,232	
China Domestic—Owned	582,056	Retail property for Shan Shan Outlets
China Domestic—Leased	3,395	Office space and warehouses for Shan Shan Outlets
<i>Sub-total</i>	585,451	
China Domestic—Leased	254,667	Retail property for Vipshop offline stores
China Domestic—Leased	70,338	Retail property for Vipmaxx offline stores
<i>Sub-total</i>	325,005	

Notes:

(1) Includes bonded warehouses under customs supervision in mainland China.

(2) Includes 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 2017, 2018, and 2019, we fulfilled approximately 335.0 million, 437.4 million, 566.3 million customer orders, respectively, and we generated total net revenues of RMB72.91 billion, and RMB84.52 billion, and RMB92.99 billion (US\$13.36 billion), respectively. In 2017, 2018, and 2019, we generated net income of RMB1.89 billion, RMB2.13 billion, and RMB3.99 billion (US\$572.6 million), respectively. Our net income in 2017, 2018, and 2019 reflected non-cash share-based compensation expenses in an aggregate amount of RMB667.1 million, RMB671.2 million, and RMB688.1 million (US\$98.8 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.”

While the duration of the current COVID-19 pandemic and its disruption to our business and related financial impacts cannot be reasonably estimated at this time, we expect that our consolidated results of operations for the first half of 2020 will be affected with potential continuing impacts on subsequent periods. The global spread of COVID-19 pandemic in a significant number of countries around the world has resulted in, and may intensify, global economic distress, and the extent to which it may affect our results of operations will depend on future developments, which are highly uncertain and cannot be predicted. See “Item 3.D. Key Information—Risk Factors—Risks Relating to Our Business and Industry—Pandemics, epidemics, or fear of spread of contagious diseases could disrupt our operations or Chinese or global economies, which could materially and adversely affect our business, financial condition, and results of operations.”

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

Key Components of Our Results of Operations

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 online 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.

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

	For the Year Ended December 31,		
	2017	2018	2019
Total net revenue (RMB in thousands)	72,912,313	84,523,948	92,994,418
Active customers (in thousands)	57,800	60,500	69,000
Total orders (in thousands)	335,000	437,400	566,300
Average orders per active customer	5.8	7.2	8.2
GMV (RMB in billions)	108.4	131.0	148.2

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, (iv) general and administrative expenses, and (v) goodwill impairment loss. 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,						
	2017		2018		2019		
	RMB'000	%	RMB'000	%	RMB'000	US\$'000	%
Fulfillment expenses	6,899,654	9.5	7,489,393	8.8	7,317,706	1,051,123	7.9
Marketing expenses	2,978,621	4.1	3,240,450	3.8	3,323,927	477,452	3.6
Technology and content expenses	1,808,452	2.5	2,000,894	2.4	1,568,107	225,244	1.7
General and administrative expenses	2,447,724	3.3	2,674,179	3.2	4,064,264	583,795	4.4
Goodwill impairment loss	—	—	—	—	278,263	39,970	0.2
Total operating expenses	<u>14,134,451</u>	<u>19.4</u>	<u>15,404,916</u>	<u>18.2</u>	<u>16,552,267</u>	<u>2,377,584</u>	<u>17.8</u>

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 RMB3.83 billion, RMB4.50 billion, and RMB4.63 billion (US\$665.4 million) in 2017, 2018, and 2019, respectively. Our fulfillment services utilize regional logistics hubs and rely on high-quality delivery service providers with national coverage. We expect our fulfillment expenses as a percentage of our total net revenue to decrease in the foreseeable future as we have fully outsourced our delivery services to third party delivery partner.

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

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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 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, impairment of warehouses, the provision of assets and severance payments related to the cessation of Pinjun operations 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.

Goodwill impairment loss. Goodwill impairment loss primarily consists of the impairment of goodwill of Pinjun in the current reporting period. A goodwill impairment loss is recognized for the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value, and is limited to the total amount of goodwill allocated to that reporting unit.

Seasonality

Our results of operations are subject to seasonal fluctuations, reflecting a combination of seasonal fluctuations in internet usage and traditional retail seasonality patterns. 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. E-commerce companies in China hold special promotional campaigns on November 11 and December 12 each year that boost sales in the fourth quarter relative to other quarters, and we hold a special promotional campaign in the fourth quarter of each year to celebrate the anniversary of the founding of our platform. We expect the seasonality of our business to become more apparent in the foreseeable future.

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 a two-tiered income tax rate for taxable income earned in Hong Kong, effective on April 1, 2018. The first two million Hong Kong dollars of profits it earns are subject to an income tax rate of 8.25%, while the remaining profits continue to be taxed at the existing tax rate, 16.5%. Under Hong Kong tax law, our subsidiary incorporated in Hong Kong 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, 2017, 2018, and 2019, as our Hong Kong subsidiary generated assessable income in 2017, 2018, and 2019.

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 Catalog of Encouraged Industries in the Western Region, Industrial Restructuring Guidance Catalog (2019 Version), Catalog of Industries for Encouraged Foreign Investment (2019 Version), Circular of the Ministry of Finance and the State Administration of Taxation on the Preferential Enterprise Income Tax Policies and Catalog 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, 2018, and 2019, 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.

The amount of tax loss carry forwards of our PRC subsidiaries and consolidated affiliated entity was RMB1.09 billion, RMB1.45 billion, and RMB1.22 billion (US\$175.2 million) as of December 31, 2017, 2018, and 2019, 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, 2017, 2018, and 2019, 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.

We had EIT recoverable of approximately RMB133.2 million (US\$19.1 million) as of December 31, 2019. EIT recoverable occurred due to the overpaid enterprise income tax for certain PRC subsidiaries during the quarterly filing in 2019 and is expected to be refunded in the final annual tax settlement in May 2020.

As of December 31, 2017, 2018, and 2019, we had VAT recoverable of approximately RMB791.2 million, RMB770.9 million, and RMB1.43 billion (US\$206.0 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 RMB526.0 million, RMB749.1 million, and RMB528.8 million (US\$76.0 million), as of December 31, 2017, 2018, and 2019, 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

Starting from January 1, 2018, we accounted for revenue in accordance with Topic 606, “Revenue from Contracts with Customers.”

Product revenue recognition

We derive a majority of our revenue from online product revenue. We recognize revenue from the sale of apparel, shoes and bags, cosmetics, sportswear and sporting goods, home goods and other lifestyle products, and toys, kids and baby products as well as other merchandise through our online platforms, including our internet website and cellular phone application. We utilize in-house and external delivery service providers 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 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 RMB347.2 million (US\$49.9 million) to our total net revenues in 2019.

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.

Return rights

We offer our online sales 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.

Inventory write-down

Inventories, consisting of products available for sales, are valued at the lower of cost or net realizable value with cost determined using the weighted average cost method. Net realizable value is based on estimated selling prices in the ordinary course of business, less reasonably predictable transportation cost. Adjustments are recorded when future estimated net realizable value is less than cost. Write-downs are recorded in cost of revenues in the consolidated statements of income and comprehensive income.

To determine the write-down relating to different categories, we apply a certain write-down percentage based on aging and condition of the merchandises within each category. We developed these write-down percentages based on historical trends, inventory aging, historical and forecasted demands, expected selling prices, and future promotional events.

Valuation of goodwill and assets acquired in business acquisition

Business combinations are accounted for using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their respective fair values. The excess of the purchase price over the estimated fair value is recorded as goodwill.

Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires knowledge of current market values and the values of assets in use, and often requires the application of judgment regarding estimates and assumptions.

The methodology of fair value valuation incorporates various estimates and assumptions, including but not limited to projected revenue growth rates, profit margins and forecasted cash flows based on discount rates and terminal growth rates as well as replacement cost, market comparable etc.

Recent Accounting Pronouncements

For a summary of recently issued accounting pronouncements, see Note 2(an) to the consolidated financial statements of Vipshop Holdings Limited pursuant to Item 18 of Part III of this annual report.

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 2017, 2018, and 2019 in China were increases of 1.8%, 1.9%, and 4.5%, 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. 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,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Product revenues	71,171,653	81,510,275	88,721,311	12,744,019
Other revenues	1,740,660	3,013,673	4,273,107	613,793
Total net revenues	72,912,313	84,523,948	92,994,418	13,357,812
Cost of revenues ⁽¹⁾	(56,618,471)	(67,454,981)	(72,314,190)	(10,387,283)
Gross profit	16,293,842	17,068,967	20,680,228	2,970,529
Operating expenses ⁽²⁾				
—Fulfillment expenses ⁽³⁾	(6,899,654)	(7,489,393)	(7,317,706)	(1,051,123)
—Marketing expenses	(2,978,621)	(3,240,450)	(3,323,927)	(477,452)
—Technology and content expenses	(1,808,452)	(2,000,894)	(1,568,107)	(225,244)
—General and administrative expenses	(2,447,724)	(2,674,179)	(4,064,264)	(583,795)
—Goodwill impairment loss	—	—	(278,263)	(39,970)
Total operating expenses	(14,134,451)	(15,404,916)	(16,552,267)	(2,377,584)
Other operating income	531,055	757,062	645,413	92,708
Income from operations	2,690,446	2,421,113	4,773,374	685,653
Impairment loss of investments	(133,026)	(20,073)	(127,589)	(18,327)
Interest expense	(82,435)	(159,744)	(86,004)	(12,354)
Interest income	101,125	242,872	217,027	31,174
Exchange (loss)/gain	(90,872)	71,065	(935)	(134)
Investment gain and revaluation of investments	55,615	191,842	166,932	23,978
Income before income taxes and share of (loss)/gain of equity method investees	2,540,853	2,747,075	4,942,805	709,990
Income tax expenses	(626,140)	(566,604)	(983,554)	(141,279)
Share of (loss)/gain of equity method investees	(22,280)	(46,999)	27,182	3,904
Net income	1,892,433	2,133,472	3,986,433	572,615
Net loss/(income) attributable to non-controlling interests	57,222	(4,685)	30,399	4,367
Net income attributable to our shareholders	1,949,655	2,128,787	4,016,832	576,982

Notes:

- (1) Excludes shipping and handling expenses, and includes inventory write-down which amounted to RMB206.7 million, RMB440.8 million, and RMB347.5 million (US\$49.9 million) in the years ended December 31, 2017, 2018, and 2019, respectively.

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

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Fulfillment expenses	(73,235)	(73,151)	(112,683)	(16,186)
Marketing expenses	(40,364)	(41,063)	(35,038)	(5,033)
Technology and content expenses	(206,073)	(203,594)	(180,493)	(25,926)
General and administrative expenses	(347,426)	(353,402)	(359,869)	(51,692)
Total	<u>(667,098)</u>	<u>(671,210)</u>	<u>(688,083)</u>	<u>(98,837)</u>

- (3) Include shipping and handling expenses, which amounted to RMB3.83 billion, RMB4.50 billion, and RMB4.63 billion (US\$665.4 million) in the years ended December 31, 2017, 2018, and 2019, respectively.

Segment Information

In 2017 and 2018, we had two reporting segments, Vip.com and internet finance. Due to operational changes, we have determined to report four operating segments in the current year. Vip.com and Shan Shan Outlets have been identified as reportable segments while internet finance and offline shop operating segments were aggregated as others. Vip.com represents our e-commerce business, while Shan Shan Outlets represents our offline outlets business. Given this change in the composition of our reportable segments, prior year segment information was restated to reflect the current reporting structure for the segments.

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The following table sets forth our segment operating results for the years ended December 31, 2017, 2018, and 2019.

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Segment Net Revenues			
Vip.com	72,875,234	84,159,609	91,435,282
Shan Shan Outlets	—	—	245,817
Others	249,726	753,752	2,638,702
Inter-segment revenues ⁽¹⁾	<u>(212,647)</u>	<u>(389,413)</u>	<u>(1,325,383)</u>
Total	<u>72,912,313</u>	<u>84,523,948</u>	<u>92,994,418</u>
Segment Income/(Loss) from Operations			
Vip.com	4,063,238	3,353,658	5,267,814
Shan Shan Outlets	—	—	6,255
Others	(366,025)	(215,459)	227,719
Unallocated expenses ⁽²⁾	<u>(1,006,767)</u>	<u>(717,086)</u>	<u>(728,414)</u>
Total	<u>2,690,446</u>	<u>2,421,113</u>	<u>4,773,374</u>

Notes:

- (1) Inter-segment revenues mainly consist of payment processing, financing services provided by the Internet finance business to Vip.com, promotion services provided by Vip.com to Internet finance business and internal procurement between offline shops and Vip.com.
- (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, 2017, 2018, and 2019.

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Segment Interest Income			
Vip.com	192,052	232,494	167,550
Shan Shan Outlets	—	—	11,746
Others	4,252	36,946	54,765
Inter-segment interest income	<u>(95,179)</u>	<u>(26,568)</u>	<u>(17,034)</u>
Total	<u>101,125</u>	<u>242,872</u>	<u>217,027</u>
Segment Interest Expense			
Vip.com	(55,821)	(103,504)	(42,424)
Shan Shan Outlets	—	—	(8,989)
Others	(121,793)	(82,808)	(51,625)
inter-segment interest expense	<u>95,179</u>	<u>26,568</u>	<u>17,034</u>
Total	<u>(82,435)</u>	<u>(159,744)</u>	<u>(86,004)</u>

The following table sets forth assets information in the reportable segments reviewed by our management.

Segment Assets	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Vip.com	30,158,119	34,867,619	37,727,525
Shan Shan Outlets	—	—	5,732,260
Others	7,824,701	8,695,044	5,122,893
Total	<u>37,982,820</u>	<u>43,562,663</u>	<u>48,582,678</u>

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 2019 and 2018

Net Revenues. Our total net revenues increased from RMB84.52 billion in 2018 to RMB92.99 billion (US\$13.36 billion) in 2019, primarily due to an increase in the number of active customers and total orders. The number of our active customers increased from 60.5 million in 2018 to 69.0 million in 2019. The number of our total orders increased from 437.4 million in 2018 to 566.3 million in 2019, 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 2019. 97.6% of the total orders we fulfilled in 2019 were placed by repeat customers, as compared to 96.6% in 2018.

Cost of Revenues. Our cost of revenues increased from RMB67.45 billion in 2018 to RMB72.31 billion (US\$10.39 billion) in 2019, primarily due to a significant increase in products procured from our brand partners in line with our significantly higher sales volume.

We recorded RMB440.8 million and RMB347.5 million (US\$49.9 million) in inventory write-down in 2018 and 2019, respectively. In addition, inventory write-down as a percentage of costs of goods sold, was 0.7% in 2018 and 0.5% in 2019. Such write-down primarily reflected the estimated net realizable value of damaged or obsolete inventory. The decrease in write-down from 2018 to 2019 was due to our efforts in improving our inventory management.

The amount we write down is calculated based on factors such as whether the goods are returnable to vendors, channels of sales (online or offline), 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 in calculating the write-down of online and offline inventories. We classify both online and offline 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.

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Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased from RMB17.07 billion in 2018 to RMB20.68 billion (US\$2.97 billion) in 2019. Our gross margin increased from 20.2% in 2018 to 22.2% in 2019, primarily due to higher GMV contribution from the apparel category and our strategy to limit loss making businesses in 2019.

Operating Expenses. Our operating expenses increased from RMB15.40 billion in 2018 to RMB16.55 billion (US\$2.38 billion) in 2019, primarily due to the following factors:

- **Fulfillment expenses.** Our fulfillment expenses decreased from RMB7.49 billion in 2018 to RMB7.32 billion (US\$1.05 billion) in 2019. Shipping and handling expenses, the largest component of our fulfillment expenses during these periods, increased from RMB4.50 billion in 2018 to RMB4.63 billion (US\$665.4 million) in 2019. In 2019, we fulfilled approximately 566.3 million customer orders, as compared to approximately 437.4 million customer orders in 2018. The decrease in our fulfillment expenses as well as fulfillment expenses as a percentage of our total net revenues decreased from 8.8% in 2018 to 7.9% in 2019, primarily due to the change in logistics and order fulfillment arrangements such as employment of JITX model and using external delivery services. Throughout 2019 we continued to utilize our regional logistics hubs, and completed shifting from our in-house delivery to outsourcing all the deliveries of our orders to third-party delivery partners with national coverage in November 2019.
- **Marketing expenses.** Our marketing expenses in 2019 was RMB3.32 billion (US\$477.5 million), which remained stable as compared to RMB3.24 billion in 2018.
- **Technology and content expenses.** Our technology and content expenses decreased from RMB2.00 billion in 2018 to RMB1.57 billion (US\$225.2 million) in 2019, primarily due to decrease in the number of personnel in our IT department. Our technology and content expenses also decreased from 2.4% to 1.7% 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 RMB2.67 billion in 2018 to RMB4.06 billion (US\$583.8 million) in 2019, primarily due to an increase in the severance payment of RMB652.0 million (US\$93.7 million) and impairment of assets of RMB154.2 million (US\$22.1 million) related to the termination of Pinjun logistic service unit, as well as an impairment of RMB475.7 million (US\$68.3 million) related to our Zhaoqing, Tai'an and Hengyang warehouses.
- **Goodwill impairment loss.** Our goodwill impairment loss was RMB278.3 million (US\$40.0 million) in 2019, primarily attributable to the goodwill impairment of Pinjun.

Other Operating Income. Our other operating income amounted to RMB645.4 million (US\$92.7 million) in 2019, as compared to RMB757.1 million in 2018. Our other operating income in 2019 was primarily due to income derived from government grants and tax rebates.

Impairment Loss of Investments. We incurred RMB127.6 million (US\$18.3million) impairment loss of investments in 2019, as compared to RMB20.1 million in 2018, which was primarily due to the impairment 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 2019 included an amount of RMB83.6 million (US\$12.0 million) on the available-for-sale debt securities, and an amount of RMB44.0 million (US\$6.3 million) on the other equity investments due to sustained depression of either in the market price or the respective investees' expected result of operation.

Interest Expenses. We incurred RMB86.0 million (US\$12.4 million) interest expenses in 2019, as compared to RMB159.7 million in 2018, primarily due to the net effect of the decrease in interest expenses for the securitization debt and the short term loans.

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Interest Income. Our interest income decreased from RMB242.9 million in 2018 to RMB217.0 million (US\$31.2 million) in 2019 primarily due to the decrease of interest bearing investments, such as the deposits and short-term investments in the banks.

Share of Results of Equity Method Investees. Our share of results of equity method investees increased from share of loss of RMB47.0 million in 2018 to share of gain of RMB27.2 million (US\$3.9 million), which was primarily due to our share of gain in the joint ventures acquired from the acquisition of Shan Shan Outlets and Kunshan Baowei.

Net Income. As a result of the foregoing, we recorded a net income of RMB3.99 billion (US\$572.6 million) in 2019, as compared to a net income of RMB2.13 billion in 2018.

Net Loss/ Income Attributable to Non-controlling Interests. We recorded net loss attributable to non-controlling interests of RMB30.4 million (US\$4.4 million) in 2019, as compared to net income attributable to non-controlling interests of RMB4.7 million in 2018, which was primarily due to the loss attributable to non-controlling shareholders of Pinjun.

Comparison of 2018 and 2017

Net Revenues. Our total net revenues increased from RMB72.91 billion in 2017 to RMB84.52 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 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 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 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 in 2018, primarily due to the following factors:

- Fulfillment expenses. Our fulfillment expenses increased from RMB6.90 billion in 2017 to RMB7.49 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 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 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 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 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 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 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 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.

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Interest Expenses. We incurred RMB159.7 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 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, 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 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 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.

B. Liquidity and Capital Resources

As of December 31, 2018 and 2019, we had RMB10.04 billion and RMB7.72 billion (US\$1.11 billion), respectively, in cash, cash equivalents and restricted cash. We had short-term investments with an aggregate outstanding amount of RMB3.05 billion (US\$438.5 million) as of December 31, 2019. 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. We also procured several bank borrowings in an aggregate amount of RMB1.16 billion (US\$166.4 million) and had unutilized banking facilities in an amount of RMB3.86 billion (US\$554.3 million) as of December 31, 2019. We believe that our current cash, cash equivalents, 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, 2018 and 2019, 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,							
	2018				2019			
	Subsidiaries in PRC ⁽¹⁾	Subsidiaries in HK and Other Regions	Subsidiary in USA	Total	Subsidiaries in PRC ⁽¹⁾	Subsidiaries in HK and Other Regions	Subsidiary in USA	Total
	RMB'000							
RMB	7,419,634	107,609	—	7,527,243	10,441,474	177,069	—	10,618,543
US\$	54,912	4,724,836	15,522	4,795,270	36,452	46,044	5,686	88,182
Others	7,396	29,807	—	37,203	—	65,286	—	65,286
Total	<u>7,481,942</u>	<u>4,862,252</u>	<u>15,522</u>	<u>12,359,716</u>	<u>10,477,926</u>	<u>288,399</u>	<u>5,686</u>	<u>10,772,011</u>

Note:

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

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As of December 31, 2018 and 2019, our cash, cash equivalents and restricted cash held by our consolidated affiliated entities and subsidiaries in China are as follows:

	As of December 31,		
	2018	2019	
	RMB	RMB	US\$
Cash, Cash Equivalents and Restricted Cash			
Consolidated affiliated entities	2,583,412	5,173,333	743,103
Subsidiaries in China	3,976,639	2,251,867	323,460
Total	<u>6,560,051</u>	<u>7,425,200</u>	<u>1,066,563</u>

As of December 31, 2018 and 2019, our short-term investments held by our consolidated affiliated entities and other entities in China are as follows:

	As of December 31,		
	2018	2019	
	RMB	RMB	US\$
Short-term Investments:			
Consolidated affiliated entities	—	2,300,014	330,377
Subsidiaries in China	912,027	752,712	108,120
Total	<u>912,027</u>	<u>3,052,726</u>	<u>438,497</u>

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.

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

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash from operating activities	981,251	5,745,748	12,290,183	1,765,374
Net cash used in investing activities	(2,032,606)	(6,693,812)	(8,240,560)	(1,183,684)
Net cash provided by/(used in) financing activities	7,169,824	586,968	(6,256,700)	(898,718)
Effect of exchange rate changes	(6,054)	177,576	(112,110)	(16,103)
Cash, cash equivalents and restricted cash at beginning of year	4,109,577	10,221,992	10,038,472	1,441,936
Cash, cash equivalents and restricted cash at end of year	10,221,992	10,038,472	7,719,285	1,108,805

Operating Activities

Net cash from operating activities amounted to RMB12.29 billion (US\$1.77 billion) in 2019, which was primarily attributable to a net income of RMB3.99 billion (US\$572.6 million), adjusted for certain non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB688.1 million (US\$98.8 million), (ii) inventory write-down of RMB347.5 million (US\$49.9 million) and provision for allowance for doubtful accounts of RMB229.5 million (US\$33.0 million), (iii) depreciation of property and equipment of RMB830.4 million (US\$119.3 million) attributable to increases in warehouse and logistic facilities, (iv) impairment of long-lived assets of RMB537.6 million (US\$77.2 million) due to impairment of warehouses, and (v) changes in operating assets and liabilities. The adjustment for changes in operating assets and liabilities primarily reflected (x) a significant decrease in account receivables of RMB4.17 billion (US\$598.3 million), primarily due to the down-scale of our internet financing business, (y) an increase in accounts payable of RMB1.68 billion (US\$241.5 million) and accrued expenses and other current liabilities of RMB1.15 billion (US\$165.0 million), primarily due to the increase in amounts received on behalf of third-party merchants along with the expansion of platform sales and increase in accrued shipping and handling expenses as well as accrued advertising expenses driven by the growth in our business, (viii) an increase in inventories of RMB2.63 billion (US\$377.2 million) to support the increase in sales volume and develop the offline shops.

Net cash from operating activities amounted to RMB5.75 billion in 2018, which was primarily attributable to a net income of RMB2.13 billion, adjusted for certain non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB671.2 million, which was higher than 2017 due to an increase in our number of employees, (ii) inventory write-down of RMB440.8 million and provision for allowance for doubtful accounts of RMB175.4 million, (iii) depreciation of property and equipment of RMB770.3 million attributable to increases in warehouse and logistic facilities, (iv) gain on disposal or revaluation of investments of RMB191.8 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 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 primarily due to the adoption of ASU 2014-09, (y) a decrease in inventories of RMB291.8 million due to improving inventory management, and (z) a decrease in other receivables and prepayments of RMB124.4 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.

Investing Activities

Net cash used in investing activities amounted to RMB8.24 billion (US\$1.18 billion) in 2019, primarily consisting of (i) RMB4.28 billion (US\$614.4 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) RMB3.27 billion (US\$469.9 million) used for purchase of short-term investments, offset by RMB2.50 billion (US\$359.2 million) from redemption of short term investments upon maturities, and (iii) RMB2.75 billion (US\$394.9 million) cash paid for acquisition of subsidiaries, net of cash acquired of RMB175.8 million, and (iv) RMB2.76 billion (US\$396.7 million) cash paid for loan originations, offset by RMB2.67 billion (US\$383.6 million) received from loan payments.

Net cash used in investing activities amounted to RMB6.70 billion in 2018. Our net cash used in investing activities in 2018 was primarily due to (i) RMB3.59 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) RMB2.69 billion used for purchase of short-term investments, offset by RMB747.8 million from redemption of short term investments upon maturities, (iii) RMB963.7 million investment in the equity method investments and other investments, and (iv) RMB764.0 million cash paid for loan originations offered by our Internet finance business, offset by RMB519.5 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.

Financing Activities

Net cash used in financing activities amounted to RMB6.26 billion (US\$898.7 million) in 2019, primarily consisting of (i) RMB4.22 billion (US\$606.3 million) of repayment of convertible senior notes, (ii) RMB1.82 billion (US\$261.3 million) of proceeds from bank borrowings and other borrowings, offset by RMB2.87 billion (US\$411.6 million) of repayment to bank and other borrowings, and (iii) RMB969.0 million (US\$139.2 million) of repayment of securitization debt.

Net cash provided by financing activities amounted to RMB587.0 million in 2018, primarily due to (i) RMB2.12 billion of proceeds from bank and other borrowings, offset by RMB1.70 billion of repayment to

bank and other borrowings, and (ii) RMB969.0 million of proceeds from issuance of securitization debt offset by RMB760 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.

Capital Expenditures

Our capital expenditures amounted to RMB2.47 billion, RMB3.59 billion, and RMB4.28 billion (US\$614.4 million) in the years ended December 31, 2017, 2018, and 2019, respectively. Out of the foregoing capital expenditures, we paid RMB275.8 million, RMB1.07 billion, and RMB974.5 million (US\$140.0 million) in the years ended December 31, 2017, 2018, and 2019, respectively, to acquire the land use right of certain land located in China. Our capital expenditures were primarily for construction and expansion of warehouses, land use right, and other logistic infrastructure from 2017 through 2019. We expect our capital expenditures to decrease in 2020 and 2021. Approximately 63.6% of such capital expenditures are expected to be used to further expand our warehousing capabilities and infrastructure expansions, approximately 34.4% of such capital expenditures are expected to be used to further expand our offline business, and approximately 2.3% of such capital expenditures are expected to be used to enhance our Vipshop Online Platform and IT systems. 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 RMB95.6 million, RMB121.1 million, and RMB184.2 million (US\$26.5 million) to the general reserve during the years ended December 31, 2017, 2018, and 2019, respectively.

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

Research and Development

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

The combination of systems is divided into front-end and back-end modules, both built on top of state-of-the-art modern technologies. Together, they form a reliable technology platform that brings optimized customer experiences and supports efficient business operations. We have developed disaster tolerant systems for our key business modules which include real-time data mirroring, daily data back-up, and system redundancy solutions. We also adopted a “DevOps” methodology that enables us to respond quickly towards business

requests, significantly decreasing our development cost and improving our time-to-market. Our site is built upon real event processing platforms, and it leverages service-oriented architecture supported by internally developed cloud solutions. This enables us to achieve significant internal efficiency.

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 RMB1.81 billion, RMB2.0 billion, and RMB1.57 billion (US\$225.2 million) in technology and content expenses in 2017, 2018, and 2019.

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, 2019, we owned 1,903 registered trademarks, 169 copyrights (including copyrights to 156 software products developed by us relating to various aspects of our operations), and 326 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 2019 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

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, 2019, the balance of outstanding principal of the bank's lending portion under the arrangement was approximately RMB20.3 million (US\$2.9 million).

In July 10, 2019, we acquired Shan Shan Outlets with assumed financial guarantee liabilities. As a guarantor, Shan Shan Outlets signed financial guarantee agreements with two banks for a maximum credit line RMB100 million and RMB150 million for the borrowers. As of December 31, 2019, the financial guarantees were still within the validity period of the contract and would persist till the guarantee period expired. We are obligated to compensate the banks up to the related maximum credit line if the borrowers could not repay the loans in time.

Except for the guarantees provided to a bank under the cooperative lending arrangement and assumed in the acquisition of Shan Shan Outlets, we have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. 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 2020 through June 2034. 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, 2017, 2018, and 2019, we incurred rental expenses of RMB493.2 million, RMB595.3 million, and RMB746.2 (US\$107.2 million), respectively. Our purchase

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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, representing property, equipment, software contracts, and land use rights. Our purchase obligations as of December 31, 2019 amounted to RMB1,981.2 million (US\$284.6 million), representing property, equipment, software contracts, and land use rights. In addition, we will purchase certain services from our business partners.

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 other related businesses. As of December 31, 2019, the aggregate amount of our contributed capital to the fund under this agreement was RMB535.4 million (US\$76.9 million). We will make further investment from time to time upon capital calls by the fund manager of the private equity fund.

In October 2019, we agreed to invest in the capacity of a passive investor, up to RMB2 billion in another private equity fund. As of December 31, 2019, the aggregate amount of our contributed capital to the fund under this agreement was RMB110 million (US\$15.8 million). We will make further investment from time to time upon capital calls by the fund managers of these private equity funds.

The following table sets forth our minimum contractual obligations as of December 31, 2019.

	Total	Payment Due by Period			
		Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations	2,037,262	420,840	836,331	629,682	150,409
Purchase obligations	1,981,152	1,874,910	103,642	2,600	—
Purchase of services	390,378	130,126	260,252	—	—
Short term loans (included interests)	1,123,627	1,123,627	—	—	—
Long term loans (included interests)	77,117	2,892	23,549	25,020	25,656
Consideration payable	25,000	25,000	—	—	—

We will fund our contractual obligations 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 RMB12.29 billion (US\$1.77 billion) for the year ended December 31, 2019.

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;

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- 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	48	Chairman of the Board of Directors, Chief Executive Officer
Arthur Xiaobo Hong	47	Vice Chairman of the Board of Directors, Chief Operating Officer
Martin Chi Ping Lau	47	Director
Jacky Yu Xu	48	Director
Chun Liu ⁽¹⁾	52	Independent Director
Frank Lin ⁽²⁾	55	Independent Director
Xing Liu ⁽³⁾	49	Independent Director
Kathleen Chien ⁽¹⁾⁽²⁾⁽³⁾	50	Independent Director
Nanyan Zheng ⁽¹⁾⁽²⁾⁽³⁾	51	Independent Director
Donghao Yang	48	Chief Financial Officer
Daniel Kao	47	Chief Technology Officer
Yizhi Tang	46	Senior Vice President of Logistics

Notes:

- (1) Member of our audit committee.
- (2) Member of our compensation committee.
- (3) Member of our nominating and corporate governance committee.

Pursuant to the currently effective articles of association of our company, our board of directors consists of nine directors, including one director, Mr. Martin Chi Ping Lau, appointed by Tencent. Each of our directors will hold office until the expiration of his or her term and until his or her successor shall have been elected and qualified. There are no family relationships among any of the directors or executive officers of our company.

Biographical Information

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. 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, a director of Leju Holdings Limited, an online-to-offline real estate services provider in China listed on the NYSE, a director of Tencent Music Entertainment Group, an online music entertainment platform in China listed on the NYSE, and a non-executive director of Meituan Dianping, a company operating a leading Chinese group buying website listed on the Hong Kong Stock Exchange. 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 Soho.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, chairman of Advantage Sports Union Limited, a sports company, chairman of MoFang Group, a Chinese mobile gaming media platform, 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 Trip.com Group Limited (formerly known as 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.

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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, 2019, we paid an aggregate of RMB14.5 million (US\$2.1 million) in cash to our executive officers, and we paid an aggregate of RMB3.5 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 554,948 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

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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 1,320,000 Class A ordinary shares and 2,913,326 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

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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, 2019, 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, 2019, 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
Daniel Kao	*	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) Daniel Kao has served as our chief technology officer from June 2012 to October 2016, and again since 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.

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D. Employees

As of December 31, 2019, we had 20,442 full-time employees, compared with 58,702 and 57,638 employees as of December 31, 2017 and 2018, respectively. We also employ independent contractors and part-time personnel for certain supporting functions. The following table sets forth the number of our full time employees categorized by areas of operations as of December 31, 2019:

Operations	Number of Employees
Merchandising	1,369
Products and technology support	1,658
Business development, sales and marketing	188
Internet finance	274
Customer services	1,163
Warehouse management	12,750
Offline stores	1,083
Administration and management	485
Pinjun ⁽¹⁾	1,106
Shan Shan Outlets	366
Total	20,442

Note:

(1) Due to the termination of Pinjun's delivery service unit in November 2019, as of the date of this annual report, there are approximately 110 employees of Pinjun.

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, 2019, 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, 2020 by:

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

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The calculations in the shareholder table below are based on 134,483,982 ordinary shares issued and outstanding as of March 31, 2020, comprising of (i) 117,973,624 Class A ordinary shares, excluding the 1,365,117 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 ⁽¹⁾	% ⁽²⁾
Directors and Executive Officers ** :		
Eric Ya Shen ⁽³⁾	17,060,358	12.7
Arthur Xiaobo Hong ⁽⁴⁾	9,087,939	6.8
Martin Chi Ping Lau ⁽⁵⁾	*	*
Jacky Xu ⁽⁶⁾	*	*
Chun Liu ⁽⁷⁾	*	*
Frank Lin ⁽⁸⁾	*	*
Xing Liu ⁽⁹⁾	*	*
Kathleen Chien ⁽¹⁰⁾	*	*
Nanyan Zheng ⁽¹¹⁾	*	*
Donghao Yang	*	*
Daniel Kao	*	*
Yizhi Tang	*	*
All directors and executive officers as a group	27,844,667	20.7
Principal Shareholders :		
Elegant Motion Holdings Limited ⁽¹²⁾	16,510,358	12.3
Tencent Mobility Limited ⁽¹³⁾	12,852,698	9.6
JD Entities ⁽¹⁴⁾	10,103,435	7.5
High Vivacity Holdings Limited ⁽¹⁵⁾	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.
- *** Certain of our directors and executive officers have been granted options and restricted shares pursuant to our stock incentive plans. See "Item 6.B. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Stock Incentive Plans."
- (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, 2020.
- (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, 2020, Mr. Eric Ya Shen beneficially owned (i) 550,000 Class A ordinary shares issuable to Mr. Eric Ya Shen upon the exercise of options within 60 days after March 31, 2020, and (ii) 16,510,358 Class B ordinary shares held by Elegant Motion Holdings Limited, representing 58.2% of the aggregate voting power of our company.

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- (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, 2020, Mr. Hong beneficially owned (i) 135,129 restricted shares that can be acquired by Mr. Arthur Xiaobo Hong within 60 days after March 31, 2020; 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) 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 11, 2020. The registered address of Elegant Motion Holdings Limited is Trident Chambers, Wickhams Cay, PO Box 146, Road Town, Tortola, British Virgin Islands.
- (13) 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 December 13, 2019. The principal office address of Tencent Mobility Limited is 29/F., Three Pacific Place, No. 1 Queen's Road East, Wanchai, Hong Kong.
- (14) Based on the statement on the Schedule 13D/A filed on August 20, 2019 jointly by JD.com, Inc., JD.com Investment Limited, Windcreek Limited and JD.com Global Investment Limited, (i) Windcreek Limited holds an aggregate of 9,644,034 Class A Ordinary Shares, which consisted of 28,442,806 ADSs representing 5,688,561 Class A ordinary shares, and 3,955,473 Class A ordinary shares; and (ii) JD.com Global Investment Limited holds an aggregate of 459,401 Class A ordinary shares represented by 2,297,004 ADSs. Based on the statement on the Schedule 13D/A filed on August 20, 2019, each of Windcreek Limited and JD.com Global Investment Limited is a company incorporated in the British Virgin Islands. And is ultimately wholly owned by JD.com, Inc., a public company whose ADS are traded on the Nasdaq Global Select Market. Windcreek Limited and JD.com Global Investment Limited are together referred to in this annual report as the JD Entities. The principal office address of each of the Tencent Entities is c/o JD.com, Inc., 20th Floor, Building A, No. 18 Kechuang 11 Street Yizhuang Economic and Technological Development Zone Daxing District, Beijing 101111, People's Republic of China.
- (15) 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 11, 2020. 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, 2020, 97,201,020 Class A ordinary shares were held of record by one holder that resides in the United States, Deutsche Bank Trust Company Americas, the depositary 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 directors and ordinary shareholders, in the amount of RMB257.7 million (US\$37.0 million) for the year ended December 31, 2019. As of December 31, 2019, the amounts due to companies controlled by our directors and ordinary shareholders were RMB95.4 million (US\$13.7 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 RMB17.1 million (US\$2.5 million) for the year ended December 31, 2019. As of December 31, 2019, the amounts due from companies controlled or significantly influenced by our directors and ordinary shareholders were RMB44.6 thousand (US\$6.4 thousand), 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 RMB1.19 billion (US\$171.5 million), and received service from our affiliates in the amount of RMB4.1 million

(US\$0.6 million), for the year ended December 31, 2019. As of December 31, 2019, the amount due to companies significantly influenced by us and our shareholders were RMB437.4 million (US\$62.8 million), which were unsecured and interest free. We also provided service to companies significantly influenced by us in the amount of RMB27.4 million (US\$3.9 million) for the year ended December 31, 2019. Our sales of products to companies significantly influenced by us was RMB111.5 million (US\$16.0 million) for the year ended December 31, 2019. As of December 31, 2019, the amounts due from companies significantly influenced by us were RMB149.9 million (US\$21.5 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.

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 depositary 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 depositary to the holders of ADSs in any means it deems legal, fair and practical.

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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 (i) 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; (ii) the instrument of transfer is in respect of only one class of shares; (iii) the instrument of transfer is properly stamped, if required; (iv) 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; (v) the shares conceded are free of any lien in favor of us; or (vi) 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.

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:

VAT payable = Output tax payable for the applicable period minus Input tax receivable for the same applicable period

As of December 31, 2017, 2018, and 2019, we had VAT recoverable of approximately RMB791.2 million, RMB770.9 million, and RMB1.43 billion (US\$206.0 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 RMB526.0 million, RMB749.1 million, RMB528.8 million (US\$76.0 million) as of December 31, 2017, 2018, and 2019, 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 Class A 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 value of its assets (generally determined on the basis of a quarterly average) 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, 2019 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.

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 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 technically 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,

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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.

F. *Dividends and Paying Agents*

Not applicable.

G. *Statement by Experts*

Not applicable.

H. *Documents on Display*

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 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, 2019, 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 conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. 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 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. 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.

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 canceled

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<u>Service</u>	<u>Fees</u>
• 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
• Depository services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depository 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 depository 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 Depository to Us

The depository 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 depository will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depository collects from investors. Further, the depository has agreed to reimburse us certain fees payable to the depository by holders of ADSs. Neither the depository 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, 2019, 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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) 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 (iii) 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, 2019 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, 2019.

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On July 10, 2019, we completed the acquisition of Shan Shan Outlets. Accordingly, the acquired assets and liabilities of these entities are included in our consolidated balance sheet as of December 31, 2019 and the results of its operations and cash flows are reported in our consolidated statements of operations and cash flows for the year ended. However, we have elected to exclude Shan Shan Outlets from the scope of our annual report on internal control over financial reporting as of December 31, 2019. The acquired companies represented approximately 11.8% of our total assets at December 31, 2019 and 0.3% of our total revenues for the year then ended.

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, 2019.

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, except for the change due to adoption of the new accounting standards related to lease, 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.

	2018	2019	
	RMB	RMB	US\$
Audit Fees ⁽¹⁾	14,000	(in thousands) 15,200	2,183
Audit-Related Fees ⁽²⁾	1,443	826	119
Tax Fees ⁽³⁾	838	600	86

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.

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

<u>Exhibit Number</u>	<u>Document</u>
1.1	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)
1.2	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)
2.1	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)
2.2	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)
2.3	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)
2.4	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)
2.5*	Description of Securities
4.1	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)
4.2	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)
4.3	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)

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<u>Exhibit Number</u>	<u>Document</u>
4.4	<u>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)</u>
4.5	<u>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 (incorporated by reference to Exhibit 4.5 to our Annual Report on Form 20-F (File No. 001-35454) filed with the SEC on April 18, 2019)</u>
4.6	<u>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 (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 20-F (File No. 001-35454) filed with the SEC on April 18, 2019)</u>
4.7	<u>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 (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F (File No. 001-35454) filed with the SEC on April 18, 2019)</u>
4.8	<u>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 (incorporated by reference to Exhibit 4.8 to our Annual Report on Form 20-F (File No. 001-35454) filed with the SEC on April 18, 2019)</u>
4.9	<u>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 (incorporated by reference to Exhibit 4.9 to our Annual Report on Form 20-F (File No. 001-35454) filed with the SEC on April 18, 2019)</u>
4.10	<u>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)</u>
4.11	<u>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)</u>
4.12	<u>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)</u>

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<u>Exhibit Number</u>	<u>Document</u>
4.13	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)
4.14	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)
4.15	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)
4.16*†	Strategic Business Cooperation Agreement dated November 25, 2019 between the Registrant and SF Holding Co., Ltd.
8.1*	List of Significant Consolidated Entities of the Registrant
11.1	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)
12.1*	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Deloitte Touche Tohmatsu
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of Travers Thorp Alberga
101.INS*	Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because its XBRL tags are not embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

Notes:

* Filed with this annual report on Form 20-F.

** Furnished with this annual report on Form 20-F.

† Confidential treatment has been requested for certain portions of this exhibit pursuant to Rule 406 under the Securities Act and Division of Corporation Finance Staff Legal Bulletin No. 1. In accordance with Rule 406 and Staff Legal Bulletin No. 1, these confidential portions have been omitted and filed separately with the SEC.

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

Name: Eric Ya Shen

Title: Chairman of the Board of Directors and
Chief Executive Officer

Date: April 27, 2020

VIPSHOP HOLDINGS LIMITED

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REPORTS 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 and its subsidiaries, (the “Company”) as of December 31, 2019 and 2018, 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, 2019, 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 Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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 Company’s internal control over financial reporting as of December 31, 2019, 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 27, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’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 Company 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Continued)

Critical Audit Matter (Continued)Critical Audit Matter (Continued)

Inventory—Inventory write-down—Refer to Notes 2(g) to the financial statements

Critical Audit Matter Description

The Company had inventories of RMB7.7 billion as of December 31, 2019, which represented approximately 33.5% of the Company's current assets. Inventory write-down is estimated based on significant management estimates and assumptions used to determine the write-down percentage that is applied to different aging groups and assess the quality of the merchandise within each category. In determining the write-down percentages on inventories, the Company considers the inventories' aging, historical and forecasted demands, expected selling prices and future promotional events. Changes in the write-down percentages could have a significant impact on the recorded inventories balance.

Auditing management's estimates related to the inventory write-down percentages involves subjective and complex auditors' judgment on the appropriateness of the percentages applied.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's valuation of inventories included the following, among others:

- We tested the design and implementation, as well as the operating effectiveness of internal controls over management's assessment of inventories write-down;
- We evaluated the appropriateness and consistency of management's methods and assumptions used in developing their estimates of the inventory write down;
- We tested the accuracy and completeness of the underlying data utilized in the management's write-down assessment, including categorization of the merchandise and the age distribution of the inventory by category;
- We made inquiries with financial and operational management to obtain an understanding of the planned promotion events, expected sales trends in the upcoming promotion cycles and evaluate whether the provision has appropriately incorporated such forecasts;
- We performed retrospective reviews to assess management's estimate on write-down percentage by comparing the current period trends to historical trends across multiple fiscal periods, including sales trends, inventory aging and gross margin rates to evaluate management's ability to accurately estimate inventory write-down.

/s/ Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

April 27, 2020

We have served as the Company's auditor since 2011.

REPORTS 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 and its subsidiaries (the “Company”) as of December 31, 2019, 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 Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, 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, 2019, of the Company and our report dated April 27, 2020, expressed an unqualified opinion on those financial statements.

As described in Management’s Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Shan Shan Commercial Group Co., Ltd., which was acquired on July 10, 2019, and whose financial statements constitute 11.8% of total assets and 0.3% of revenue of the consolidated financial statement amounts as of and for the year ended December 31, 2019. Accordingly, our audit did not include the internal control over financial reporting at Shan Shan Commercial Group Co., Ltd.

Basis for Opinion

The Company’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 Company’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 Company 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

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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 27, 2020

We have served as the Company's auditor since 2011.

VIPSHOP HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except for share and par value data)

	As of December 31,		
	2018 RMB	2019 RMB	2019 US\$ Note 2(ad)
ASSETS			
Current assets:			
Cash and cash equivalents	9,540,556	6,573,808	944,268
Restricted cash	497,916	1,145,477	164,537
Short-term investments	2,321,244	3,052,726	438,497
Accounts receivable, net	5,674,731	1,295,766	186,125
Amounts due from related parties	17,475	47,964	6,890
Other receivables and prepayments, net	3,594,736	2,897,893	416,256
Loan receivables, net	310,873	306,115	43,971
Inventories	5,368,106	7,708,292	1,107,227
Total current assets	<u>27,325,637</u>	<u>23,028,041</u>	<u>3,307,771</u>
Property and equipment, net	8,531,483	11,256,810	1,616,940
Deposits for property and equipment	176,556	101,800	14,623
Land use rights, net	3,885,578	5,541,108	795,930
Intangible assets, net	353,108	337,310	48,452
Investment in equity method investees	667,427	3,112,952	447,148
Other investments	1,470,551	2,002,756	287,678
Other long-term assets, net	396,447	608,073	87,344
Amounts due from related parties	—	102,000	14,651
Goodwill	367,106	236,711	34,001
Deferred tax assets, net	388,770	539,561	77,503
Right-of-use assets, net	—	1,715,556	246,424
Total assets	<u>43,562,663</u>	<u>48,582,678</u>	<u>6,978,465</u>

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,		
	2018 RMB	2019 RMB	2019 US\$ Note 2(ad)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable (Including accounts payable of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB85,257 and RMB136,359 as of December 31, 2018 and 2019, respectively)	11,630,172	13,792,200	1,981,126
Advances from customers (Including advances from customers of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB751,615 and RMB458,894 as of December 31, 2018 and 2019, respectively)	1,473,134	1,233,165	177,133
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 RMB2,689,273 and RMB3,090,910 as of December 31, 2018 and 2019, respectively)	5,512,605	6,534,575	938,633
Amounts due to related parties (Including amounts due to related parties of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB22,225 and RMB8,820 as of December 31, 2018 and 2019, respectively)	323,108	532,788	76,530
Deferred income (Including deferred income of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB204,925 and RMB244,323 as of December 31, 2018 and 2019, respectively)	367,512	405,994	58,317
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, 2018 and 2019, respectively)	969,000	—	—
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, 2018 and 2019, respectively)	1,343,160	1,093,645	157,092
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, 2018 and 2019, respectively)	4,327,268	—	—
Operating lease liabilities (Including operating lease liabilities of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and RMB17,697 as of December 31, 2018 and 2019, respectively)	—	333,268	47,871
Total current liabilities	<u>25,945,959</u>	<u>23,925,635</u>	<u>3,436,702</u>

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,		
	2018 RMB	2019 RMB	2019 US\$ Note 2(ad)
Long-term loans (Including long-term loans of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and nil as of December 31, 2018 and 2019, respectively)	—	64,515	9,267
Deferred tax liability (Including deferred tax liability of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB3,617 and RMB36,385 as of December 31, 2018 and 2019, respectively)	4,960	165,098	23,715
Deferred income-noncurrent (Including deferred income of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB298 and nil as of December 31, 2018 and 2019, respectively)	400,951	782,068	112,337
Operating lease liabilities-noncurrent (Including operating lease liabilities-noncurrent of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and RMB8,743 as of December 31, 2019)	—	1,395,665	200,475
Total liabilities	<u>26,351,870</u>	<u>26,332,981</u>	<u>3,782,496</u>
Commitments and contingencies (Note 28)			
SHAREHOLDERS' EQUITY:			
Class A ordinary shares (US\$0.0001 par value, 483,489,642 shares authorized, and 116,395,883 and 117,584,362 shares issued and outstanding as of December 31, 2018 and 2019, respectively)	75	76	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, 2018 and 2019, respectively)	11	11	2
Additional paid-in capital	9,385,216	9,959,497	1,430,592
Retained earnings	7,907,396	11,924,228	1,712,808
Accumulated other comprehensive loss	(30,883)	(56,656)	(8,138)
Total Vipshop Holdings Limited shareholders' equity	<u>17,261,815</u>	<u>21,827,156</u>	<u>3,135,275</u>
Non-controlling interests	(51,022)	422,541	60,694
Total shareholders' equity	<u>17,210,793</u>	<u>22,249,697</u>	<u>3,195,969</u>
Total liabilities and shareholders' equity	<u>43,562,663</u>	<u>48,582,678</u>	<u>6,978,465</u>

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,			
	2017 RMB	2018 RMB	2019 RMB	2019 US\$ Note 2(ad)
Net revenues:				
Product revenues	71,171,653	81,510,275	88,721,311	12,744,019
Other revenues	1,740,660	3,013,673	4,273,107	613,793
Total net revenues	<u>72,912,313</u>	<u>84,523,948</u>	<u>92,994,418</u>	<u>13,357,812</u>
Cost of revenues (Including inventory write-down of RMB206,733, RMB440,823 and RMB347,498 for the years ended December 31, 2017, 2018 and 2019, respectively)	<u>(56,618,471)</u>	<u>(67,454,981)</u>	<u>(72,314,190)</u>	<u>(10,387,283)</u>
Gross profit	<u>16,293,842</u>	<u>17,068,967</u>	<u>20,680,228</u>	<u>2,970,529</u>
Operating expenses:				
Fulfillment expenses (Including shipping and handling expenses of RMB3,830,229, RMB4,498,678 and RMB4,632,552 for the years ended December 31, 2017, 2018 and 2019, respectively)	(6,899,654)	(7,489,393)	(7,317,706)	(1,051,123)
Marketing expenses	(2,978,621)	(3,240,450)	(3,323,927)	(477,452)
Technology and content expenses	(1,808,452)	(2,000,894)	(1,568,107)	(225,244)
General and administrative expenses	(2,447,724)	(2,674,179)	(4,064,264)	(583,795)
Goodwill impairment loss	—	—	(278,263)	(39,970)
Total operating expenses	<u>(14,134,451)</u>	<u>(15,404,916)</u>	<u>(16,552,267)</u>	<u>(2,377,584)</u>
Other operating income	531,055	757,062	645,413	92,708
Income from operations	<u>2,690,446</u>	<u>2,421,113</u>	<u>4,773,374</u>	<u>685,653</u>
Impairment loss of investments	(133,026)	(20,073)	(127,589)	(18,327)
Interest expenses	(82,435)	(159,744)	(86,004)	(12,354)
Interest income	101,125	242,872	217,027	31,174
Exchange (loss) gain	(90,872)	71,065	(935)	(134)
Investment gain and revaluation of investments	55,615	191,842	166,932	23,978
Income before income taxes and share of (loss) gain of equity method investees	2,540,853	2,747,075	4,942,805	709,990
Income tax expense	(626,140)	(566,604)	(983,554)	(141,279)
Share of (loss) gain of equity method investees, net of tax nil	(22,280)	(46,999)	27,182	3,904
Net income	<u>1,892,433</u>	<u>2,133,472</u>	<u>3,986,433</u>	<u>572,615</u>
Net loss (income) attributable to non-controlling interests	57,222	(4,685)	30,399	4,367
Net income attributable to Vipshop Holdings Limited's shareholders	<u><u>1,949,655</u></u>	<u><u>2,128,787</u></u>	<u><u>4,016,832</u></u>	<u><u>576,982</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

VIPSHOP HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Continued)
(All amounts in thousands, except for share and per share data) (Continued)

	Year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US\$ Note 2(ad)
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	117,554,229	132,266,157	133,524,129	133,524,129
—Diluted	125,715,833	140,083,610	136,081,415	136,081,415
Net earnings per Class A and Class B ordinary share				
—Basic	16.59	16.09	30.08	4.32
—Diluted	15.94	15.61	29.58	4.25
Net income	1,892,433	2,133,472	3,986,433	572,615
Other comprehensive loss (income):				
Foreign currency translation, net of tax of nil	342,348	(7,083)	(25,773)	(3,702)
Fair value change of available-for-sale investments, net of tax of nil	32,633	—	—	—
Reclassification adjustments for losses included in net income	(55,615)	—	—	—
Comprehensive income	<u>2,211,799</u>	<u>2,126,389</u>	<u>3,960,660</u>	<u>568,913</u>
Less: Comprehensive (loss) income attributable to non-controlling interests	<u>(57,222)</u>	<u>4,685</u>	<u>(30,399)</u>	<u>(4,367)</u>
Comprehensive income attributable to Vipshop Holdings Limited's shareholders	<u>2,269,021</u>	<u>2,121,704</u>	<u>3,991,059</u>	<u>573,280</u>

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)

	Vipshop Holdings Limited Shareholders' Equity										
	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital	Treasury shares		Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total
	No. of shares	Amount RMB	No. of shares	Amount RMB		No. of shares	Amount RMB				
Balance as of December 31,											
2016	101,508,264	66	16,510,358	11	3,130,126	(1,356,918)	(707,441)	3,653,026	(343,608)	49,624	5,781,80
Net income	—	—	—	—	—	—	—	1,949,655	—	(57,222)	1,892,4
Issuance of ordinary shares to new investors	13,184,910	8	—	—	5,610,329	—	—	—	—	—	5,610,3
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	—	—	—	5,9
Re-issuance of treasury shares upon vesting of shares awards	—	—	—	—	(467,063)	902,210	467,063	—	—	—	—
Share-based compensation expense	—	—	—	—	667,098	—	—	—	—	—	667,0
Acquisition of additional equity interests in subsidiaries	—	—	—	—	9,914	—	—	—	—	(36,345)	(26,4
Foreign currency translation	—	—	—	—	—	—	—	—	342,348	—	342,3
Fair value changes of available-for-sale investments	—	—	—	—	—	—	—	—	32,633	—	32,6
Reclassification adjustment for gains included in net income	—	—	—	—	—	—	—	—	(55,615)	—	(55,6
Balance as of December 31,											
2017	<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>14,250,5</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)

Vipshop Holdings Limited Shareholders' Equity											
	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital RMB	Treasury shares		Retained earnings RMB	Accumulated other comprehensive income (loss) RMB	Non-controlling interests RMB	Total RMB
	No. of shares	Amount RMB	No. of shares	Amount RMB		No. of shares	Amount RMB				
Balance as of December 31, 2017	114,716,587	74	16,510,358	11	8,715,995	—	—	5,602,681	(24,242)	(43,943)	14,250,576
Adoption of new accounting standards	—	—	—	—	—	—	—	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
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(5,935)	—	—	—	—	(12,764)	(18,699)
Capital contribution from non-controlling interests shareholders	—	—	—	—	—	—	—	—	—	1,000	1,000
Foreign currency translation	—	—	—	—	—	—	—	—	(7,083)	—	(7,083)
Balance as of December 31, 2018	116,395,883	75	16,510,358	11	9,385,216	—	—	7,907,396	(30,883)	(51,022)	17,210,793

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)

	Vipshop Holdings Limited Shareholders' Equity										
	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital	Treasury shares		Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total
	No. of shares	Amount RMB	No. of shares	Amount RMB		No. of shares	Amount RMB				
Net income	—	—	—	—	—	—	—	4,016,832	—	(30,399)	3,986,433
Issuance of ordinary shares upon exercises of share options	85,706	—	—	—	297	—	—	—	—	—	297
Issuance of ordinary shares upon vesting of shares awards	1,102,773	1	—	—	(1)	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	682,357	—	—	—	—	—	682,357
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(10,497)	—	—	—	—	(16,400)	(26,897)
Dilution in non-controlling interests due to Group's contribution to its subsidiary	—	—	—	—	(97,875)	—	—	—	—	97,875	—
Capital contribution from non-controlling interests shareholders	—	—	—	—	—	—	—	—	—	107,950	107,950
Non-controlling interests arising from the acquisition of Shan Shan Commercial Group Co., Ltd. ("Shan Shan Outlets") (Note (3))	—	—	—	—	—	—	—	—	—	314,537	314,537
Foreign currency translation	—	—	—	—	—	—	—	—	(25,773)	—	(25,773)
Balance as of December 31, 2019	<u>117,584,362</u>	<u>76</u>	<u>16,510,358</u>	<u>11</u>	<u>9,959,497</u>	<u>—</u>	<u>—</u>	<u>11,924,228</u>	<u>(56,656)</u>	<u>422,541</u>	<u>22,249,697</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,			2019 US\$ Note 2(ad)
	2017 RMB	2018 RMB	2019 RMB	
Cash flows from operating activities:				
Net income	1,892,433	2,133,472	3,986,433	572,615
Adjustments to reconcile net income to net cash by operating activities:				
Provision for allowance for doubtful accounts	130,862	175,405	229,531	32,970
Inventory write-down	206,733	440,823	347,498	49,915
Depreciation of property and equipment	720,840	770,290	830,368	119,275
Amortization of deferred income	—	—	(23,186)	(3,330)
Impairment of long-lived assets	—	—	537,579	77,218
Amortization of intangible assets	340,816	47,842	15,757	2,263
Amortization of land use rights	55,545	71,601	104,381	14,993
(Gain) loss on disposal of property and equipment and other assets	(4,170)	762	14,404	2,069
Share-based compensation expenses	667,098	671,210	688,083	98,837
Share of loss (income) of equity method investees	22,280	46,999	(27,182)	(3,904)
Impairment loss of other investments	133,026	20,073	127,589	18,327
Goodwill impairment loss	—	—	278,263	39,970
Unrealized gain on short-term investments	(16,934)	(48,604)	(11,621)	(1,669)
Amortization of debt issuance costs	5,950	—	—	—
Investment gain and revaluation of investments	(55,615)	(191,842)	(165,731)	(23,806)
Loss on disposal of subsidiaries	—	—	11,323	1,626
Noncash lease expense	—	—	325,245	46,719
Changes in operating assets and liabilities:				
Accounts receivable	(2,655,862)	(64,931)	4,165,302	598,309
Amounts due from related parties	(1,839)	(7,284)	12,682	1,822
Other receivables and prepayments	(1,265,051)	124,418	936,509	134,522
Inventories	(2,240,420)	291,781	(2,625,892)	(377,186)
Deferred tax assets	(70,297)	(103,658)	(99,538)	(14,298)
Dividends received from equity method investees	—	—	13,147	1,888
Accounts payable	3,217,304	(140,746)	1,681,114	241,476
Advances from customers	(347,538)	(873,914)	(282,764)	(40,617)
Accrued expenses and other current liabilities	290,818	1,985,677	1,148,730	165,004
Amounts due to related parties	12,293	258,086	282,261	40,545
Deferred income	26,554	150,335	27,904	4,008
Deferred tax liability	(83,575)	(12,047)	68,866	9,892
Operating lease liabilities	—	—	(306,872)	(44,079)
Net cash generated from operating activities	981,251	5,745,748	12,290,183	1,765,374
Cash flows from investing activities:				
Purchases of property and equipment	(2,197,773)	(2,519,673)	(3,303,176)	(474,472)
Purchases of land use rights	(275,810)	(1,073,370)	(974,497)	(139,978)
Government subsidies received for land use rights	117,825	52,300	220,720	31,704
Proceed from disposal of property and equipment and other assets	9,290	4,936	33,442	4,804
Purchases of other assets	(867)	(917)	—	—
Purchases of short-term investments	(354,000)	(2,691,032)	(3,271,105)	(469,865)
Redemption of short-term investments upon maturities	796,729	747,766	2,500,340	359,151
Investment in equity method investees and other investments	(16,783)	(963,699)	(605,933)	(87,037)

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,			2019 US\$ Note 2(ad)
	2017 RMB	2018 RMB	2019 RMB	
Payment for business acquisition, net of cash acquired of RMB174, nil and RMB175,822 in 2017, 2018 and 2019, respectively	(4,701)	—	(2,749,178)	(394,895)
Deposits for equity method investments and other investments	(240,000)	—	—	—
Disposal of an available-for-sale investments	279,295	—	—	—
Cash paid for loan originations	(188,960)	(764,020)	(2,762,052)	(396,744)
Cash received from loan repayments	46,149	519,519	2,670,549	383,600
Other investing activities	(3,000)	(5,622)	330	48
Net cash used in investing activities	(2,032,606)	(6,693,812)	(8,240,560)	(1,183,684)
Cash flows from financing activities:				
Proceeds from bank and other borrowings	910,310	2,115,285	1,819,380	261,338
Repayment to bank and other borrowings	(3,000)	(1,695,885)	(2,865,706)	(411,633)
Capital contributions from non-controlling interests	—	1,000	107,950	15,506
Acquisition of non-controlling interests	(25,855)	(18,699)	(25,375)	(3,645)
Redemption of convertible senior notes	(21,697)	—	(4,220,841)	(606,286)
Proceeds from issuance of securitization debt	760,000	969,000	—	—
Repayment of securitization debt	—	(760,000)	(969,000)	(139,188)
Proceeds from issuance of ordinary shares to new investors	5,610,337	—	—	—
Proceeds from issuance of ordinary shares upon exercise of share options	5,969	3,947	297	43
Deferred settlement of acquisition of subsidiaries	(64,990)	(27,680)	—	—
Deferred settlement on purchase of equity method investees and other investments	—	—	(103,405)	(14,853)
Other financing activities	(1,250)	—	—	—
Net cash provided by (used in) financing activities	7,169,824	586,968	(6,256,700)	(898,718)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(6,054)	177,576	(112,110)	(16,103)
Net increase (decrease) in cash, cash equivalents and restricted cash	6,112,415	(183,520)	(2,319,187)	(333,131)
Cash, cash equivalents and restricted cash at beginning of the year	4,109,577	10,221,992	10,038,472	1,441,936
Cash, cash equivalents and restricted cash at end of the year	10,221,992	10,038,472	7,719,285	1,108,805
Reconciliation in amounts on the consolidated balance sheets:				
Cash and cash equivalents	9,973,891	9,540,556	6,573,808	944,268
Restricted cash	248,101	497,916	1,145,477	164,537
Total cash, cash equivalents and restricted cash at end of the year	10,221,992	10,038,472	7,719,285	1,108,805

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,			2019 US\$ Note 2(ad)
	2017	2018	2019	
	RMB	RMB	RMB	
Supplemental disclosures of cash flow information:				
Interest paid, net of amount capitalized	82,435	159,744	86,004	12,354
Income tax paid	948,915	956,291	818,153	117,520
Supplemental disclosure of non-cash investing and financing activities:				
Payables incurred for purchase of property and equipment	9,971	4,626	59,515	8,549
Dilution on non-controlling interests due to the Group's contribution to its subsidiary	—	—	97,875	14,059
Payables for acquisition of subsidiaries	—	—	25,000	3,591
Right-of-use assets obtained	—	—	2,071,948	297,617
Decrease of right-of-use assets for early termination	—	—	36,142	5,191

In 2019, the Group acquired the Shan Shan Outlets which constituted of business and was accounted for as business combination. Details of non-cash activities arising from this acquisition are set out in Note 3.

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 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 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.

The Group also operates retail stores in China to supplement its online growth strategy. In July 2019, the Group acquired Shan Shan Outlets, a leading player in the outlets industry in China, to gain presence in the offline outlet business in China.

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 VIEs and VIEs’ subsidiaries for which the Company is the primary beneficiary. All intercompany transactions, balances and unrealized profit and losses have been eliminated upon 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 subsidiary, Vipshop (China) Co., Ltd. (“Vipshop China”), as a wholly foreign owned enterprise (“WFOE”), is 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 Group, 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, Guangzhou Vipshop E-Commerce Co., Ltd. (“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 (Shanghai) Information Technology Co., Ltd. (“Lefeng Shanghai”, or “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.

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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)

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 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 Agreement

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 Agreement

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.

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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)

Loan Agreement

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, 2019, shareholders of Vipshop E-Commerce are Mr. Eric Ya Shen and Mr. Arthur Xiaobo Hong, holding 66.67% and 33.33% of the total equity interests in 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, Pin Jun Tong, Lefeng Information, revoking the business licenses or operating licenses of the WFOE, Vipshop E-commerce, Vipshop Information, Pin Jun Tong, Lefeng Shanghai, or Lefeng Information, 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 has 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 the 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

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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)

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.

- 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 became 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 VIEs and VIEs' subsidiaries, including total assets, total liabilities, net revenues, total operating expenses, net loss and cash flows after intercompany eliminations are as follows:

	As of December 31,	
	2018	2019
	RMB	RMB
Total assets	5,974,238	10,388,986
Total current liabilities	(3,753,295)	(3,957,003)
Total liabilities	(3,757,210)	(4,002,131)

	2017	2018	2019
	RMB	RMB	RMB
Net revenues	1,583,466	2,455,488	3,613,683
Total operating expenses	(5,243,573)	(5,826,283)	(6,095,095)
Net loss	(3,784,932)	(3,531,460)	(2,206,270)

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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,		
	2017	2018	2019
	RMB	RMB	RMB
Net cash (used in) provided by operating activities	(801,931)	(294,853)	4,807,929
Net cash provided by (used in) investing activities	1,435,001	(48,162)	(2,206,121)
Net cash provided by (used in) financing activities	<u>1,144,728</u>	<u>(17,698)</u>	<u>(13,125)</u>

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 assets acquired in business acquisition, valuation of other investments and valuation of account 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.

(f) Short-term investments

Short-term investments consist primarily of time deposits and financial products offered by commercial banks in the PRC with fixed maturity dates ranging from three months to one year.

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(g) Inventories

Inventories consisting of products available for sales are valued at the lower of cost or net realizable value with cost determined using the weighted average cost method. Net realizable value is based on estimated selling prices in the ordinary course of business, less reasonably predictable transportation cost. Adjustments are recorded when future estimated net realizable value is less than cost. Write-downs are recorded in cost of revenues in the consolidated statements of income and comprehensive income.

To determine the write-down relating to different categories, the Group applies a certain writedown percentage based on aging and condition of the merchandises within each category. The Group developed these write-down percentages based on historical trends, inventory aging, historical and forecasted demands, expected selling prices and future promotional events.

(h) Accounts receivables, net

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, net

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 exhausted all efforts and determined the balance will not be collected.

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.

For the years ended December 31, 2018 and 2019, the Group recorded allowance of RMB3,789 and RMB63,833 for both current and non-current loan receivables.

(j) Other receivables, net

Other receivables mainly consisted of advances to supplier, VAT recoverable, 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

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2. Summary of significant accounting policies (Continued)

(j) Other receivables, net (Continued)

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 to 30 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	4 to 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 in 2019 at interest 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 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 RMB97,024, RMB165,618 and RMB87,631, of which RMB14,589, RMB5,874 and RMB1,627 were capitalized for the years ended December 31, 2017, 2018 and 2019, 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 right of use for 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.

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2. Summary of significant accounting policies (Continued)

(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.

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) Investments 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, as well as other factors including but not limited to, representation on the investee’s board of directors, voting rights, etc.
- (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 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

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2. Summary of significant accounting policies (Continued)

(o) Investments in equity method investees (Continued)

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 investment 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 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.

(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 or 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 the 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;

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2. Summary of significant accounting policies (Continued)

(p) Other investments (Continued)

- 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.

(q) 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 an impairment of nil, nil and RMB537,579 for the years ended December 31, 2017, 2018 and 2019, respectively, in general and administrative expenses on the consolidated statements of income and comprehensive income.

(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. The Group assesses 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 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

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2. Summary of significant accounting policies (Continued)

(r) Goodwill (Continued)

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.

In 2019, the Group has outsourced all delivery activities to third party couriers and ceased the operations of its logistic services unit. Accordingly, the Group has impaired all goodwill related to its logistic business in the amount of RMB278,263.

(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 2018 and 2019, management has conducted the qualitative impairment test and the qualitative assessment and no impairment indicators identified.

(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

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2. Summary of significant accounting policies (Continued)

(t) Business combinations and non-controlling interests (Continued)

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) 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. The debt was fully repaid during the year ended December 31, 2019.

(v) Leases

In February 2016, the FASB issued ASU 2016-02, which supersedes existing guidance on accounting for leases in ASC Topic 840—Leases (“ASC 840”) and generally requires all leases, including operating leases, to be recognized in the statement of financial position of lessees as right-of-use (“ROU”) assets and lease liabilities, with certain practical expedients available.

The Group adopted ASC Topic 842—Leases (“ASC 842”) on January 1, 2019 using the modified retrospective transition approach, applying the new standard to leases existing at the date of initial adoption. The Group elected to apply the transition requirements at the effective date rather than at the beginning of the earliest comparative period presented with a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, and prior periods were not restated. Upon adoption, the Group elected the practical expedients available under ASC 842, which permits the Group to not reassess the lease identification, lease classification and initial direct costs associated with any expired or existing contracts as of the date of adoption, as well as using hindsight in determining the lease term and in assessing impairment of the Group's ROU assets. In connection with the adoption of ASC 842, the Group made an accounting policy election for all lease related asset classes, to account for the lease and non-lease components as a single lease component. The Group has also made an accounting policy election to exempt leases with an initial term of 12 months or less from being recognized on the balance sheet. Short-term leases are not significant in comparison to the Group's overall lease portfolio. Payments related to those leases continue to be recognized in the consolidated statement of income and comprehensive income on a straight-line basis over the lease term.

The scope of ASC 842 also includes land use right and the accounting policy is included in Note 2(m).

From the Perspective of Lessee

The Group determines whether a contract contains a lease at contract inception. A contract contains a lease if there is an identified asset and the Group has the right to control the use of the identified asset.

At the commencement of each lease, management determines its classification as an operating or finance lease. For leases that qualify as operating leases, the Group recognizes the associated lease

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2. Summary of significant accounting policies (Continued)

(v) Leases (Continued)

expense on a straight-line basis over the term of the lease beginning on the date of initial possession, which is generally when the Group enters the leased premises and begins to make improvements in preparation for its intended use.

A lease liability is recognized for future fixed lease payments and a ROU asset representing the right to use the underlying asset during the lease term.

The Group uses the incremental borrowing rate in determining the present value of lease payments, unless the implicit rate is readily determinable. The incremental borrowing rate is estimated on a portfolio basis and incorporating lease term, currency risk, credit risk and an adjustment for collateral. If lease terms include options to extend or terminate the lease, the ROU asset and lease liability are measured based on the reasonably certain decision.

Upon adoption of ASU 2016-02 on January 01, 2019, the Group elected to use the remaining lease term as of January 1, 2019 in the estimation of the applicable discount rate for leases that were in place at adoption.

For the initial measurement of the lease liabilities for leases commencing after January 1, 2019, the Group uses the discount rate as of the commencement date of the lease, incorporating the entire lease term. Current maturities and long-term portions of operating lease liabilities are classified as operating lease liabilities, current and operating lease liabilities, non-current, respectively, in the consolidated balance sheets.

The ROU asset is measured at the amount of the lease liabilities with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred and lease incentives. Variable lease expenses includes rent contingent payments based on percentages of revenue as defined in the lease. It is not included in lease expenses before it incurs or becomes probable.

Repayments of operating liabilities, variable lease payments and short-term lease payments will be classified in operating activities. If payments made for operating leases represent the costs of bringing another asset to the condition and location necessary for its intended use, such amounts will be classified as investing activities.

As a result of the adoption, the Group recognized approximately RMB451,390 ROU assets recorded in ROU assets and corresponding lease liability in operating lease liabilities on the consolidated balance sheet as of January 1, 2019. The adoption had no material impact on the Group's consolidated statements of income and comprehensive income for the year ended December 31, 2019 or the opening balance of retained earnings as of January 1, 2019.

From the Perspective of Lessor

The Group does not have material lessor contracts before the acquisition of Shan Shan Outlets. Shan Shan Outlets leases shop spaces in outlet malls to brand shops to conduct commercial selling activities under operating leases from 3 to 5 years.

Under ASC 842, which created a practical expedient that provides lessors an option not to separate lease and non-lease components if both of the following criteria are met: (1) the timing and pattern of transfer of the lease and non-lease component(s) are the same and (2) the lease component would be classified as an operating lease if it were accounted for separately. If both criteria are met, the

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2. Summary of significant accounting policies (Continued)

(v) Leases (Continued)

combined component is accounted for in accordance with ASC 842 if the lease component is the predominant component of the combined component; otherwise, the combined component is accounted for in accordance with the revenue recognition standard. The Group determined that the lease arrangements meet the criteria taking the practical expedient and to account for the lease and non-lease components as a single lease component under ASC 842. The Group recognized consideration received from the leases, together with other non-lease components including common area maintenance arrangements on a straight-line basis as the lease component is the predominant component of the combined component.

The Group, as a lessor, retain substantially all of the risks and benefits of ownership of the properties and continue to account for its leases as operating leases. There's no terms and conditions exist to grant the option for the tenant to purchase the properties upon termination of the lease. Renewal of the leases are on a negotiation basis before termination and penalty is imposed if the lessees early terminate the leases. The majority of the Group's lease contracts are based on the higher of 1) fixed lease payment and 2) variable lease payment based on percentage of gross revenue generated by each tenant. The Group recognizes fixed lease income on a straight-line basis over the terms of the leases and variable lease income are recognized when incurred, both included in other revenues on the consolidated statements of income and comprehensive income.

The lessees are generally required to provide the Group with a deposit, which is recorded in accrued expenses and other current liabilities on the consolidated balance sheets. Pursuant to the term of membership agreement, the amount of deposit may be applied if any damage caused to the Group.

The residual value of the Group's lease assets represents the fair value of the leased assets at the end of the lease terms. The Group relies on industry data, historical experience, independent appraisals and the experience of the management team to value lease residuals.

(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 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, inventory write-down, cost relating to logistics service rendered to external customers, occupancy cost for retail shops including rental cost,

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2. Summary of significant accounting policies (Continued)

(x) Cost of revenues (Continued)

maintenance costs, depreciation cost and utility cost of the outlets. The amounts of inventory write-down were RMB206,733, RMB440,823 and RMB347,498 for the years ended December 31, 2017, 2018 and 2019, 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. In 2019, the Group has ceased its logistics delivery operations and outsourced all of its delivery activities to third party couriers. Costs paid to the third party couriers are included in fulfillment expenses.

(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 RMB1,526,815, RMB1,651,996 and RMB2,234,291 for the years ended December 31, 2017, 2018 and 2019, 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. In November 2019, the Group has ceased its logistic operation. Severance payments of RMB652.0 million and asset impairment of RMB154.2 million are recorded in general and administrative expenses for year ended December 31, 2019.

(ac) Foreign currency transactions and translations

The functional currency of the Company, Vipshop HK, Lefeng.com Limited ("Lefeng.com") and other offshore subsidiaries is the United States dollar ("US dollar"). The functional currency of all the other

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2. Summary of significant accounting policies (Continued)

(ac) Foreign currency transactions and translations (Continued)

significant subsidiaries and the VIEs is RMB. Foreign currency denominated monetary assets and liabilities have been translated into the functional currency at the prevailing exchange rates 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 RMB6,615,216 and RMB7,565,817 at December 31, 2018 and 2019, 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, 2019 are solely for the convenience of the readers and were calculated at the rate of 6.9618 representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2019. 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, 2019, or at any other rate.

(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 16% before April 2019 and 3% to 13% since April 2019, compared with 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.

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2. Summary of significant accounting policies (Continued)

(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, net, short-term investments, amounts due from related parties, loan receivables, net and other receivables. 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 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.

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2. Summary of significant accounting policies (Continued)

(ai) Fair value of financial instruments (Continued)

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, 2018 and 2019 include equity investments with readily determinable fair value, available-for-sale debt securities, financial guarantee and share-based compensation liability. As of December 31, 2018 and 2019, information about inputs into the fair value measurements of the Group's assets and liabilities 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, 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	—

Description	As of December 31, 2019 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	506,302	506,302	—	—
Other liabilities:				
- Financial guarantee	(8,847)	—	—	(8,847)
- Liability for cash-settled share-based compensation arrangements	(5,726)	—	—	(5,726)

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2. Summary of significant accounting policies (Continued)

(ai) Fair value of financial instruments (Continued)

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 in Level 2 measurement.

Financial guarantee assumed from the acquisition of Shan Shan Outlets, as disclosed in Note 3, is recorded as other liabilities on the consolidated balance sheets. Its fair value was estimated using the credit default method, with reference to the default and recovery rate of comparable guaranteed companies. The default and recovery rate applied are based on the default and recovery rate published by Standard & Poor's ("S&P") and Moody's respectively, sorted by credit rating. As such, they are classified in Level 3 measurement.

The fair value of the liability on cash-settled share-based compensation arrangement was estimated using the Monte Carlo Simulation (Note 30 (c)), through simulation of the future net profits of the Shan Shan Outlets. As such, they are classified in Level 3 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, short-term investment, 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, 2018 was approximately RMB4,260,195, as compared to its carrying value of RMB4,327,268. The Group fully redeemed the convertible senior notes in March, 2019. Fair value was estimated using quoted market prices and represented a Level 1 measurement.

Measured at fair value on a nonrecurring basis

The estimated fair values of equity method investments used in the 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 fair value of equity investments without readily determinable fair value is estimated to be cost minus impairment, and if any, adjusted by observable price changes in orderly transactions for the identical or similar investments of the same issuer.

Other than the investments in equity method investees (Note 11) and the 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.

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2. Summary of significant accounting policies (Continued)

(aj) Share-based compensation

Employee share-based compensation

Share-based payments made to employees, including equity-classified employee share options, liability-classified 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 fair values of the awards, which are determined on the grant date and each reporting period end, respectively for equity-classified employee share options and liability-classified employee share options. 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 fair 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 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.

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2. Summary of significant accounting policies (Continued)

(ak) 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.

(al) 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 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.

(am) 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.

In the prior years, the Group has identified two major operating segments, Vip.com segment and internet finance, in which the CODM reviews its financial result on a regular basis. For the year ended December 31, 2019, the Group has determined it has four operating segments, Vip.com, internet finance, Shan Shan Outlets, and offline shops. Vip.com and Shan Shan Outlets have been identified as reportable segments. Internet finance and offline shops operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold. The financial information of the respective segments are disclosed in Note 31.

(an) Accounting standards issued but not adopted at December 31, 2019

In June 2016, FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. This standard requires entities to measure all expected credit losses of financial assets held at a reporting date based on historical experience, current conditions, and reasonable and supportable forecasts in order to record credit losses in a timelier manner. ASU 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In April 2019, the FASB issued ASU 2019-04, clarify a variety of topics previously covered in Update 2016-13. ASU 2019-04 provides certain alternatives for the measurement of the allowance for credit losses (ACL) on accrued interest receivable (AIR). These measurement alternatives include (1) measuring an ACL on AIR separately, (2) electing to provide separate disclosure of the AIR component of amortized cost as a practical expedient, and (3) making accounting policy elections to simplify certain aspects of the presentation and measurement of such AIR. The standard and the amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted for interim and annual periods beginning after December 15, 2018.

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2. Summary of significant accounting policies (Continued)

(an) Accounting standards issued but not adopted at December 31, 2019 (Continued)

In May 2019, the FASB issued ASU 2019-05 “Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief” to provide an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. ASU 2019-05 is effective for fiscal years and interim periods beginning after December 15, 2019.

In November 2019, the FASB issued ASU 2019-11, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses.” Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. “Expected recoveries” describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowance for available-for-sale debt securities.

Based on the Group’s financial instruments and risk management policies as of December 31, 2019, application of the above ASUs 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. The Group is in the process of evaluating the impact of the ASUs and expect there’s no material impact to the financial statements.

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. 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

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2. Summary of significant accounting policies (Continued)

(an) Accounting standards issued but not adopted at December 31, 2019 (Continued)

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.

In March 2019, the FASB issued ASU 2019-01, which added guidance to ASC 842 that is similar to the guidance in ASC 840-10-55-44 and states that, for lessors that are not manufacturers or dealers, the fair value of the underlying asset is its cost, less any volume or trade discounts, as long as there isn't a significant amount of time between acquisition of the asset and lease commencement. The amendments also clarify that lessors in the scope of ASC 942 must classify principal payments received from sales-type and direct financing leases in investing activities in the statements of cash flows. In addition, the amendments clarify that entities are not subject to the transition disclosure requirements in ASC 250-10-50-3 related to the effect of an accounting change on certain interim period financial information. The Group anticipates that the adoption of ASU 2019-01 will not have material impact on the Group's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes."

The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Group is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

3. Significant acquisition

(a) Acquisition of Shan Shan Outlets

On July 10, 2019, the Group acquired 100% equity interest of Shan Shan Outlets for a total cash consideration of RMB2,950,000, in which RMB2,925,000 has been paid as of December 31, 2019. Shan Shan Outlets primarily engaged in outlet management business in China. The Group acquired Shan Shan Outlets to expand into the outlet business to supplement its growth strategy.

The acquisition had been accounted for as a business combination. The results of operations of Shan Shan Outlets have been included in the Group's consolidated financial statements from the acquisition date. The assets acquired and liabilities assumed were recorded at their respective fair values on the date of acquisition. Shan Shan Outlets' revenue contribution to the Group is RMB245,817 and is not considered material to the Group.

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3. Significant acquisition (Continued)

(a) Acquisition of Shan Shan Outlets (Continued)

The Group accounted for this acquisition as business combination. The results of operations of Shan Shan Outlets have been included in the Group's consolidated financial statements since the acquisition date. The assets acquired and liabilities assumed were recorded at their respective fair values on the date of acquisition. The purchase price allocations were determined by the Group with the assistance of an independent valuation appraiser and estimated by applying the income approach and depreciated replacement cost method as follows:

	<u>RMB</u>	<u>Weighted average amortization period (in years)</u>
Consideration:		
Cash	2,925,000	
Consideration payable	25,000	
Total consideration transferred	<u>2,950,000</u>	
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents	175,822	
Accounts receivable	6,420	
Other receivables and prepayments	537,182	
Inventories	46,603	
Amounts due from related parties	12,821	
Other long-term assets	25,000	
Deferred tax assets, net	51,252	
Property and equipment	461,408	14~20
Land use rights	837,160	30~40
Construction in progress	207,707	
Investment in equity method investees	2,322,375	
Total assets acquired	4,683,750	
Accounts payable	(69,427)	
Advances from customers	(42,795)	
Accrued expenses and other current liabilities	(179,574)	
Amounts due to related parties	(282,106)	
Deferred income	(194,162)	
Bank borrowings	(709,954)	
Financial guarantee	(8,847)	
Deferred tax liabilities	(91,272)	
Total liabilities assumed	(1,578,137)	
Net assets acquired	3,105,613	
Non-controlling interests	(314,537)	
Goodwill	158,924	
	<u>2,950,000</u>	

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3. Significant acquisition (Continued)

(a) Acquisition of Shan Shan Outlets (Continued)

The goodwill of RMB158,924 was generated from the synergy of the acquisition that helps the Group gain presence in the offline outlet business in China and further enhances the ecosystem and fortifies the Group's leading position in China's discount retail segment. Goodwill is assigned to the Shan Shan Outlets segment. None of the goodwill is expected to be deductible for income tax purposes.

Revenues and net income of Shan Shan Outlets in the amount of RMB245.8 million and RMB31.5 million, respectively, attributable to Shan Shan Outlet were included in the Group's consolidated statement of income and comprehensive income since the acquisition date.

Pro forma results of operations for the Shan Shan acquisition have not been presented as they are not material to the Group's consolidated results.

4. Revenue

From January 1, 2018, the Group accounts for revenue in accordance with Topic 606, "Revenue from Contracts with Customers".

Product revenue recognition

The majority of the Group's revenue is derived from online 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.

For offline product revenue, the Group recognizes revenue at the point of time when customers pay and obtain control of the products.

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.

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.

Return rights

The Group offers online sales 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 online product revenues by an estimate of expected customer merchandise returns, which is calculated based on historical return patterns,

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4. Revenue (Continued)

Return rights (Continued)

and recorded as a refund liability included in accrued expenses and other current liabilities (Note 14) and the estimated inventories in-transit subject to those estimated returns are included in inventories on the consolidated balance sheets.

Membership reward program

The Group grants Weipin Coins to the online 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, 2018 and 2019, the Group recorded deferred income related to Weipin Coins of RMB150,240 and RMB138,017, respectively.

New members who register on the Group's online 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.

The Group has a paid online membership program called Super VIP, which allows its members to enjoy certain privileges. The revenue related to the membership fee is recognized on a straight-line basis 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 and (6) lease income and other miscellaneous income earned from the Shan Shan Outlets.

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. The Group has ceased providing logistic services to external customers and starts outsourcing its logistic services to a third-party logistic service provider starting in November 2019.

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

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4. Revenue (Continued)

Other revenues (Continued)

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.

Shan Shan Outlets leases its shop space to various brand shops to conduct sales activities, the related revenue is accounted under ASC 842, please refer to detail information in Note 2(v). Other miscellaneous income such as advertising income is recognised over the period where the service provided.

Remaining performance obligations

Remaining performance obligations represent the transaction price allocated to unsatisfied or partially unsatisfied performance obligations. At December 31, 2018 and 2019, the Group had unfulfilled performance obligations for products to be passed to customers of RMB1,410 million and RMB1,118 million, and performance obligations related to Weipin Coins granted to customers and Super VIP membership fee of RMB355 million and RMB382 million, respectively. 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 customers based on the agreed upon instalment periods.

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 31 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 RMB151,117 and RMB177,783 as of December 31, 2018 and December 31, 2019, 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 December 31, 2018 and December 31, 2019, the balances of the contract liabilities are RMB1,954 million and RMB1,726 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, 2019 were recognized as revenue during the year ended December 31, 2019. All contract liabilities as of year ended December 31, 2019 are expected to be realized in the following year.

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5. **Accounts receivable, net**

Components of accounts receivable are as follows:

	As of December 31,	
	2018	2019
	RMB	RMB
Other trade receivables (Note a)	5,302,391	1,051,707
Delivery service providers (Note b)	297,242	—
Others (Note c)	192,642	355,837
Subtotal	<u>5,792,275</u>	<u>1,407,544</u>
Less: allowance for doubtful accounts	<u>(117,544)</u>	<u>(111,778)</u>
Total	<u><u>5,674,731</u></u>	<u><u>1,295,766</u></u>

Note:

- (a) The Group provides consumer financing to certain customers as part of the Group's Internet financing business. As of December 31, 2018 and 2019, RMB 1.2 billion and nil 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.
- (c) Others mainly represent receivables from online promotional and advertising services as well as warehousing services to the Group's vendors.

The movement of allowance for doubtful debts during the years are as follows:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Allowance for doubtful accounts:			
Balance at beginning of the year	(46,209)	(124,891)	(117,544)
Provision for allowance during the year	(111,183)	(166,396)	(155,242)
Write-offs during the year	32,501	173,743	161,008
Balance at end of the year	<u>(124,891)</u>	<u>(117,544)</u>	<u>(111,778)</u>

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6. Other receivables and prepayments, net

Components of other receivables and prepayments are as follows:

	As of December 31,	
	2018	2019
	RMB	RMB
Deposits (Note a)	436,402	324,018
VAT and EIT recoverable	770,949	1,567,589
Interest receivable	100,402	22,578
Advances to suppliers related to financing activities (Note b)	1,269,898	37,442
Prepayment to suppliers related to procurement activities	707,233	593,117
Prepaid expense	119,436	62,160
Others	230,024	324,877
Subtotal	<u>3,634,344</u>	<u>2,931,781</u>
Less: allowance for doubtful accounts	<u>(39,608)</u>	<u>(33,888)</u>
Total	<u><u>3,594,736</u></u>	<u><u>2,897,893</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 with interest bearing from 8% to 18%.

The movement of allowance for doubtful debts during the years are as follow:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Allowance for doubtful accounts:			
Balance at beginning of the year	(23,418)	(43,097)	(39,608)
Provision for allowance during the year	(19,679)	(5,220)	(10,456)
Write-offs during the year	—	8,709	16,176
Balance at end of the year	<u>(43,097)</u>	<u>(39,608)</u>	<u>(33,888)</u>

7. Short-term investments

As of December 31, 2018 and 2019, the Group's short-term investments consist of time deposits and financial products offered by commercial banks in the PRC amounted to RMB2,321,244 and RMB3,052,726, respectively, which matures within one year and are classified as current assets. The amount of interest income recognized but not yet paid as of December 31, 2018 and 2019 was RMB48,604 and RMB11,621, respectively.

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8. Property and equipment, net

	As of December 31,	
	2018	2019
	RMB	RMB
Cost:		
Buildings	4,113,753	6,689,846
Furniture, fixtures and equipment	2,709,502	3,137,031
Leasehold improvements	407,330	840,895
Motor vehicles	422,902	382,218
Software	60,858	69,898
Construction in process	3,179,701	3,712,357
Sub-total	10,894,046	14,832,245
Less: Accumulated depreciation	(2,362,563)	(3,092,864)
Less: Accumulated impairment	—	(482,571)
Property and equipment, net	<u>8,531,483</u>	<u>11,256,810</u>

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Depreciation expenses were charged to:			
Fulfillment expenses	329,945	402,942	456,678
Marketing expenses	305	380	23,179
Technology and content expenses	312,506	282,020	232,944
General and administrative expenses	78,084	84,948	117,567
Total	<u>720,840</u>	<u>770,290</u>	<u>830,368</u>

During the year ended December 31, 2019, due to declining utilization on two of the Group's transit warehouses, it has decided to rent out these warehouses. Due to this change, the Group has identified an impairment indicator for its transit warehouses due to their declining utilization rate and recognized impairment loss of RMB482.6 million. The impairment loss is recorded in general and administrative expenses on the consolidated statements of income and comprehensive income. The amount of impairment is determined by its fair value as estimated using discounted expected future cash flows less the carrying amount. The Group views the transit warehouse together with their land use right as an asset group and the land use right was impaired, accordingly.

9. Land use rights, net

	As of December 31,	
	2018	2019
	RMB	RMB
Land use right	4,053,855	5,868,774
Less: accumulated amortization	(168,277)	(272,658)
Less: impairment	—	(55,008)
Land use rights, net	<u>3,885,578</u>	<u>5,541,108</u>

The expiry dates of the land use rights range from the years 2064 to 2068.

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9. Land use rights, net (Continued)

Amortization expenses charged were RMB55,545, RMB71,601 and RMB104,381 for the years ended December 31, 2017, 2018 and 2019, respectively. The Group expects to record amortization expense of RMB124,095 for each of the year ending December 31, 2020, 2021, 2022, 2023 and 2024.

An impairment loss of RMB55 million was recorded in general and administrative expenses on the consolidated statements of income and comprehensive income for the year ended December 31, 2019.

10. Intangible assets, net

	As of December 31, 2018				As of December 31, 2019			
	Cost	Accumulated amortization (Note a)	Impairment	Net amount	Cost	Accumulated amortization (Note a)	Impairment	Net amount
Domain names	15,040	(15,040)	—	—	14,396	(14,396)	—	—
Customer Relationships	313,303	(299,317)	—	13,986	313,303	(313,303)	—	—
Trademarks	888,538	(885,674)	—	2,864	888,480	(886,948)	—	1,532
Non-compete agreement	70,127	(70,127)	—	—	70,127	(70,127)	—	—
Payment license (Note b)	319,660	—	—	319,660	319,660	—	—	319,660
Others	44,823	(11,318)	(16,907)	16,598	41,479	(8,454)	(16,907)	16,118
Total	1,651,491	(1,281,476)	(16,907)	353,108	1,647,445	(1,293,228)	(16,907)	337,310

Note:

- (a) Amortization expenses for intangible assets were RMB340,816, RMB47,842 and RMB15,757 for the years ended December 31, 2017, 2018 and 2019, respectively. The Group expects to record amortization expenses of RMB1,162, RMB274, RMB95, RMB1 and nil for the years ending December 31, 2020, 2021, 2022, 2023 and 2024, respectively.
- (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 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.

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11. Investment in equity method investees (Continued)

Investments in equity method investments as of December 31, 2018 and 2019 were as follows:

	As of December 31,	
	2018	2019
	RMB	RMB
Kunshan Baowei Information Technology Limited (“Kunshan Baowei”) ⁽ⁱ⁾	271,959	294,527
Shenzhen Tencent Puhe Limited Partnership (“Tencent Puhe”) ⁽ⁱⁱ⁾	293,481	251,915
Sequoia Fashion and Technology Industry Fund Investment Limited Partnership (“Sequoia Fashion and Technology”) ⁽ⁱⁱⁱ⁾	—	96,712
Shanjing business management (Ningbo) Co., Ltd (“Ningbo Shanjin”) ^(iv)	—	829,410
Shanxi Tianmei Shan Shan Outlets Shopping Mall Co., Ltd (“Shanxi Shan Shan”) ^(iv)	—	510,223
Zhengzhou Shan Shan Outlets Shopping Mall Co., Ltd (“Zhengzhou Shan Shan”) ^(iv)	—	470,934
Harbin Shan Shan Chunxiaqiudong Properties Co., Ltd (“Harbin Shan Shan”) ^(iv)	—	440,821
Gansu Shan Shan Outlets Shopping Mall Co., Ltd (“Gansu Shan Shan”) ^(iv)	—	123,758
Others	101,987	94,652
Total	<u>667,427</u>	<u>3,112,952</u>

The Group’s principal equity method investments and its ownership interest (direct and indirect) for each at December 31, 2018 and 2019 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, which is incorporated in PRC and engages in sports accessories trading. The Group was entitled to 45% equity interest, for a total consideration of RMB272 million pursuant to the agreement.
- (ii) In May 2018, the Group acquired 14% limited partnership interest in Tencent Puhe, which is a PRC limited partnership company, for a total consideration of RMB362.5 million.
- (iii) In October 2019, the Group acquired 17% limited partnership interest in Sequoia Fashion and Technology, which is a PRC limited partnership industry fund. As of December 31, 2019, the Group’s total contribution amounted to RMB110 million and there is a remaining investment commitment of RMB1,890 million.
- (iv) In July 2019, the Group acquired equity interests of 54%, 60%, 51%, 60% and 41%, respectively in Ningbo Shanjin, Shanxi Shan Shan, Zhengzhou Shan Shan, Harbin Shan Shan and Gansu Shan Shan as part of the Shan Shan Outlets acquisitions. These entities are established in the PRC and engaged in outlets operating business.

During the years ended December 31, 2017, 2018 and 2019, the Group recognized its share of (loss) income in its equity-method investees in the amount of RMB(22,280), RMB(46,999) and RMB27,182, respectively. No impairment of equity-method investees has been recorded during these periods.

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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, 2018				
	Original cost RMB	Unrealized gains RMB	Accumulated impairment RMB	Translation difference RMB	Balance as of year end 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 values (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>

	As of December 31, 2019				
	Original cost RMB	Unrealized gains RMB	Accumulated impairment RMB	Translation difference RMB	Balance as of year end RMB
Equity investments with readily determinable fair value (Note a)	268,910	270,966	(48,634)	15,060	506,302
Available-for-sale debt securities (Note b)	112,314	—	(118,689)	6,375	—
Equity investments without readily determinable fair values (Note c)	1,643,635	68,163	(269,179)	53,835	1,496,454
Total	<u>2,024,859</u>	<u>339,129</u>	<u>(436,502)</u>	<u>75,270</u>	<u>2,002,756</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, nil and RMB190 during the years ended December 31, 2017, 2018 and 2019, respectively. No impairment loss was recorded for the years ended December 31, 2017, 2018 and 2019.

The Group recorded unrealized (loss) gain of RMB(442), RMB105,235 and RMB165,731 according to the changes of the fair values of these investments during the years ended December 31, 2017, 2018 and 2019, respectively.

(b) Available-for-sale debt securities

On March 25, 2019, one of the investee Zhejiang Merit Interactive Network Technology Co., Ltd. was listed on the Shenzhen Stock Exchange Growth Enterprises Market Board and its preferred shares outstanding were converted to ordinary shares upon the completion of the listing. Accordingly, the Group's investment in the amount of RMB48,000 was reclassified from available-for-sale securities to equity investments with readily determinable fair values upon this listing.

For other available-for-sale debt securities, the Group recorded impairment of RMB15,000, RMB20,073 and RMB83,616 during the years ended December 31, 2017, 2018 and 2019, respectively.

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12. Other investments (Continued)

- (c) Equity investments without readily determinable fair values

The principal additions during the years ended December 31, 2018 and 2019 are as follow:

In March 2018, the Group entered into an agreement and committed to invest up to US\$250 million (approximately RMB1,740 million) into a private equity fund. During the year ended December 31, 2019, the Group further invested US\$58.4 million (approximately RMB407 million) to the fund. As of December 31, 2018 and 2019, the Group's total contribution to the fund amounted to RMB126.1 million and RMB535.4 million respectively.

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.

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 RMB118,026, nil and RMB43,973 for years ended December 31, 2017, 2018 and 2019 respectively for the other equity investments without readily determinable fair values.

13. Other long-term assets, net

	As of December 31,	
	2018	2019
	RMB	RMB
Deposit for land use rights	105,840	4,040
Long-term trade receivables (Note a)	221,000	130,429
Long-term loan receivables (Note b)	5,586	415,092
Loan to staff	67,810	71,052
Subtotal	<u>400,236</u>	<u>620,613</u>
Less: allowance for doubtful accounts	<u>(3,789)</u>	<u>(12,540)</u>
Total	<u>396,447</u>	<u>608,073</u>

Note:

- (a) The Group provides consumer financing to certain customers as part of the Group's internet financing business with instalment payment terms of up to 24 months. The Group records the consumer financing receivables which are expected to be settled more than one year from the balance sheet date as long-term trade receivables.
- (b) The Group provides interest bearing loans of RMB380 million to certain non-controlling interests holders during 2019, which were guaranteed and pledged by their respective shareholding interests with estimated fair values exceeding the carrying amount of the loans. These loans bears interest ranges from 6% to 10% per annum and maturity from May 21, 2021 to December 11, 2021.

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14. Accrued expenses and other current liabilities

	<u>As of December 31,</u>	
	<u>2018</u>	<u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Accrued advertising expense	821,059	1,011,400
Accrued shipping and handling expenses	418,187	925,864
Accrued payroll and social benefits	1,027,288	896,365
Deposits from delivery service providers	379,403	475,497
Income tax payables	269,580	652,624
Other tax payables (Note a)	948,754	690,338
Accrued rental expenses	73,614	73,861
Accrued administrative expenses	440,784	384,427
Amounts received on behalf of third-party merchants (Note b)	741,109	946,100
Refund liability (Note c)	190,383	225,274
Others	202,444	252,825
Total	<u>5,512,605</u>	<u>6,534,575</u>

Note:

- (a) Amounts represent VAT and related surcharges, PRC individual income tax of employees withheld by the Group, tariffs, import VAT and consumption tax pursuant to the Circular on Tax Policy for Cross-border E-commerce Retail Imports.
- (b) Amounts represent the cash collected on behalf of third-party merchants which the Group provides platform access for sales of their products.
- (c) The Group offers online 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.

15. 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. The 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 RMB808,925, RMB928,826 and RMB558,775 for the years ended December 31, 2017, 2018 and 2019, respectively.

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16. Short-term loans

Components of the outstanding short-term loans are as follows:

	<u>As of December 31,</u>	
	<u>2018</u>	<u>2019</u>
	<u>RMB</u>	<u>RMB</u>
RMB denominated	1,000,000	627,608
U.S. dollar denominated	343,160	466,037
Total	<u>1,343,160</u>	<u>1,093,645</u>

For the year ended December 31, 2018:

- (a) During the year ended December 31, 2018, RMB1.0 billion was drawn down under the credit facility agreement with China Merchants Bank signed in 2017, 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 borrowing was RMB1.0 billion as of December 31, 2018 and was repaid during the first quarter of 2019.
- (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 amounted 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. The loan was outstanding as of December 31, 2018 and fully repaid in January 2019.
- (c) In addition, during the year ended December 31, 2018, the Group also entered into RMB denominated short-term bank facility agreements with certain PRC banks with a facility limit of up to RMB250.0 million. The facility was not utilized as of December 31, 2018 and expired as of December 31, 2019.

For the year ended December 31, 2019:

- (a) During the year ended December 31, 2019, the Group entered into a RMB denominated revolving credit facility agreement with the Bank of Communications for up to RMB1.0 billion. The facility was drawn down twice in the amounts of RMB27.6 million and RMB100 million, with a fixed interest rate of 2.98% and 2.8% per annum, respectively.
- (b) During the year ended December 31, 2019, the Group entered into a revolving credit facility agreement with the China Merchants Bank for up to RMB1.0 billion, which included a USD denominated facility of US\$80 million (approximately RMB556.9 million) and a RMB denominated facility of RMB443.1 million. The USD denominated facility was drawn down in the amount of US\$20 million (approximately RMB139.4 million), with a fixed interest rate based on 12-month London Inter-Bank Offered Rate plus 0.55%, through an offshore financing agreement with a domestic guarantee; the residual RMB denominated facility was drawn down twice in the amounts of RMB160 million and RMB340 million, with a fixed interest rate of 3.92% and 4.05% per annum, respectively, guaranteed by the Group's receivables from its subsidiary.

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16. Short-term loans (Continued)

- (c) During the year ended December 31, 2019, the Group entered into a USD denominated revolving facility agreement with the Standard Chartered Bank for up to US\$45 million (approximately RMB313.9 million), in which US\$36.8 million (approximately RMB256.8 million) was drawn down and outstanding as of December 31, 2019. The borrowing carries floating interest rate based on the 12-month London Inter-Bank Offered Rate plus 0.85% per annum.
- (d) During the year ended December 31, 2019, the Group entered into a USD denominated revolving credit facility agreement with Industrial Bank for up to US\$80 million (approximately RMB558.1 million), in which US\$10 million (approximately RMB69.8 million) was drawn down and outstanding as of December 31, 2019. The borrowing carries fixed interest rate of 2.94% per annum.
- (e) As of December 31, 2019, the Group also had other unutilized credit facilities of RMB468.3 million and RMB77.1 million, authorized by Everbright Bank of China and Bank of China, respectively.

The weighted average interest rates for the outstanding short-term loans during the years ended December 31, 2018 and 2019 were approximately 3.99% and 3.41%, respectively.

There is no financial covenant in respect of the Group's short-term loans as of December 31, 2018 and 2019.

17. Long-term loan

During the year ended December 31, 2019, the Group entered into a long-term borrowing agreement with the China Merchants Bank, for up to RMB1.6 billion for the construction of the Group's headquarter building, with a floating interest rate determined based on the 5-year Loan Prime Rate minus 0.44%. The loan was pledged by the Group's two land use rights located at Pazhou Guangzhou, which amounted to RMB1.6 billion as of December 31, 2019. In November 2019, the Group drew down RMB64.5 million which was outstanding as of December 31, 2019.

The covenant specifies the consolidated debt to asset ratio of the Group should not exceed 65%, otherwise the bank has the right to recover the outstanding principal and interests of the loan immediately regardless of the remaining term of the contract. The Group is in compliance of this covenant as of December 31, 2019.

18. Securitization debt

The Group securitizes accounts receivable arising from the consumer financing businesses.

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 was fully repaid during the year ended December 31, 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 was fully repaid during the year ended December 31, 2019.

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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 depository 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 at US\$629,375 (approximately RMB4,220,841) and interests at US\$4,720 (approximately RMB31,685) on March 15, 2019.

20. Leases

From the Perspective of Lessee

The Group leases office space, offline stores, and certain equipment under operating leases for terms ranging from short-term (under 12 months) to 15 years. The Group does not have options to extend or terminate leases, as the renewals or terminations of these leases are on negotiation basis. None of these leases contain material residual value guarantees or material restrictive covenants, and the Group does not have any financing leases.

Supplemental balance sheet information related to the leases are as follows:

	<u>As of December 31, 2019</u>
	<u>RMB</u>
ROU assets	1,715,556
Operating lease liabilities—current	333,268
Operating lease liabilities—non-current	1,395,665
Weighted-average remaining lease term	4.71
Weight-average discount rate	4.86%

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20. Leases (Continued)

The components of lease costs of these operating leases for the year ended December 31, 2019 are as follow:

	<u>Year Ended December 31, 2019</u>
	<u>RMB</u>
Operating lease cost for fixed payments	388,976
Short-term lease costs	327,972
Variable lease costs	29,286
Total lease costs	746,234

The following table provides supplemental cash flow information related to leases:

	<u>Year Ended December 31, 2019</u>
	<u>RMB</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	370,606
Supplemental noncash information:	
Right-of-use assets obtained	2,071,948
Decrease of right-of-use assets for early terminations	(36,142)

The following table provides the maturities of lease liabilities at December 31, 2019:

	<u>Operating leases</u>
Maturities of lease liabilities at December 31, 2019	
2020	420,840
2021	424,996
2022	411,335
2023	363,190
2024	266,492
2025 and thereafter	150,409
Total future undiscounted lease payments	2,037,262
Less: imputed interest	308,329
Total present value of lease liabilities	1,728,933

21. 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.

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21. Distribution of profit (Continued)

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.

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 RMB95,617, RMB121,069 and RMB184,182 to the general reserve during the years ended December 31, 2017, 2018 and 2019, respectively.

The balance of restricted net assets was RMB7,265,250 as of December 31, 2019.

22. 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, 2018 and 2019, 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, 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 years ended December 31, 2018 and 2019, 356,736 and 85,706 Class A ordinary shares were issued respectively, as a result of exercise of share options by employees.

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22. Capital structure (Continued)

Vesting of shares awards

During the years ended December 31, 2017, 2018 and 2019, 23,413, 1,322,560 and 1,102,773 Class A ordinary shares were issued respectively as a result of vesting of shares awards granted to employees and consultants.

23. Non-controlling interests

	<u>Non-controlling interests</u> RMB
Balance as of December 31, 2016	<u>49,624</u>
Net loss attributable to non-controlling interests	(57,222)
Acquisition of additional equity interests in subsidiaries	(36,345)
Balance as of December 31, 2017	<u>(43,943)</u>
Net income attributable to non-controlling interests	4,685
Acquisition of additional equity interests in subsidiaries	(12,764)
Capital contribution from non-controlling interests shareholders	1,000
Balance as of December 31, 2018	<u>(51,022)</u>
Net loss attributable to non-controlling interests	(30,399)
Acquisition of additional equity interests in subsidiaries ⁽ⁱ⁾	(16,400)
Dilution in non-controlling interests due to the Group's contribution to its subsidiary ⁽ⁱⁱ⁾	97,875
Capital contribution from non-controlling interests shareholders ⁽ⁱⁱⁱ⁾	107,950
Non-controlling interests arising from the acquisition of Shan Shan Outlets ^(iv)	314,537
Balance as of December 31, 2019	<u>422,541</u>

- (i) During the year ended December 31, 2019, the Group purchased additional equity interests of RMB16,400 of certain subsidiaries mainly providing logistics services.
- (ii) During the year ended December 31, 2019, the Group converted a loan receivable of RMB441,000 it has with one of its non-wholly owned subsidiary into 19.2% of equity interest. The dilution impact of this equity transaction of non-controlling interests is RMB97,875. After the conversion, the Group holds 99.7% equity interest of the subsidiary.
- (iii) During the year ended December 31, 2019, the Group received capital contribution of RMB107,950 from certain non-controlling interests holders. After the contribution, the Group holds 51%, 80%, 60% and 70% equity interests in Qingdao West Coast Bonded Logistics Center Supply Chain Management Co., Ltd, Xinjiang Shan Shan Outlets Shopping Mall Co., Ltd, Hengyang Shan Shan Outlets Shopping Mall Co., Ltd and Shenyang Shan Shan Outlets Shopping Mall Co., Ltd, respectively.
- (iv) As part of the acquisition of Shan Shan Outlets disclosed in Note 3, the Group acquired 70%, 75%, 80%, 60%, 70%, 90% and 75% equity interests in 7 subsidiaries, with non-controlling interests of RMB159,373, RMB81,784, RMB29,257, RMB21,860, RMB300, RMB17,455 and RMB4,508, respectively.

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23. Non-controlling interests (Continued)

The schedule below discloses the effect of changes in the Company's ownership interests in subsidiaries on the Company's equity:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net income attributable to Vipshop Holdings Limited's shareholders	1,949,655	2,128,787	4,016,832
Transfers from (to) the non-controlling interests:			
Increase (decrease) in the Company's additional paid-in capital in relation to the acquisitions of additional equity interests in subsidiaries	9,914	(5,935)	(10,497)
Decrease in the Company's additional paid-in capital in relation to contribution to its subsidiary	—	—	(97,875)
Net transfers from (to) non-controlling interests	9,914	(5,935)	(108,372)
Changes from net income attributable to Vipshop Holdings Limited's shareholders and transfers from (to) non-controlling interests	<u>1,959,569</u>	<u>2,122,852</u>	<u>3,908,460</u>

24. Other operating income

Other operating income consists of government grants and other miscellaneous income.

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.

Other operating income is comprised of:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Government grants	347,817	553,153	427,832
Claims income	68,993	101,778	96,388
Others	114,245	102,131	121,193
Total other operating income	<u>531,055</u>	<u>757,062</u>	<u>645,413</u>

25. 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 Group's subsidiaries operating in Hong Kong are subject to a two-tiered income tax rate for taxable income earned in Hong Kong effectively since April 1, 2018. The first 2 million Hong Kong dollars of

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25. Income taxes (Continued)

profits earned by a company are subject to be taxed at an income tax rate of 8.25%, while the remaining profits will continue to be taxed at the existing tax rate, 16.5%.

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:

During the years ended December 31, 2018 and 2019, Pinwei Software has applied for and was classified as "State Planning Key Software Enterprise" by the local tax authority and is 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 an industry sector encouraged by the PRC government" in the Western Region, and are entitled to a preferential tax rate of 15% for the years ended December 31, 2018 and 2019.

Vipshop Zhuhai is 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 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 with primary business falling 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, 2018 and 2019, 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.

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25. Income taxes (Continued)

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\$14) 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.

Income (loss) by tax jurisdictions:

	Year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Income from China operations	3,320,283	3,770,270	5,161,228
Loss from non-China operations	(779,430)	(1,023,195)	(218,423)
Total income before tax and share of loss of equity-method investees	<u>2,540,853</u>	<u>2,747,075</u>	<u>4,942,805</u>

	Year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Income tax expenses applicable to China and Hong Kong operations			
Current tax (Note)	780,013	682,309	974,207
Deferred tax	<u>(153,873)</u>	<u>(115,705)</u>	<u>9,347</u>
Total tax expenses	<u>626,140</u>	<u>566,604</u>	<u>983,554</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

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25. Income taxes (Continued)

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 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 RMB12,288.5 million and RMB14,840.7 million as of December 31, 2018 and 2019 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 RMB614.4 million and RMB742.0 million as of December 31, 2018 and 2019 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,		
	2017	2018	2019
	RMB	RMB	RMB
Income before income tax and share of loss of affiliates	2,540,853	2,747,075	4,942,805
Computed income tax expense at PRC EIT tax rate	635,213	686,769	1,235,701
Effect of non-deductible expenses, including:			
-Share-based compensation expenses	166,774	167,803	163,033
-Other non-deductible expenses	67,911	65,497	36,838
Effect of different tax rates of subsidiaries operating in other jurisdiction	8,634	10,454	17,834
Effect of tax holidays on concessionary rates granted to PRC subsidiaries	(329,048)	(397,437)	(562,898)
Effect of non-taxable income	(30,075)	(58,053)	(15,800)
Change in valuation allowance	106,731	91,571	108,846
Income tax expenses	<u>626,140</u>	<u>566,604</u>	<u>983,554</u>

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26. Earnings per share

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.

As of December 31, 2017, 2018 and 2019, there are 846,952, 839,275 and 1,689,709 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.

Basic earnings per share and diluted earnings per share have been calculated for the years ended December 31, 2017, 2018 and 2019 as follows:

	<u>Year ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>Class A and Class B</u>	<u>Class A and Class B</u>	<u>Class A and Class B</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Basic earnings per share attributable to Vipshop Holdings Limited's ordinary shareholders:			
Numerator:			
Earnings attributable to Class A and Class B ordinary shareholders for computing basic earnings per Class A and Class B ordinary share	<u>1,949,655</u>	<u>2,128,787</u>	<u>4,016,832</u>
Denominator:			
Weighted average number of Class A and Class B ordinary shares outstanding for computing basic earnings per Class A and Class B ordinary share	<u>117,554,229</u>	<u>132,266,157</u>	<u>133,524,129</u>
Basic earnings per Class A and Class B ordinary shares	<u>16.59</u>	<u>16.09</u>	<u>30.08</u>

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26. Earnings per share (Continued)

Diluted earnings per share for the years ended December 31, 2017, 2018 and 2019 are calculated as follows:

	Year ended December 31,		
	2017	2018	2019
	Class A and Class B RMB	Class A and Class B RMB	Class A and Class B RMB
Diluted earnings per share:			
Numerator:			
Earnings attributable to Class A and Class B ordinary shareholders for computing basic earnings per Class A and Class B ordinary share	1,949,655	2,128,787	4,016,832
Interest expenses from Convertible Senior Notes	54,673	57,293	9,062
Net earnings attributable to Class A and Class B ordinary shareholders for computing diluted earnings per Class A and Class B ordinary share	<u>2,004,328</u>	<u>2,186,080</u>	<u>4,025,894</u>
Denominator:			
Weighted average number of Class A and Class B ordinary shares outstanding for computing basic earnings per Class A and Class B ordinary share	117,554,229	132,266,157	133,524,129
Dilutive employee share options and non-vested ordinary shares	1,900,201	1,562,347	1,289,127
Dilutive convertible senior notes	<u>6,261,403</u>	<u>6,255,106</u>	<u>1,268,159</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>125,715,833</u>	<u>140,083,610</u>	<u>136,081,415</u>
Diluted earnings per Class A and Class B ordinary shares	<u>15.94</u>	<u>15.61</u>	<u>29.58</u>

The Group granted a number of non-vested ordinary shares to certain executive officers and employees during the years ended December 31, 2017, 2018 and 2019 (refer to Note 30 (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.

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27. Accumulated other comprehensive loss

The changes in accumulated other comprehensive loss by component are as follows:

	<u>Cumulative Translation Adjustments</u> RMB	<u>Unrealized Gain and (Loss) on Available-for-sale Securities</u> RMB	<u>Total</u> RMB
Balance as of January 1, 2017	<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)
Balance as of December 31, 2017	<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)
Balance as of December 31, 2018	<u>(30,883)</u>	<u>—</u>	<u>(30,883)</u>
Foreign currency translation, net of tax of nil	(25,773)	—	(25,773)
Balance as of December 31, 2019	<u>(56,656)</u>	<u>—</u>	<u>(56,656)</u>

28. Commitments and contingencies

Capital commitment

As of December 31, 2019, the Group has contracted for capital expenditures of RMB1,981,152 (2018: RMB2,638,129).

Other commitments

Besides the commitment disclosed in Note 12(c) and Note 11(iii), the Group has the following commitments:

The Group commits to purchase services from one of its related parties at the amounts of US\$60.0 million (approximately RMB390,378) from the year ended December 31, 2020 to 2022.

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 and RMB20.3 million, respectively as of December 31, 2018 and 2019.

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.

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29. Related party transactions

The table below sets forth the major related parties that has conducted related party transaction in 2018 and 2019, as well as their relationships with the Group:

Name of related parties	Relationship with the Group
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
Kunshan Baowei and its subsidiaries (“Baowei Group”)	A joint venture of the Group

For the years ended December 31, 2017, 2018 and 2019, the Group entered into the following material related party transactions:

	Year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Purchase of goods	213,350	340,356	1,451,404
Purchase of services	1,001	317,921	462,126
Provision of services	1,825	6,300	44,420
Sales of product	—	—	111,510

Details of the balances with related parties are as follows:

(a) Amounts due from related parties (current and non-current)

Amounts due from related parties consist of amounts due from companies controlled or significantly influenced by the Company, its shareholders and directors.

(b) Amounts due from related parties (current and non-current) as of December 31, 2018 and 2019 amounted to RMB17,475 and RMB149,964, respectively, mainly including interest-bearing loans originated to the Group’s joint ventures and prepayments placed by the Group related to purchases of goods from companies significantly influenced by the Company, its shareholders and directors.

(c) 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, 2018 and 2019 amounted to RMB323,108 and RMB520,288, respectively, which were unsecured, interest-free, and related to purchases of goods and other services from these parties. As of December 31, 2019, the Group had borrowed RMB12,500 from Ningbo Shanjin for procurement, which carried a fixed interest rate of 3.05%.

30. 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

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30. Share-based payments (Continued)

(a) Share incentive plan (Continued)

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.

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 18% for 2017, nil and 22% for 2018, as well as nil and 25% for 2019, respectively.

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

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30. Share-based payments (Continued)

(a) Share incentive plan (Continued)

Note:

(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 based on vesting term and contractual term 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:

The fair values of ordinary shares were determined based on the closing price in the market.

For the years ended December 31, 2017, 2018 and 2019, the share option movements were as follows:

	<u>Options outstanding</u>	<u>Weighted average exercise price per share</u> US\$	<u>Weighted average remaining contractual years to expiry per share</u>	<u>Weighted average fair value at grant date</u> US\$	<u>Weighted average intrinsic value per option</u> US\$	<u>Aggregate intrinsic value</u> US\$
Outstanding as of December 31, 2016	1,872,941	0.78	4.97 years			
Granted	1,320,000	68.35	4.00 years			
Exercised	(454,708)	1.95	3.75 years			
Outstanding as of December 31, 2017	2,738,233	33.50	4.14 years			
Exercised	(356,736)	1.65	2.77 years			
Outstanding as of December 31, 2018	2,381,497	26.61	3.05 years			
Exercised	(85,706)	0.50	1.21 years			
Outstanding as of December 31, 2019	2,295,791	27.59	2.09 years			
Non-vested as of December 31, 2019	357,500					
Options vested and expected to vest as of December 31, 2019	2,295,791	27.59	2.09 years	18.31	43.26	99,318,793
Exercisable as of December 31, 2019	1,938,291	23.95	2.10 years	16.47	46.90	90,908,615

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30. Share-based payments (Continued)

(a) Share incentive plan (Continued)

For the years ended December 31, 2017, 2018 and 2019, the Group recognized share-based payment expenses of RMB54,505, RMB65,884 and RMB65,165 in connection with the share options granted to key management and employees, respectively. The total fair value of shares vested during the years ended December 31, 2017, 2018 and 2019 was RMB236, RMB122,864 and RMB65,165, respectively.

As of December 31, 2019, there was RMB67,474 (2018: RMB131,395) unrecognized compensation cost related to unvested share options granted to key management 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 1 year on a straight-line basis schedule as of December 31, 2019.

(b) Non-vested shares

During 2017, 2018 and 2019, a total of 2,900,580, 1,102,576 and 2,418,556 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, 2017, 2018 and 2019, the non-vested shares movement was as follows:

	Non-vested shares outstanding
Outstanding as of January 1, 2017	2,419,865
Granted	2,900,580
Vested	(925,623)
Forfeited	(464,564)
Outstanding as of December 31, 2017	3,930,258
Granted	1,102,576
Vested	(1,322,560)
Forfeited	(786,772)
Outstanding as of December 31, 2018	2,923,502
Granted	2,418,556
Vested	(1,102,773)
Forfeited	(839,468)
Outstanding as of December 31, 2019	3,399,817

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, unless otherwise stated)

30. Share-based payments (Continued)

(b) Non-vested shares (Continued)

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 2017, 2018 and 2019, while the forfeiture rate is 18%, 22% and 25% for employees for the years ended December 31, 2017, 2018 and 2019, respectively. The aggregate fair value of the restricted shares at grant dates was RMB1,082,797, RMB527,552 and RMB693,266 during the years ended December 31, 2017, 2018 and 2019 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.

For the years ended December 31, 2017, 2018 and 2019, the Group recognized share-based payment expenses of RMB612,593, RMB605,326 and RMB617,192 in connection with the non-vested shares granted to employees, respectively.

As of December 31, 2019 there was RMB998,075 (2018: RMB1,202,977) unrecognized compensation cost related to non-vested shares which is expected to be recognized over a weighted average vesting period of 2.38 years. The weighted average granted fair value per share of non-vested shares granted during the years ended December 31, 2017, 2018 and 2019 was US\$55.51 (approximately RMB361.18), US\$65.59 (approximately RMB478.47) and US\$41.43 (approximately RMB286.64) respectively.

(c) Share-based awards relating to the Shan Shan Outlets

In December 2019, Shan Shan Outlets, a wholly-owned subsidiary of the Group, has adopted a Stock Incentive Plan ("the Shan Shan Plan"), which provided up to an aggregate of RMB150,000,000, representing 15% of the equity interest of the Shan Shan Outlets as share-based compensation to employees, external assigned employees and other eligible personal. The maximum contractual term of the Shan Shan Plan is 10 years.

In December 2019, 7.5% of the equity interest of the Shan Shan Outlets share options were granted to its executive officer under the Shan Shan Plan.

The vesting period is 4 years where 62.5% will be vested on April 1, 2022 with the remaining to be vested ratably over the remaining vesting period.

No consideration will be transferred to the Group upon exercise, where Shan Shan Outlets shall repurchase the shares at a price determined based on Shan Shan Outlet's 3-year-audited-average net profit. Accordingly, the award is classified as a liability award with fair value recognised at each period end with the change in fair value is recognised in general and administrative expenses. For the year ended December 31, 2019, the Group recognized share-based payment expenses of RMB5,726 in connection with the share options granted.

The Group uses the Monte Carlo Simulation Mode (the "MC" model) to determine the estimated fair value for share-based compensation liability below with the assistance of an independent valuation firm as of December 31, 2019.

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts in thousands, except for share and per share data, unless otherwise stated)

30. Share-based payments (Continued)

(c) Share-based awards relating to the Shan Shan Outlets (Continued)

The assumptions used in determining the fair value of the share-based awards as of December 31, 2019 were as follows:

Assumptions	2019
Expected dividend yield	0%
Risk-free interest rate	2.53%~2.81%
Expected volatility	23.41%~24.02%
Total fair value of underlying registered capital	226,756

Notes:

(1) Expected dividend yield:

The expected dividend yield was estimated by the Group based on Shan Shan Outlet's dividend policy over the expected life of the awards.

(2) Risk-free interest rate:

Risk-free interest rate was estimated based on the China Government Bonds with a maturity life equal to the time period of the simulation as of the valuation date.

(3) Expected volatility:

The expected volatility was estimated based on the 3-year average annualized volatility of comparable companies' revenue.

(d) Share-based compensation expenses

For the years ended December 31, 2017, 2018 and 2019, share-based compensation expenses have been included in the following balances on the consolidated statements of income and comprehensive income:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Fulfillment expenses	(73,235)	(73,151)	(112,683)
Marketing expenses	(40,364)	(41,063)	(35,038)
Technology and content expenses	(206,073)	(203,594)	(180,493)
General and administrative expenses	(347,426)	(353,402)	(359,869)
	<u>(667,098)</u>	<u>(671,210)</u>	<u>(688,083)</u>

31. Segment information

Segment revenue and results

In the prior years, the Group has identified two major business segments, Vip.com segment and internet finance. Due to operational changes, the Group has determined it has four operating segments in the current year. Vip.com and Shan Shan Outlets have been identified as reportable segments while internet finance and offline shop operating segments were aggregated as others. Given this change in the composition of the

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts in thousands, except for share and per share data, unless otherwise stated)

31. Segment information (Continued)

Segment revenue and results (Continued)

Group's reportable segments, prior year segment information was restated to reflect the current reporting structure for the segments.

The table below provides a summary of the Group's operating segment results for the years ended December 31, 2017, 2018 and 2019:

	Year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Net revenues			
Vip.com	72,875,234	84,159,609	91,435,282
Shan Shan Outlets	—	—	245,817
Others	249,726	753,752	2,638,702
Inter-segment revenues (Note a)	<u>(212,647)</u>	<u>(389,413)</u>	<u>(1,325,383)</u>
Total net revenues	72,912,313	84,523,948	92,994,418
Income (loss) from operations			
Vip.com	4,063,238	3,353,658	5,267,814
Shan Shan Outlets	—	—	6,255
Others	(366,025)	(215,459)	227,719
Unallocated expenses (Note b)	<u>(1,006,767)</u>	<u>(717,086)</u>	<u>(728,414)</u>
Total income from operations	2,690,446	2,421,113	4,773,374
Total other (expenses) income	<u>(149,593)</u>	<u>325,962)</u>	<u>169,431)</u>
Income before income taxes and share of loss of equity-method investees	<u>2,540,853</u>	<u>2,747,075</u>	<u>4,942,805</u>

Depreciation of property and equipment, net (included in the measurement of segment profit or loss):

	Year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Total depreciation of property and equipment, net			
Vip.com	714,656	715,087	771,049
Shan Shan Outlets	—	—	22,551
Others	6,184	55,203	36,768
	<u>720,840</u>	<u>770,290</u>	<u>830,368</u>

Note:

- (a) Inter-segment revenues mainly consist of payment processing, financing services provided by the internet finance business to Vip.com, promotion services provided by Vip.com to internet finance business and internal procurement between offline shops and Vip.com.
- (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
 (All amounts in thousands, except for share and per share data, unless otherwise stated)

31. Segment information (Continued)

Segment revenue and results (Continued)

The following assets information is reviewed by the CODM:

	Year ended December 31,	
	2018	2019
	RMB	RMB
Total assets		
Vip.com	34,867,619	37,727,525
Shan Shan Outlets	—	5,732,260
Others	8,695,044	5,122,893
	<u>43,562,663</u>	<u>48,582,678</u>
Investments in equity-method investees		
Vip.com	667,427	737,806
Shan Shan Outlets	—	2,375,146
	<u>667,427</u>	<u>3,112,952</u>
Total expenditure for additions of long-lived assets		
Vip.com	3,556,067	3,260,978
Shan Shan Outlets	—	641,722
Others	37,893	374,973
	<u>3,593,960</u>	<u>4,277,673</u>

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,		
	2017	2018	2019
	RMB	RMB	RMB
Product revenues			
Apparel	24,642,418	30,446,797	33,575,532
Shoes and bags	8,340,015	8,442,178	9,045,520
Cosmetics	10,607,267	11,700,310	14,645,878
Sportswear and sporting goods	4,747,077	5,699,740	7,333,523
Home goods and other lifestyle products	9,875,682	9,808,677	8,306,962
Toys, kids and baby	6,978,246	8,013,615	10,096,808
Other goods	5,980,948	7,398,958	5,717,088
	<u>71,171,653</u>	<u>81,510,275</u>	<u>88,721,311</u>
Other revenues	1,740,660	3,013,673	4,273,107
Total net revenues	<u>72,912,313</u>	<u>84,523,948</u>	<u>92,994,418</u>

VIPSHOP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, unless otherwise stated)

31. Segment information (Continued)

Other segment information (Continued)

Geographic information

Substantially all revenues and long-lived assets of Group are derived from and located in the PRC.

32. Subsequent events

In January 2020, the compensation committee of the Group approved and the Group has granted, Mr. Eric Shen, the Group's Chairman and Chief Executive Officer, and Mr. Arthur Hong, the Group's Vice Chairman and Chief Operating Officer, options to purchase 5,363,788 Class A ordinary shares. Both grants will vest over a six-year period, and their exercise price is US\$66.85 per share, or US\$13.37 per ADS. The fair value of the options at grant date is estimated to be US\$240,114 (approximately RMB1,671,625), which will be recognized in share-based compensation expenses over a six-year service period.

Beginning in January 2020, the recent outbreak of coronavirus (COVID-19) has impacted the Group's operations, specifically the offline retail shops for walk-in customers. As precautionary measures, the government in China extended the Lunar New Year Holiday into February 2020 and has implemented travel restrictions and closures of certain central China ports and government offices. Offline retail shops of certain region in China have experienced extended closures after the Lunar New Year Holiday. As of the date of this report, the Group has experienced a decline in the offline product revenues as well as the lease income from Shan Shan Outlets. The online product revenue sales decreased also due to delayed logistic services and slow response from the supplier chain. The government of China has lifted the quarantine measures within the country gradually from the end of March 2020 and the operation of the business has gradually resumed. While the impact of this disruption in 2020 to our business and related financial impacts cannot be reasonably estimated at this time, the Group expects that its consolidated results of operations for the first half of 2020 will be affected with potential continuing impacts on subsequent periods.

VIPSHOP HOLDINGS LIMITED
Schedule I—Condensed Financial Information of the Parent Company
Statements of Income and Comprehensive Income
(All amounts in thousands)

	Year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US\$
General and administrative expenses	(696,832)	(694,847)	(31,240)	(4,487)
Other operating income	77,513	36,087	39,385	5,657
(Loss) income from operations	(619,319)	(658,760)	8,145	1,170
Interest expenses	(54,665)	(57,293)	(9,062)	(1,302)
Share of results of equity method investees	(21,319)	1,642	(6,163)	(885)
Equity income of subsidiaries and VIEs	2,644,958	2,843,198	4,023,912	577,999
Net income	<u>1,949,655</u>	<u>2,128,787</u>	<u>4,016,832</u>	<u>576,982</u>
Other comprehensive income, net of tax of nil:				
Foreign currency translation adjustments	342,348	(7,083)	(25,773)	(3,702)
Share of comprehensive loss of subsidiaries	(22,982)	—	—	—
Comprehensive income attributable to Vipshop Holdings Limited's shareholders	<u>2,269,021</u>	<u>2,121,704</u>	<u>3,991,059</u>	<u>573,280</u>

VIPSHOP HOLDINGS LIMITED
Schedule I—Condensed Financial Information of the Parent Company
Balance Sheets
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018 RMB	2019 RMB	2019 US\$ Note 2(ad)
ASSETS			
Cash and cash equivalents	212	44	6
Investment in an equity-method investee	48,292	42,315	6,078
Investment in subsidiaries and VIEs	11,937,122	16,643,391	2,390,674
Amount due from subsidiaries and VIEs	9,614,563	5,146,414	739,236
TOTAL ASSETS	21,600,189	21,832,164	3,135,994
LIABILITIES AND EQUITY			
Accrued expenses and other current liabilities	11,106	5,008	719
Convertible senior notes	4,327,268	—	—
Total liabilities	4,338,374	5,008	719
EQUITY			
Class A ordinary shares (US\$0.0001 par value, 483,489,642 shares authorized, and 116,395,883 and 117,584,362 shares issued and outstanding as of December 31, 2018 and 2019, respectively)	75	76	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, 2018 and 2019, respectively)	11	11	2
Additional paid-in capital	9,385,216	9,959,497	1,430,592
Retained earnings	7,907,396	11,924,228	1,712,808
Accumulated other comprehensive loss	(30,883)	(56,656)	(8,138)
Total shareholders' equity	17,261,815	21,827,156	3,135,275
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	21,600,189	21,832,164	3,135,994

VIPSHOP HOLDINGS LIMITED
Schedule I—Condensed Financial Information of the Parent Company
STATEMENTS OF CASH FLOWS
(All amounts in thousands)

	Year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US\$ Note 2(ad)
Cash flow from operating activities:				
Net income	1,949,655	2,128,787	4,016,832	576,982
Adjustments to reconcile net income to net cash by operating activities:				
Equity income of subsidiaries and variable interest entities	(2,644,958)	(2,843,198)	(4,023,912)	(577,999)
Share of results of equity-method investees	21,319	(1,642)	6,163	885
Share-based compensation expenses	667,098	671,210	—	—
Amortization of debt issuance cost	5,950	—	—	—
Changes in operating assets and liabilities:				
Investment in subsidiaries and VIEs	—	176,370	—	—
Accrued expenses and other current liabilities	53,870	(10,115)	(5,885)	(846)
Deferred income	(44,109)	—	—	—
Net cash generated from (used in) operating activities	8,825	121,412	(6,802)	(978)
Cash flows from investing activities:				
(Loan to) repayment from subsidiaries and VIEs	(5,277,028)	(452,366)	4,227,181	607,198
Net cash (used in) provided by investing activities	(5,277,028)	(452,366)	4,227,181	607,198
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares upon exercise of share options	5,969	3,947	297	43
Redemption of convertible senior notes	(21,697)	—	(4,220,841)	(606,286)
Proceeds from issuance of ordinary shares to new investors	5,610,337	—	—	—
Net cash provided by (used in) financing activities	5,594,609	3,947	(4,220,544)	(606,243)
Effect of exchange rate changes on cash and cash equivalents	(44)	(95)	(3)	(1)
Net increase in cash and cash equivalents	326,362	(327,102)	(168)	(24)
Cash and cash equivalents at beginning of the period	952	327,314	212	30
Cash and cash equivalents at end of the period	327,314	212	44	6

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, 2019, RMB7,265,250 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.

During each of the three years in the period ended December 31, 2019, no cash dividend was declared and paid by the Parent Company.

As of December 31, 2019, 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.

**Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)**

American Depositary Shares (“ADSs”) each representing four Class A ordinary shares of Vipshop Holdings Limited, (the “we,” “us,” “our company” or “our”) are listed and traded on the New York Stock Exchange and, in connection with this listing (but not for trading), the Class A ordinary shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (i) the holders of Class A ordinary shares and (ii) the holders of ADSs. Underlying Class A ordinary shares represented by the ADSs are held by Deutsche Bank Trust Company Americas, as depository, and holders of ADSs will not be treated as holders of the Class A ordinary shares.

Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective second amended and restated memorandum and articles of association (the “Memorandum and Articles of Association”), as well as the Companies Law (as amended) of the Cayman Islands (the “Companies Law”) insofar as they relate to the material terms of our ordinary shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the SEC as an exhibit to our Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on September 16, 2014 (File No. 001-35454).

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each Class A ordinary share has US\$0.0001 par value. The number of Class A ordinary shares that have been issued as of the last day of the financial year ended December 31, 2019 is provided on the cover of the annual report for fiscal year 2019 on Form 20-F filed in April 2020 (the “2019 Form 20-F”). Our Class A ordinary shares may be held in either certificated or uncertificated form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

We have a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to the vote at general meetings of our company, and each Class B ordinary share shall entitle the holder thereof to ten votes on all matters subject to vote at general meetings of our company. Due to the super voting powers granted to holders of Class B ordinary shares, the voting power of holders of Class A ordinary shares may be materially limited.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)

Classes of Ordinary Shares

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of shareholders. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion

Each class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by a holder thereof to any person or entity, or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person or entity, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares.

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 Rights

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.

Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)

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.

Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold or vote Class A ordinary shares, other than anti-takeover provisions contained in the Memorandum and Articles of Association which may discourage, delay or prevent a change in control of our company or cause our company to engage in change-of-control transactions.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-Takeover Provisions in the Memorandum and Articles of Association. 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.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under the laws of the Cayman Islands or under the Memorandum and Articles of Association that govern the ownership threshold above which shareholder ownership must be disclosed.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent English statutory enactments and accordingly there are significant differences between the Companies Law and the current Companies Act of England. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. In certain circumstances, the Cayman Islands Companies Law allows for mergers or consolidations between two Cayman Islands companies, or between a Cayman Islands company and a company incorporated in another jurisdiction (provided that is facilitated by the laws of that other jurisdiction).

Where the merger or consolidation is between two Cayman Islands companies, the directors of each company must approve a written plan of merger or consolidation containing certain prescribed information. That plan or merger or consolidation must then be authorized by (a) a special resolution (usually a majority of 66 $\frac{2}{3}$ % in value) of the shareholders of each company and (b) such other authorization, if any, as is required by such constituent company's memorandum and articles of association. A shareholder has the right to vote on a merger or consolidation regardless of whether the shares that he holds otherwise give him voting rights. No shareholder resolution is required for a merger between a parent company (i.e., a company that owns at least 90% of the issued shares of each class in a subsidiary company) and its subsidiary company. The consent of each holder of a fixed or floating security interest of a constituent company must be obtained, unless the court waives such requirement. If the Cayman Islands Registrar of Companies is satisfied that the requirements of the Companies Law (which includes certain other formalities) have been complied with, the Registrar of Companies will register the plan of merger or consolidation.

Where the merger or consolidation involves a non-Cayman Islands company, the procedure is similar, save that with respect to the foreign company, the director of the Cayman Islands company is required to make a declaration to the effect that, having made due enquiry, he is of the opinion that the requirements set out below have been met: (a) that the merger or consolidation is permitted or not prohibited by the constitutional documents of the non-Cayman Islands company and by the laws of the jurisdiction in which the non-Cayman Islands company is incorporated, and that those laws and any requirements of those constitutional documents have been or will be complied with; (b) that no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the non-Cayman Islands company in any jurisdictions; (c) that no receiver, trustee, administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the non-Cayman Islands company, its affairs or its property or any part thereof; and (d) that no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the non-Cayman Islands company are and continue to be suspended or restricted.

Where the surviving company is the Cayman Islands company, the director of the Cayman Islands company is further required to make a declaration to the effect that, having made due enquiry, he is of the opinion that the requirements set out below have been met: (i) that the non-Cayman Islands company is able to pay its debts as they fall due and that the merger or consolidation is bona fide and not intended to defraud unsecured creditors of the non-Cayman Islands company; (ii) that in respect of the transfer of any security interest granted by the non-Cayman Islands company to the surviving or consolidated company (a) consent or approval to the transfer has been obtained, released or waived; (b) the transfer is permitted by and has been approved in accordance with the constitutional documents of the non-Cayman Islands company; and (c) the laws of the jurisdiction of the non-Cayman Islands company with respect to the transfer have been or will be complied with; (iii) that the non-Cayman Islands company will, upon the merger or consolidation becoming effective, cease to be incorporated, registered or exist under the laws of the relevant non-Cayman Islands jurisdiction; and (iv) that there is no other reason why it would be against the public interest to permit the merger or consolidation.

Where the above procedures are adopted, the Companies Law provides for a right of dissenting shareholders to be paid the fair value of his shares upon their dissenting to the merger or consolidation if they follow a prescribed procedure. In essence, that procedure is as follows: (a) the shareholder must give his written objection to the merger or consolidation to the constituent company before the vote on the merger or consolidation, including a statement that the shareholder proposes to demand payment for his shares if the merger or consolidation is authorized by the vote; (b) within 20 days following the date on which the merger or consolidation is approved by the shareholders, the constituent company must give written notice to each shareholder who made a written objection; (c) a shareholder must within 20 days following receipt of such notice from the constituent company, give the constituent company a written notice of his intention to dissent including, among other details, a demand for payment of the fair value of his shares; (d) within seven days following the date of the expiration of the period set out in paragraph (b) above or seven days following the date on which the plan of merger or consolidation is filed, whichever is later, the constituent company, the surviving company or the consolidated company must make a written offer to each dissenting shareholder to purchase his shares at a price that the company determines is the fair value and if the company and the shareholder agree the price within 30 days following the date on which the offer was made, the company must pay the shareholder such amount; (e) if the company and the shareholder fail to agree a price within such 30 day period, within 20 days following the date on which such 30 day period expires, the company (and any dissenting shareholder) must file a petition with the Cayman Islands Grand Court to determine the fair value and such petition must be accompanied by a list of the names and addresses of the dissenting shareholders with whom agreements as to the fair value of their shares have not been reached by the company. At the hearing of that petition, the court has the power to determine the fair value of the shares together with a fair rate of interest, if any, to be paid by the company upon the amount determined to be the fair value. Any dissenting shareholder whose name appears on the list filed by the company may participate fully in all proceedings until the determination of fair value is reached. These rights of a dissenting shareholder are not available in certain circumstances, for example, to dissenters holding shares of any class in respect of which an open market exists on a recognized stock exchange or recognized interdealer quotation system at the relevant date or where the consideration for such shares to be contributed are shares of any company listed on a national securities exchange or shares of the surviving or consolidated company.

Moreover, Cayman Islands law also has separate statutory provisions that facilitate the reconstruction or amalgamation of companies in certain circumstances, schemes of arrangement will generally be more suited for complex mergers or other transactions involving widely held companies, commonly referred to in the Cayman Islands as a “scheme of arrangement” which may be tantamount to a merger. In the event that a merger was sought pursuant to a scheme of arrangement (the procedure of which is more rigorous and takes longer to complete than the procedures typically required to consummate a merger in the United States), the arrangement in question must be approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or a meeting summoned for that purpose. The convening of the meetings and subsequently the terms of the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

- we are not proposing to act illegally or beyond the scope of our corporate authority and the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a “fraud on the minority.”

If a scheme of arrangement or takeover offer (as described below) is approved, any dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Squeeze-out Provisions. When a takeover offer is made and accepted by holders of 90% of the shares to whom the offer is made within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

Further, transactions similar to a merger, reconstruction and/or an amalgamation may in some circumstances be achieved through means other than under the relevant statutory provisions, such as a share capital exchange, asset acquisition or control, through contractual arrangements, of an operating business.

Shareholders' Suits. Our Cayman Islands counsel is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed their availability. In principle, we will normally be the proper plaintiff and a claim against (for example) our officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of the authority, could be effected if duly authorized by more than the number of votes which have actually been obtained; or
- those who control the company are perpetrating a “fraud on the minority.”

Transactions with Directors. Under the Delaware General Corporation Law, or the DGCL, transactions with directors must be approved by disinterested directors or by the shareholders, or otherwise proven to be fair to the company as of the time it is approved. Such transaction will be void or voidable, unless (a) the material facts of any interested directors' interests are disclosed or are known to the board of directors and the transaction is approved by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; (b) the material facts of any interested directors' interests are disclosed or are known to the shareholders entitled to vote thereon, and the transaction is specifically approved in good faith by a vote of the shareholders; or (c) the transaction is fair to the company as of the time it is approved.

Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our amended and restated memorandum and articles of association, subject to any separate requirement for audit committee approval under the NYSE rules or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such a meeting.

Indemnification. Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against conduct amounting to willful default, willful neglect, fraud or dishonesty, for example, civil fraud or the consequences of committing a crime.

Under our amended and restated memorandum and articles of association, we may indemnify our directors, officers, employees and agents against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such persons in connection with actions, suits or proceedings to which they are party or are threatened to be made a party by reason of their acting as our directors, officers, employees or agents, except through their own dishonesty, willful default or fraud. To be entitled to indemnification, these persons must have acted in good faith and in the best interest and not contrary to the interest of our company, and must not have acted in a manner willfully or grossly negligent and, with respect to any criminal action, they must have had no reasonable cause to believe their conduct was unlawful. Our amended and restated memorandum and articles of association may also provide for indemnification of such person in the case of a suit initiated by our company or in the right of our company.

We intend to enter into indemnification agreements with our directors and executive officers to indemnify them to the fullest extent permitted by applicable law and our articles of association, from and against all costs, charges, expenses, liabilities and losses incurred in connection with any litigation, suit or proceeding to which such director is or is threatened to be made a party, witness or other participant.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and therefore is unenforceable.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care generally requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, but subject to certain exceptions, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties.

Under Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company, and therefore it is considered that he or she owes the following duties to the company: a duty to act bona fide in the best interests of the company and for a proper purpose; a duty not to make a profit out of his or her position as director (unless the company permits him or her to do so); and a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interests or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill, diligence and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, there are indications that the courts are moving towards an objective standard with regard to the required skill and care.

Under our amended and restated memorandum and articles of association, directors who are in any way, whether directly or indirectly, interested in a contract or proposed contract with our company shall declare the nature of their interest at a meeting of the board of directors. Following such declaration, a director may vote in respect of any contract or proposed contract notwithstanding his interest.

Majority Independent Board. A domestic U.S. company listed on the NYSE must comply with the requirement that a majority of the board of directors must be comprised of independent directors as defined under NYSE rules. As a Cayman Islands exempted company, we are allowed to follow home country practices in lieu of certain corporate governance requirements under the NYSE rules where there is no similar requirement under the laws of the Cayman Islands.

Shareholder Action by Written Consent. Under the DGCL, a corporation may eliminate the right of shareholders to act by written consent by inclusion of such a restriction in its certificate of incorporation. Cayman Islands law and our amended and restated articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals. The DGCL does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the certificate of incorporation or bylaws, but shareholders may be precluded from calling special meetings. With respect to shareholder proposals, Cayman law is essentially the same as Delaware law. The Companies Law does not provide shareholders with an express right to put forth any proposal before the annual meeting of the shareholders. However, depending on what is stipulated in a company's articles of associations, shareholders in an exempted Cayman Islands company may make proposals in accordance with the relevant notice provisions. For shares that are represented by ADSs, the depositary in many cases may be the only shareholder. In such cases, only the depositary has the direct right to requisition a shareholders' meeting. However, unless otherwise provided in the deposit agreement, the holders of the ADSs generally do not have the right to petition the depositary to requisition a shareholders' meeting or put forth shareholder proposals through the depositary.

Our amended and restated memorandum and articles of association allow our shareholders holding not less than one-third of our paid-up voting share capital to requisition a shareholders' meeting. At such shareholders' meeting, the shareholders who have requisitioned the meeting may put forth proposals, provided the details of such proposals are set forth in their notice requisitioning the meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting. Under the DGCL, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director.

There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands, but our amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the DGCL, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our amended and restated articles of association, directors can be removed by an ordinary resolution of shareholders.

Transactions with Interested Shareholders. The DGCL contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by an amendment to its certificate of incorporation or bylaws that is approved by its shareholders, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns 15% or more of the corporation’s outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation’s outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among others, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of perpetuating a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may materially adversely vary the rights attached to any class with the written consent of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the DGCL, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote, and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. As permitted by Cayman Islands law, our amended and restated memorandum and articles of association may be amended by a special resolution of the shareholders.

Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Exempted Company. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not required to be open for inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder's shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Changes in Capital (Item 10.B.10 of Form 20-F)

Our company may by Ordinary Resolution:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- sub-divide its existing shares or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived;
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association as regards to the matters to be dealt with by Ordinary Resolution, the Company may by Special Resolution:

- change its name;
- alter or add to these Articles;
- alter or add to the Memorandum of Association with respect to any objects, powers or other matters specified therein; and
- reduce its share capital and any capital redemption reserve in any manner authorized by law.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Deutsche Bank Trust Company Americas, as depositary, registers and delivers the ADSs. Each ADS represents ownership of two ordinary shares deposited with the office in Hong Kong of Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS also represents ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs are administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depository may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. Cayman Islands law governs shareholder rights. The depository will be the holder of the ordinary shares underlying your ADSs. As a holder of ADSs, you have ADS holder rights. A deposit agreement among us, the depository and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depository. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt.

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depository has agreed to pay to you the cash dividends or other distributions it or the custodian receives on 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 as of the record date (which will be as close as practicable to the record date for our ordinary shares) set by the depository with respect to the ADSs

- **Cash.** The depository will convert any cash dividend or other cash distribution we pay on the ordinary shares or any net proceeds from the sale of any ordinary shares, rights, securities or other entitlements into U.S. dollars if it can do so on a reasonable basis, and can transfer the U.S. dollars to the United States. If that is not possible or lawful or if any government approval is needed and cannot be obtained, the deposit agreement allows the depository to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid and such funds will be held in a segregated account. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

- **Shares.** The depositary may distribute additional ADSs representing any ordinary shares we distribute as a dividend or free distribution to the extent reasonably practicable and permissible under law. The depositary will only distribute whole ADSs. It will try to sell ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new ordinary shares. The depositary may sell a portion of the distributed ordinary shares sufficient to pay its fees and expenses in connection with that distribution.
- **Elective Distributions in Cash or Shares.** If we offer holders of our ordinary shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice as described in the deposit agreement of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practical to make such elective distribution available to you, or it could decide that it is only legal or reasonably practical to make such elective distribution available to some but not all holders of the ADSs. In such case, the depositary shall, on the basis of the same determination as is made in respect of the ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of ordinary shares.
- **Rights to Purchase Additional Shares.** If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, the depositary may after consultation with us and having received timely notice as described in the deposit agreement of such distribution by us, make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

- **Other Distributions.** Subject to receipt of timely notice, as described in the deposit agreement, from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice: it may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash; or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

How are ADS issued?

The depositary will deliver ADSs if you or your broker deposit ordinary shares or evidence of rights to receive ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

How do ADR holders cancel an American Depositary Share?

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the ordinary shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depository for the purpose of exchanging your ADR for uncertificated ADSs. The depository will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depository of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depository will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depository to vote the ordinary shares or other deposited securities underlying your ADSs. Otherwise, you could exercise your right to vote directly if you withdraw the ordinary shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the ordinary shares.

If we ask for your instructions and upon timely notice from us, as described in the deposit agreement, the depository will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you may instruct the depository to vote the ordinary shares or other deposited securities underlying your ADSs as you direct, including an express indication that such instruction may be given or deemed given in accordance with the second to last sentence of this paragraph if no instruction is received, to the depository to give a discretionary proxy to a person designated by us. For instructions to be valid, the depository must receive them on or before the date specified. The depository will try, as far as practical, subject to the laws of the Cayman Islands and the provisions of our memorandum and articles of association, to vote or to have its agents vote the ordinary shares or other deposited securities as you instruct. The depository will only vote or attempt to vote as you instruct. If we timely requested the depository to solicit your instructions but no instructions are received by the depository from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the depository for such purpose, the depository shall deem that owner to have instructed the depository to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depository shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depository we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the ordinary shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the ordinary shares underlying your ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the ordinary shares underlying your ADSs are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we will try to give the depositary notice of any such meeting and details concerning the matters to be voted upon sufficiently in advance of the meeting date.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you.

Reclassifications, Recapitalizations and Mergers

If we:	Then:
Change the nominal or par value of our ordinary shares	The cash, shares or other securities received by the depositary will become deposited securities.
Reclassify, split up or consolidate any of the deposited securities	Each ADS will automatically represent its equal share of the new deposited securities.
Distribute securities on the ordinary shares that are not distributed to you or Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action	The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 45 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign and we have not appointed a new depositary within 90 days. In such case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver ordinary shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination, our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed from time to time, to the extent not prohibited by law or if any such action is deemed necessary or advisable by the depositary or us, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the ADRs or ADSs are listed, or under any provision of the deposit agreement or provisions of, or governing, the deposited securities, or any meeting of our shareholders or for any other reason.

Limitations on Obligations and Liability to ADR Holders

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or wilful misconduct;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement, including, without limitation, requirements of any present or future law, regulation, governmental or regulatory authority or share exchange of any applicable jurisdiction, any present or future provisions of our memorandum and articles of association, on account of possible civil or criminal penalties or restraint, any provisions of or governing the deposited securities or any act of God, war or other circumstances beyond our control as set forth in the deposit agreement;
- are not liable if either of us exercises, or fails to exercise, discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any indirect, special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- disclaim any liability for any action/inaction in reliance on the advice or information of legal counsel, accountants, any person presenting ordinary shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs; and
- disclaim any liability for any indirect, special, punitive or consequential damages.

The depositary and any of its agents also disclaim any liability for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, or for any tax consequences that may result from ownership of ADSs, ordinary shares or deposited securities.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of ordinary shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any ordinary shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we think it is necessary or advisable to do so.

Your Rights to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of ordinary shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our ordinary shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the depository to deliver ADSs before deposit of the underlying ordinary shares. This is called a pre-release of the ADSs. The depository may also deliver ordinary shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying ordinary shares are delivered to the depository. The depository may receive ADSs instead of ordinary shares to close out a pre-release. The depository may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depository in writing that it or its customer (a) owns the ordinary shares or ADSs to be deposited, (b) assigns all beneficial rights, title and interest in such ordinary shares or ADSs to the depository for the benefit of the owners, (c) will not take any action with respect to such ordinary shares or ADSs that is inconsistent with the transfer of beneficial ownership, (d) indicates the depository as owner of such ordinary shares or ADSs in its records, and (e) unconditionally guarantees to deliver such ordinary shares or ADSs to the depository or the custodian, as the case may be; (2) the pre-release is fully collateralized with cash or other collateral that the depository considers appropriate; and (3) the depository must be able to close out the pre-release on not more than five business days' notice. Each pre-release is subject to further indemnities and credit regulations as the depository considers appropriate. In addition, the depository will limit the number of ADSs that may be outstanding at any time as a result of pre-release to 30% of the aggregate number of ADSs then outstanding, although the depository may disregard the limit from time to time, if it thinks it is appropriate to do so, including (1) due to a decrease in the aggregate number of ADSs outstanding that causes existing pre-release transactions to temporarily exceed the limit stated above or (2) where otherwise required by market conditions.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depository may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depository of prior authorization from the ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depository will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depository's reliance on, and compliance with, instructions received by the depository through the DRS/Profile System and in accordance with the deposit agreement, shall not constitute negligence or bad faith on the part of the depository.

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY [***], HAS BEEN OMITTED BECAUSE NIO INC. HAS DETERMINED THE INFORMATION (I) IS NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM TO NIO INC. IF PUBLICLY DISCLOSED.

Strategic Business Cooperation Agreement

This Strategic Business Cooperation Agreement (the “Agreement”) is made and entered into by and between the following parties on November 25, 2019 in Shenzhen, Guangdong, the People’s Republic of China (“PRC”, for purpose of this Agreement excluding Hong Kong, Taiwan and Macau):

1. Vipshop (China) Co., Ltd. (“Vipshop”), a limited liability company legally established and validly existing under the laws of PRC, with its registered address being Building 6 (self-designated), No. 20 Huahai Street, Fang Town, Liwan District, Guangzhou;

and

2. SF Express Co., Ltd. (“SF”), a limited liability company legally established and validly existing under the laws of the PRC, with its registered address being 3rd and 4th Floor, SF Southern China Transit Center Multiple-use Building, No. 1111 Shenzhen Airport Terminal 4th Road, Caowei Community, Hangcheng Street, Baoan District, Shenzhen.

(The above parties are collectively referred to as “Parties” and individually as a “Party”.)

Whereas:

1. Vipshop and its Affiliates (“Vipshop Group”; see below for definition of Affiliates) mainly engage in e-commerce retail business.
2. In order to expand its business operations, SF intends to reach an express service arrangement with Vipshop on the express business in China related to the e-commerce business of Vipshop Group, and Vipshop Group intends to entrust SF to provide the aforementioned express delivery services.

The parties hereby enter into this Agreement for the purpose of specifying the terms and conditions of the above-mentioned services.

1. Service scope

- 1.1. Vipshop agrees that it will entrust SF to provide express delivery services (“Services”) within territory of PRC with regard to the delivery of goods (“Goods”) in connection with the e-commerce business operation of Vipshop or its Affiliates in accordance with the terms and conditions of this Agreement, including door-to-door pick-up, terminal delivery, returned goods shipment, questioned parcel handling, parcel tracking and query and other related value-added services regarding parcels (“Parcels”); and SF intends to provide the above-mentioned Services to Vipshop. Specific scope of Services is as follows:
 - (1) Parcel pick-up and shipment from warehouses. SF shall pick up parcels from warehouses of Vipshop Group located in Zhaoqing, Ezhou, Wuqing/Taian, Jianyang, Shenyang, Xi’an and Kunshan/Huzhou (collectively referred to as “Vipshop Warehouses”) and deliver the same to end customers (“Warehouse Services”).
 - (2) JITX services. SF shall pick up parcels from suppliers of the Vipshop Group and deliver the same to end customers (“JITX Services”).
 - (3) Cross-border business. SF shall pick up custom-cleared goods at the Haitao warehouses located at Tianjin, Ningbo Airport, Guangzhou Airport, Zhengzhou, Chongqing Airport, Huangdao District of Qingdao, Nansha District of Guangzhou (collectively referred to as “Haitao Warehouses”) and deliver the same to end customers (“Cross-border Business”);
 - (4) Returned goods services. SF shall pick up returned goods from the end customers of the Vipshop Group and deliver the same to the corresponding Vipshop warehouse (“Returned Goods Services”).
- 1.2. For the avoidance of doubt, the scope of the Services as described above does not include order sorting, goods packing at sorting machine slot and loading up that occur at any warehouse (including returned goods warehouse). Specially:
 - (1) Orders, whichever warehouse (including returned goods warehouse) they are picked up, must be sorted out by Vipshop in accordance with the orders sorting plan specified by SF in advance, with relevant risks and costs in connection with the order sorting to be borne by Vipshop itself. And no additional fees will be charged on SF in connection with the orders sorting;
 - (2) After the orders are sorted out, Vipshop shall be responsible for the packaging of Goods, transporting the Parcels to the loading port and the loading up. To improve work efficiency of loading up, Vipshop shall divide Parcels based upon their distribution direction and convey and place the Parcels to the corresponding loading port designated for the specific distribution direction.
 - (3) The Parties agree that cost arising from the Goods packaging, conveying Parcels to loading port and loading up as described in the above paragraph (2) shall be equally shared by the two Parties each fiscal year. The annual amount of such cost is estimated to be RMB[***] million per year, of which RMB[***] million shall be borne by SF (for the avoidance of doubt, RMB[***] million is the maximum amount to be assumed by SF), through manners including cash payment, deductions from service fees due from Vipshop, or manner otherwise mutually agreed by the Parties. For the relevant cost that accrues for less than a full accounting year, the maximum amount to be borne by SF should be reduced proportionally.
- 1.3. If Vipshop changes the number or layout of Vipshop Warehouses (including the location) as referred in the above Article 1.1 (1), Vipshop shall notify SF in writing in advance and negotiate with SF to confirm the type of involved warehouse and related Services to be provided to the involved warehouse. If Vipshop sets up new Vipshop Warehouses or Haitao Warehouses, SF has the priority to be entrusted as Services provider to these new warehouses.

2. Services Order

- 2.1. Vipshop agrees that it shall entrust SF (or Affiliates designated by SF) to provide Services under this Agreement, with the proportion of entrusted Services and the number of orders consistent with this Agreement, unless otherwise exempted by SF in writing. And SF (or Affiliates designated by SF) agrees to provide Services to Vipshop or its Affiliates in accordance with this Agreement.
- 2.2. Both Parties agree that the Affiliates of Vipshop as listed in Annex 8 may entrust SF to provide Services in accordance with this Agreement, provided Vipshop should cause and ensure such Affiliates to fulfil their obligations to be fulfilled by a Services entrusting party as stipulated under this Agreement and Vipshop shall assume joint and several liabilities for the performance of such obligations by its Affiliates. Notwithstanding the foregoing, Vipshop agrees and will cause its Affiliates to agree that Vipshop is the sole party (if a default involves any Vipshop's Affiliate, Vipshop will bring a claim on behalf of the Affiliate) which is entitled to bring any claim against SF if SF fails to fulfil any of its obligations hereunder and any liabilities arises therefrom (including payment of compensations or liquidated damages, if any). If Vipshop's Affiliates, as included in the Annex 8 "List of Affiliates" change, Vipshop shall notify SF in writing fifteen (15) natural days in advance and acquire approval of SF.

For the purposes of this Agreement, "Affiliate" of any particular entity means any party that directly or indirectly through one or more intermediaries controls the particular entity, is controlled by the particular entity, or is under common control with such particular entity.

- 2.3. Notwithstanding provision of Article 2.1 of this Agreement, if for any Cooperation Year (as defined below) the quantity of Actual Order Quantity (for the purpose of this Agreement, "Actual Order Quantity" refers to quantity of Services orders which Vipshop or its Affiliates have placed under this Agreement and related Services thereunder have been completed (that is, the successful delivery of Parcels to consignee or successful delivery of returned Parcels, except: parent-subsidary parcels under one order shall be counted into one order; and the double shipment under one order due to abnormal delivery shall be counted into one order) has surpassed the target order quantity (as defined below) for that year, with respect to the surplus part (hereinafter referred to as "Surplus Orders", some of which involve long-distance shipment journey or bear heavy objects), Vipshop or its Affiliates may entrust third parties other than SF and its designated Affiliates ("Other Logistics Service Providers") to provide Services. However, if SF guarantees it is able to provide Services with respect to the Surplus Orders in the same quality as Other Logistics Service Providers, SF may have the priority to accept the Surplus Orders and provide the Services thereunder at the service fee with RMB[***] premium compared to rate offered to Other Logistics Service Providers. SF has the right to decide whether it will accept the Surplus Orders under the above conditions. If do, the specific cooperation conditions in connection with the Surplus Orders shall be decided by the Parties upon negotiations in accordance with principle of mutual benefits.

3. Service Fees and Settlement

- 3.1. Regarding the Services provided to the Vipshop Group, the service fee charged by SF to Vipshop Group consists of the following two parts:
- (1) Basic service fee. The Vipshop Group shall pay SF the basic service fee for the Services provided under the following orders. The basic service fee is RMB[***] per order, subject to the price adjustment mechanism as agreed in Article 3.2 of this Agreement;
 - (a) Orders successfully completed (i.e. signed receipt or rejected by Vipshop's end customers);
 - (b) Orders under which Parcels fail to be delivered to end customers due to reasons attributable to Vipshop or end customers and are returned to warehouse of Vipshop. For the avoidance of doubt, basic service shall be charged twice for the orders under which Parcels are shipped to and from end customers;
 - (c) In case of goods return, the order under which returned Parcel is delivered from end customers to the designated warehouse of Vipshop.
 - (2) Value-added services fee. If SF provides value-added services in addition to the basic Services, Vipshop should further pay the corresponding value-added service fee (content of value-added services and corresponding value-added service fee are specified in Annex 3).
 - (3) Unless otherwise stated herein, all service fees specified in this Agreement and the Annexes are price including tax.

3.2. During the cooperation period, both Parties agree that the basic service fee shall be adjusted according to the following mechanisms:

- (1) Annual review adjustment mechanism

At the end of each Cooperation Year, the Parties shall review the outbound orders (means the orders involving delivery of Parcel from the Vipshop warehouse / supplier to the end customer, excluding orders involving delivery of returned goods from end customers to Vipshop warehouse), including the Actual Order Quantity, the weight of the orders delivered in providing the Services and the income and proportion of various types of services, and the applicable basic service fee should be adjusted automatically in any of the following circumstances.

- (a) Adjustment based on weight. If for any Cooperation Year the annual average weight of each outbound order is greater than 1.1 kg (excluding), for each additional 0.1 kg (any weight less than 0.1 kg is calculated as 0.1 kg), the basic service fees will be raised by RMB[***]. For example, if the annual average weight of each outbound order is 1.11 kg, the basic service fee will be increased by RMB[***]; if the average weight of each outbound order is 1.21 kg, the basic service fee will be increased by RMB [***]; specifically, the annual average weight of each outbound order = the total weight of all actual outbound orders for the Cooperation Year / the number of all actual outbound orders for the Cooperation Year; (For the avoidance of doubt, the above "weight" refers to the actual weight of the Goods).

- (b) Adjustment based on business structure. Calculate the proportion of Vipshop Warehouse's outbound orders for the Cooperation Year. If the figure is not within the range of [***]% - [***]%, the basic service fee shall be calculated according to the ratio listed in Annex 4. Specifically, the proportion of Vipshop Warehouse's outbound orders = quantity of outbound orders of Vipshop Warehouse for the Cooperation Year / the total quantity of all outbound orders of Vipshop for this Cooperation Year; outbound orders of returned goods warehouse shall be calculated into quantity of Vipshop Warehouse's outbound orders.

For the avoidance of doubt, the above two adjustment mechanisms are not exclusive of each other and may apply at the same time.

(2) Special adjustment mechanism

During the cooperation period, the basic service fee may be substantially adjusted if any of the following special circumstances occur that are beyond the commercial estimation of the Parties, with the specific adjustment mechanism to be separately determined by the Parties through negotiations:

- (a) For a certain Cooperation Year, the proportion of Vipshop Warehouse's outbound orders does not fall into range specified in Annex 4 (that is, [***]% as the basis and with a variation of +/- [***]%;
- (b) For a Cooperation Year, [***]% or more of the outbound orders of Vipshop Warehouse are not delivered to the corresponding serving areas covered by the shipment warehouse as specified in Annex 1;
- (c) The layout of the seven Vipshop Warehouses as described in Annex 1 is substantially changed, including but not limited to adding or cancellation of Vipshop Warehouse, and changes to serving areas of Vipshop Warehouse. For the avoidance of doubt, switch of serving areas between different Vipshop Warehouses that do not involve change in a particular serving area or adding or cancellation of Vipshop Warehouse, are not regarded as layout change as referred in this paragraph. Such layout switch including the circumstance where two switching Warehouses concurrently provide services to both of their two serving areas during the process of switch.

If for a Cooperation Year the basic service fee needs to be adjusted according to the above paragraphs (1) and / or (2), the difference (the "Adjusted Service Fee Difference") between the total service fee calculated based upon the adjusted basic service fee rate and the total service fee actually paid by Vipshop for the Cooperation Year shall be cleared up between SF and Vipshop (paid either by SF to Vipshop or by Vipshop to SF, depending on whether the difference is negative or positive). SF shall submit a report to Vipshop describing the Actual Order Quantity for the Cooperation Year within one month after the end of each Cooperation Year. If Vipshop questions the reported figure, it shall communicate its objection and present corresponding evidence to SF within five (5) business days after the receipt of the report, otherwise, it shall be deemed to have accepted the report. If the basic service fee requires to be adjusted according to the reported Actual Order Quantity, the Adjusted Service Fee Difference shall be settled between SF and Vipshop (paid either by SF to Vipshop or by Vipshop) in one lump within 15 natural days from confirmation the amount of the difference.

3.3. The two Parties agree to settle the payment of service fee on a monthly basis, subject to the specific settlement mechanism as follows:

- (1) SF should submit the statement of the service fee for the previous month to Vipshop for review from the 5th to the 7th day of each month (postponed accordingly if any day within the prescribed period happens to be weekend or statutory holidays). The statement should specify the amount of service fees (including the service fees payable by Vipshop's Affiliates) and any compensation and indemnification (if any) due from SF in accordance with Article 5.2 and Article 5.4 in the below.
- (2) Vipshop should confirm the statement or raise an objection within five (5) business days of receipt of the statement. Any objection raised should be accompanied by a complete written description of the situation and relevant supporting documents. Vipshop shall be deemed to have confirmed SF's statement if it fails to raise any objection during the specified period.
- (3) With respect to amount in the monthly statement for which Vipshop does not raise any objection (or with respect to monthly statement for which Vipshop raises an objection, the amount excluding the objected part) and other confirmed monthly unsettled expenses (including the objection fee as determined according to paragraph (4) of this Article 3.3), subject to provisions of Article 3.1 (3) of this Agreement, SF (or its Affiliates) shall, as instructed by Vipshop, issue a special value-added tax invoice (at tax rate of 6%; if the tax rate is adjusted due to relevant laws during the term of this Agreement, the adjusted tax rate shall apply) to Vipshop or its Affiliates which entrusted SF to provide Services. Vipshop shall, or shall cause its Affiliate VIPSHOP INTERNATIONAL HOLDINGS LIMITED ("Vipshop Hong Kong") to pay the invoiced amount via wire transfer in full amount in one instalment within five (5) business days of receipt of the original invoices (including the amount of all invoices issued to Vipshop's Affiliates).
- (4) If Vipshop raises any objection to the monthly statement provided by SF, SF shall make a reply within five (5) business days after receiving the objection. If the two Parties, after investigations and verification, still cannot reach consent on the disputed amount, the written data confirmation provided by the Parties shall be final to decide on the disputed amount (if there are two written data confirmations provided by both Parties, the one which is more complete, comprehensive, objective and persuasive shall prevail). The disputed amount, after being determined according to methods as described in this paragraph, shall be included in the monthly statement for the current month and paid up in the next month.
- (5) Vipshop shall pay the services fees due from it to the following bank account designated by SF every month:

Account Name: SF Express Co., Ltd.

Bank: [***]

Bank account: [***]

SF may modify the above bank information by submitting a written notice to Vipshop 3 business days in advance during the term of this Agreement.

- (6) SF undertakes it will issue VAT-specific invoices or commercial invoices to Vipshop on time in accordance with this Agreement.
- (7) Vipshop confirms that, it shall be the sole party responsible for the payment of service fee and all other expenses (if any) under this Agreement except the service fees in connection with Cross-border Business. Vipshop further confirms that Vipshop Hong Kong is the party responsible for payment of service fee of Cross-border Business under this Agreement. Vipshop undertakes it shall and shall ensure Vipshop Hong Kong to pay service fees and all other fees payable under this Agreement (if any) to SF on time, and except as expressly specified in this Agreement, shall not delay or refuse the payment of any fees for any reason (including due to reasons attributable to Vipshop's Affiliate or due to financial settlement issues within the Vipshop Group).

4. Target Order Quantity

Vipshop undertakes that the Actual Order Quantity it places with SF each year shall not be less than target order quantity ("Target Order Quantity") for the corresponding Cooperation Year as specified in Annex 2. For the avoidance of doubt, the Actual Order Quantity should include amount of orders that Vipshop's Affiliates place with SF and its designated Affiliates in accordance with Article 2.2.

5. Rights and Obligations of both Parties

5.1. Obligations of Vipshop

- (1) Vipshop shall properly pack the consigned Goods in a manner that is intact and suitable for transportation. If Vipshop is unable to properly pack the consigned Goods according to the aforementioned requirements, Vipshop may entrust SF to do the packaging (including providing special packaging services, packaging reinforcement services) and separately pay service fee to SF for the packaging services. If any Good is lost or damaged due to packaging issues which SF identified but Vipshop failed to make rectification, SF shall not be held liable for such loss or damage (regardless of whether the outer packaging is intact at that time). If the consigned Goods are special objects such as fragile objects, leaky objects and dangerous objects, Vipshop should notify SF in advance and provide SF with the necessary technical information or documents for storage and transportation.
- (2) Vipshop shall sort out orders, pack Goods, convey the Parcels to loading port and loading up in accordance with the operating standards agreed by the Parties. The two Parties shall jointly supervise relevant operations to be consistent with operating standards. SF is entitled to appoint personnel to the warehouse from time to time to inspect each step of the operations, including orders sorting Goods packing, conveying of the Parcels to loading port and loading up and propose measures for improvement.
- (3) Vipshop shall provide SF with accurate, effective and authentic delivery information.

- (4) Vipshop shall not request SF to provide Services in connection with flammable objects, explosive objects, corrosive objects, cash, securities, obscene materials, reactionary materials, objects which is sole business of post and objects prohibited by relevant laws and regulations, or contain any of these objects in the Parcels consigned to SF for delivery.
- (5) Vipshop shall compensate SF for the actual loss suffered in connection with the damage, corrosion or pollution caused to the vehicles, machinery, and equipment used by SF to provide Services, or physical injury suffered by SF employees or any loss caused to third parties resulted from the following reasons: (a) the consigned Parcels carry dangerous objects without notifying SF or Vipshop commits other acts that violate the regulations for the transportation of dangerous objects; or (b) SF's truck is overweighed due to misreporting the weight of the consigned Parcels.
- (6) Vipshop shall still pay the service fee to SF at the originally agreed rate (as if the order has been completed) without raising any claims or requesting any compensation against SF if SF fails to deliver Parcels to end customers according to this Agreement due to reasons attributable to Vipshop or the end customers.
- (7) Vipshop shall evaluate Services of SF and decide rewards and punishments for SF in accordance with standards mutually agreed by the two Parties based upon principle specified in Annex 9.

5.2. Obligations of SF

- (1) SF shall confirm the outer package of the Parcel is intact when it picks up the Parcel from Vipshop, and has the right to reject receipt of the same if the outer packaging of the Parcel is found to be damaged. Upon and after the Parcel is handed over by Vipshop to SF, SF shall be liable to ensure the outer package of the Parcel is intact and undamaged until the package is opened by End Customers to inspect the Goods condition. If any problem is discovered at the open-package inspection, SF should report the problem to coordinator /designated customer service of Vipshop within 12 hours.
- (2) SF shall carefully and properly load and unload, transport and store the Goods in the process of providing Services, so as to ensure safety and integrity of Goods.
- (3) SF shall deliver the consigned Goods of Vipshop to the address and consignee (or consignee unit) specified by Vipshop. If the Goods are delivered to wrong address due to SF's sole fault, SF shall be responsible for re-deliver the Goods to the correct address or consignee free of charge. For the avoidance of doubt, "free of charge" means SF shall not charge additional fee for the re-delivery, but the service fee for the corresponding order shall not be affected.
- (4) If Vipshop adjusts the consignee's address in process of the delivery, SF shall charge additional fee for adjusting the delivery from the original address to the new address in accordance with the provisions of Annex 3 to this Agreement. If it is difficult for SF to adjust the delivery to the new address, SF shall notify the designated customer service of Vipshop within 12 hours, and Vipshop shall assist SF to communicate with the consignee.

- (5) Vipshop may request inquiry of the progress of Services and whether the Parcels have been signed for receipt. Upon receipt request for the query, SF should timely inform Vipshop of the progress of the Services. If any issue arises during the process of providing the Services, SF shall timely inform Vipshop so that the two Parties can negotiate to resolve the issue. If the situation is urgent, SF may take measures as it prudently and reasonably judges, that are favourable to Vipshop and notify Vipshop of the result of the settlement.
- (6) No services fee shall be charged for the order if the Goods under the order are returned by end customers due to SF's sole fault (such as Goods damaged in process of delivery, unsuccessful delivery (if destination is covered in the services area), etc.).
- (7) If the consignee's address specified by Vipshop is not covered by SF services areas (including services areas of SF's subcontractors and regional agents), SF may decide on its discretion to forward the order to EMS with forwarding cost to be borne by SF. However, SF must obtain the consent of Vipshop in advance if it decides to forward the order to courier service providers other than EMS. Please refer to Annex 7 for more details of order forwarding.
- (8) SF shall provide order delivery statistical reports to Vipshop on a monthly basis.
- (9) After SF picks up the Parcel, SF system shall send a parcel pick-up notice to the supplier of Vipshop or its business contact person, which notice shall serve as a proof to certify the hand-over of goods by Vipshop to SF.
- (10) SF shall deliver the order according to the time of delivery specified in the Table of Time of Delivery confirmed by both Parties. The specified time of delivery is only applicable to outbound order SF picks up before 18:00 p.m., and if the order is picked up after 18:00 p.m., the specified time of delivery shall be plus by 24 hours. Upon confirmation by SF, no service fee shall be charged for the order for which the delivery is delayed for more than 5 natural days except such delay is caused by reasons attributable to Vipshop or by force majeure. SF shall not be liable for delay in delivery if the time of delivery happens to be statutory holidays or encounters any major events held in the destination areas. Time of delivery for orders placed during big promotion event (Double Eleventh, Double Twelfth, 6.18 big sale, Vipshop's spring festival sale) shall be determined separately through consultations by the Parties (extended by at least 2 to 3 days, as the case may be).
- (11) If the order fails to be delivered to the consignee or consignee's agent (authorized by the consignee) due to reasons solely attributable to SF, SF should immediately arrange the re-delivery as reasonably required by Vipshop, and sincerely apologize to customers to avoid hard feelings.
- (12) Unless the consignee requests for a late delivery, if any order fails to be delivered and fails to be returned to shipper or Vipshop within 10 natural days after SF pick-up (orders cancelled before SF pick-up shall be returned to shipper; orders cancelled after SF pick-up shall be returned to Vipshop's corresponding warehouse), and SF fails to report the situation to Vipshop logistics platform, such order shall be deemed to be "being lost", and SF shall pay compensation in accordance with Article 5.4 of this Agreement.

- (13) If SF makes mistake of neglecting the delivery of an order, SF shall immediately arrange the re-shipment as required by Vipshop, sincerely apologize to customers to avoid hard feelings, and charge no additional fees for the re-shipment.
- (14) If any complaint is received about bad manners of SF courier person (e.g. insult, intimidate, hurl abusive words towards or physically attack the end costumers), once the situation is verified, SF shall send special personnel to apologize to the end customer and obtain the customer's forgiveness.
- (15) SF shall be responsible for the coordination of EMS's delivery work and shall follow up and properly handle the complaints raised.
- (16) SF shall provide Services in accordance with the evaluation criteria and requirements confirmed by the Parties according to principles stipulated in Annex 9.

5.3. Delivery and Return of Goods

- (1) Upon the delivery of Parcels to consignee by SF:
 - (a) SF courier person is obliged to remind and cooperate with the consignee to unpack the Parcels and inspect the conditions of Goods contained therein, and should require the consignee to sign on the receipt or on the terminal held by him/her. SF should keep all receipt information for one year and submit the same to Vipshop if so requested.
 - (b) The consignee has the right to reject the Parcels if the package of the Parcels is found to be incomplete and the Goods contained therein are damaged. In such case, SF shall promptly notify Vipshop, and upon approval of Vipshop (which should not unreasonably withheld or delayed) shall return the damaged Goods to Vipshop.
- (2) If the order fails to be delivered due to reasons attributable Vipshop or the consignee (such as incorrect delivery information, the consignee is out of contact, etc.), SF shall promptly notify Vipshop and return the Goods to Vipshop after obtaining the permission of Vipshop, with the costs incurred therefrom to be borne by Vipshop. If Vipshop fails to respond within the 3 day after SF gives a notice of abnormal delivery, SF has the right to return the Goods to the Vipshop warehouse properly, with costs resulted therefrom to be borne by Vipshop.

5.4. SF Compensation Mechanism

- (1) SF shall compensate Vipshop and bear the relevant liabilities in accordance with the following provisions if the consigned Goods are damaged (including but not limited to damage, loss, destruction, parts missing, theft, robbery, damage caused by fire, flood, pollution, deterioration, humidity, flood, etc., except damage caused by force majeure) solely due to negligence of SF in process of providing Service.
- (2) Vipshop may voluntarily choose whether to pay value insurance for an order consigned to SF based on the value of the consigned Goods. For each insured order an additional insurance fee shall be paid to SF, at a minimum amount of RMB[***] per order.

- (3) If any damage occurs to less valuable Goods under uninsured orders, SF shall pay compensation according to the actual loss of the damaged Goods, at the maximum amount of not exceeding RMB[***] per order.
- (4) During the trial cooperation period as stipulated in Annex 9 of this Agreement, for uninsured orders whose value exceeds RMB[***] ("Valuable Orders"), the Parties agree that the maximum compensation for Valuable Orders will not exceed RMB[***] per order. However, SF should make its best efforts to reduce parcel lost rate whether or not Valuable Orders are insured. The Parties agree to review the loss rate of the Valuable Orders on a quarterly basis. If the loss rate of the Valuable Orders exceeds [***]% (excluding) for a quarter, the Parties shall further negotiate the capping compensation amount and insurance rate that is applicable to the next and upcoming quarters.
- (5) If Goods under insured orders are damaged, SF shall pay compensation in accordance with the insured amount (not exceeding the actual value of the Goods). However, if the damage involves partial damage to the Goods or missing of parts, SF shall pay the compensation in proportion to value of damaged/missing part against the insured amount (not exceeding the actual value of the Goods).
- (6) After Vipshop has been compensated for the actual value or with the insured amount in connection with the damaged Goods, the ownership of the Goods and any claims corresponding to the ownership shall be proportionally transferred to SF.
- (7) SF shall waive the payment of basic service fees (excluding fees for value-added services that have actually occurred, such as packaging materials fee and value insurance) for orders in which SF should pay compensation in accordance with the above provisions.
- (8) Only one claim for compensation can be raised by Vipshop for each order.
- (9) If Vipshop intends to raise any claim in accordance with this Article 5.4, such claim shall be raised within 30 natural days after parcel is picked up by SF. SF shall not be liable for any claim raised beyond such period.
- (10) If SF pays compensation in accordance with the above provisions, Vipshop shall provide SF with a receipt corresponding to the compensation amount.
- (11) Notwithstanding anything herein to the contrary, SF shall not be liable for any damage occurred to the Goods if the outer package of the Parcel containing the Goods is intact and complete when the Parcel is delivered to the end customer or Vipshop, except for fragile Goods (liability for fragile Goods shall be separately provided in this Agreement).

6. Confidentiality

- 6.1 Except with the prior written consent of the other Party, neither Party shall disclose or permit to disclose the following information in any way: (a) any and all information provided by the other Party for the purpose of performing this Agreement, in particular, the name, mobile phone number, delivery address and other personal information of Vipshop's end customers provided by Vipshop to SF (Vipshop shall ensure that it obtains the necessary consent of the end customers for providing the aforesaid personal information to SF); (b) corporate financial, commercial and business information of the other Party, including all financial statements, bank statements, audit reports, purchase contracts, sales data, supplier information, member information, financial revenue and expenditure status, etc.; (c) any information of the other Party obtained in the process of cooperation and business operations (whether or not such information is marked as confidential information by the other party); (d) any information known in the process of cooperation with the other Party that can bring economic benefits and competitive advantages to the other Party; (e) the existence and contents of the transaction contemplated under this Agreement (including cooperation conditions); (f) any terms, conditions or other information of this Agreement; and (g) other information that should be kept confidential in accordance with the principle of good faith (collectively, the "**Confidential Information**"). Notwithstanding the foregoing, for the avoidance of doubt, either Party may disclose Confidential Information required to be disclosed by such Party or its Affiliates to any relevant government department or stock exchange pursuant to the provisions of the applicable law or the rules of the applicable stock exchange (as applicable).
 - 6.2 Unless otherwise agreed, neither Party shall disclose the other Party's Confidential Information to the third party at any time and on any occasion, nor shall publish the other Party's Confidential Information on the public network or other media, nor shall copy, extract, arbitrarily or maliciously take away the other Party's Confidential Information; without the written consent of the other Party, neither Party shall use or promise to use the other Party's Confidential Information, and either Party shall cease possession of any Confidential Information of the other Party after the end of cooperation.
 - 6.3 The Parties shall take all reasonable measures to properly keep confidential of the other Party's Confidential Information, and shall protect such other Party's Confidential Information from being contacted or obtained by any irrelevant persons.
 - 6.4 If either Party breaches the provisions of this Article 6, the breaching Party shall pay liquidated damages of RMB500,000 to the other Party. If the liquidated damages are insufficient to compensate other Party's losses suffered due to such breach, the breaching Party shall pay additional amount to supplement the difference. Such losses suffered by the other Party including but not limited to: the actual economic loss, arbitration fee and lawyer fee, etc.
 - 6.5 The obligations under this Article 6 shall stay effective until two (2) years after the expiration or the early termination of the Agreement for any reason.
7. Breach of this Agreement
- 7.1 Unless otherwise provided herein, either Party shall compensate and hold the other Party harmless from any fees, expense, liability or loss suffered by the other Party as a result of the default of the Party under this Agreement.
 - 7.2 In addition to the remedies entitled to the Parties under this Agreement, if Vipshop breaches this Agreement and fails to bear the corresponding liabilities for breach within ten (10) natural days after the notice of SF, SF shall have the right to detain the consigned Goods pursuant to the law.

8. Term of this Agreement

- 8.1 The term of this Agreement shall commence from the effective date of the Agreement and end on June 30, 2022 (the “**Term of Agreement**”).
- 8.2 If the Parties intend to renew this Agreement upon expiration of the Term of Agreement within six (6) months prior to end of the Term of Agreement, they should negotiate about the renewal and may renew this Agreement pursuant to their negotiation; however, the Parties shall continue to perform their respective obligations in accordance with the original terms of this Agreement during the negotiation of renewal.

For the purpose of this Agreement, the “**Cooperation Period**” is from January 1, 2020 to June 30, 2022, which consists of three “**Cooperation Years**”, i.e. the first Cooperation Year being from January 1, 2020 to December 31, 2020; the second being from January 1, 2021 to December 31, 2021; and the third being from January 1, 2022 to June 30, 2022.

9. Termination of this Agreement

- 9.1 The Parties shall properly and fully perform this Agreement, and shall not early terminate this Agreement unless in the following circumstances:
- (1) This Agreement is terminated by the Parties upon mutual consensus.
 - (2) The performance of this Agreement becomes impossible when one Party seriously breaches the Agreement and fails to correct the breach within thirty (30) days after receiving the notice from the other Party. In such case, the non-breaching Party shall have the right to terminate this Agreement by submitting a written notice to the breaching Party.
 - (3) If the performance of this Agreement becomes impossible due to Force Majeure (as defined below), either Party shall have the right to terminate this Agreement by submitting a written notice to other Party.
 - (4) Other circumstances resulting in statutory termination.
- 9.2 If either Party terminates this Agreement in violation of the Article 9.1, the terminating Party shall compensate the other Party and hold it harmless from damages. In the event of Vipshop terminates this Agreement in breach of Article 9.1, the compensation payable by Vipshop to SF shall include: 1) RMB [***] per order x (total Target Order Quantity within the Cooperation Period – the Actual Order Quantity completed before the termination of this Agreement); and 2) other losses (if any) suffered by SF as a result of the termination, at the maximum amount of RMB[***] billion; In the event of Vipshop terminates this Agreement in breach of Article 9.1, if Vipshop has to replace SF with an alternative service provider after such termination, SF shall compensate Vipshop for the losses suffered due to such termination, including 1) RMB[***] per order x (total Target Order Quantity within the Cooperation Period – the Actual Order Quantity completed before the termination of this Agreement); and 2) other losses (if any) suffered by Vipshop as a result of the termination, at the maximum amount of RMB[***] billion.

10. Governing Law and Dispute Resolution

10.1 This Agreement shall be governed by and construed in accordance with the Laws of PRC.

10.2 Dispute Resolution

- (1) Any dispute arising out of or relating to this Agreement, including the existence, validity or termination thereof, shall be submitted by either Party to Shenzhen Court of International Arbitration for arbitration in Shenzhen, Guangdong Province, PRC in accordance with the arbitration rules of the court in force at that time. The arbitral tribunal shall consist of three (3) arbitrators, which shall be appointed according to the arbitration rules of the court. Pending the arbitration, the Parties shall continue to perform this Agreement except the part in dispute.
- (2) The arbitral award shall be final and binding upon the both Parties. The arbitration shall be conducted in Chinese. Unless otherwise provided in the arbitration award, the arbitration fee shall be borne by the losing Party.

11. Intellectual Property Rights

11.1 The execution of this Agreement does not constitute the transfer or license of the intellectual property rights owned by the Parties. The intellectual property rights, trade secrets and other rights owned by either Party shall still belong to that Party. Without prior written consent of the other Party, neither Party shall use or license the third Party to use or infringe the intellectual property rights, including but not limited to trademarks, patents, copyrights or trade secrets, owned or legally used by the other Party in any way such as by applying for and registering the same.

12. Force Majeure

- 12.1 "Force Majeure" means any act or event which cannot be reasonably foreseeable or avoidable and beyond the control of the affected Party ("**Force Majeure**"), including but not limited to natural disasters such as earthquakes, typhoons and floods, wars, riots, terrorist acts or any other unforeseen or unavoidable acts or events recognized as force majeure in accordance with international business practices, but market change or any event caused by either Party's internal business operation shall not be deemed as Force Majeure.
- 12.2 If either Party is unable to perform its obligations and responsibilities under this Agreement due to the Force Majeure, the Party shall notify the other Party in writing within seven (7) natural days after the occurrence of the Force Majeure event, and shall provide the other Party with the detailed description and related certification document, including the written evidence document issued by the government department or any other competent department, and an explanation describing the reasons for its inability to perform, and shall take measures to mitigate the loss when it is possible.
- 12.3 Neither Party shall be liable for any damage, increased cost or loss suffered by the other Party due to its failure or delay in performing any its obligations under this Agreement due to the influence of Force Majeure, to the extent such failure or delay in performance is caused by the Force Majeure, and the non-performing Party shall not be deemed to be in default in such case. The Party affected by Force Majeure shall take appropriate measures to reduce or eliminate the impact of Force Majeure and should try to resume the performance of the obligations as soon as possible.

13. Costs and Expenses

Unless otherwise provided in this Agreement, each Party shall bear on its own all expenses it incurred related to this Agreement, including the costs and expenses incurred related to negotiating and signing the Agreement or performing its obligations hereunder.

14. Miscellaneous

14.1 The Parties may supplement, modify or change this Agreement upon mutual agreement. Any modification or change to this Agreement shall be made in writing and take force after being signed by both Parties.

14.2 Vipshop agrees that SF shall have the right to entrust, subcontract or authorize the Services to a third party (including but not limited to the subcontractors and regional agents of SF, provided that such third party shall fully perform SF's obligations related to providing Services under this Agreement. Any Services undertaken or provided by such third party under this Agreement shall be deemed as the being provided by SF, and the third party shall have the same rights and undertake the same obligations as SF in handling orders.

14.3 This Agreement and its Annexes shall constitute the entire agreement between the Parties (and their Affiliates) with respect to the subject matter of this Agreement, and supersede all prior oral or written agreements, contracts, letters of intent, commitments and communications reached between the two Parties (including but not limited to the SF Express Service Contract signed by and between Vipshop (China) Co., Ltd. and Foshan Shunfeng Express Co., Ltd. , taking effects on August 1, 2019). Both Parties agree that the express service provided by SF to Vipshop from September 1, 2019 to the effective date of this Agreement shall be subject to the price and terms and conditions provided in this Agreement.

14.4 This Agreement shall be written in Chinese and come into force on the date when it is signed and stamped with official seals by the legal representatives or authorized representatives of both Parties. The Agreement shall be signed in counterparts, with each Party holding one copy. Each copy shall have the same legal effect.

This Agreement consists of the following parts:

I. The main body of this Agreement (the "**Master Agreement**").

II. Annexes

Annex 1: Distribution Areas of Warehouses

Annex 2: Annual Orders Forecast

Annex 3: Contents of Value-added Services

Annex 4: Price Adjustment Mechanism

Annex 5: Anti-Commercial Bribery Agreement

Annex 6: For-Third Party Payment Service Agreement

Annex 7: Out-of-range Forwarding Agreement
Annex 8: Bank Account Information of Vipshop and its Affiliates
Annex 9: Vipshop Assessment Standards and Requirements

(Remainder of this page is intentionally left blank, followed by the signature pages and Annexes)

Signature Page (1) to Strategic Business Cooperation Agreement

IN WITNESS HEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement as of the date first mentioned above.

Vipshop (China) Co., Ltd. (Seal)

Signature of Legal Representative or Authorized Representative: _____
SHEN Ya

Signature Page (2) to Strategic Business Cooperation Agreement

IN WITNESS HEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement as of the date first mentioned above.

SF Express Co., Ltd (Seal)

Signature of Legal Representative or Authorized Representative: _____
WANG Wei

Annex 1: Distribution Areas of Warehouses

Warehouse Names	Distribution Provinces
Northeast Warehouse	Inner Mongolia Autonomous Region
North China Warehouse	Hebei Province
North China Warehouse	Shanxi Province
East China Warehouse	Jiangsu Province
East China Warehouse	Zhejiang Province
South China Warehouse	Guangdong Province
South China Warehouse	Guangxi Zhuang Autonomous Region
Central China Warehouse	Hunan Province
Central China Warehouse	Henan Province
Central China Warehouse	Jiangxi Province
Northwest Warehouse	Ningxia Hui Autonomous Region
Northwest Warehouse	Xinjiang Uygur Autonomous Region
Southwest Warehouse	Yunnan Province
Southwest Warehouse	Chongqing
Southwest Warehouse	Tibet Autonomous Region

Note: The distribution areas of returned Goods warehouse are the same as Vipshop Warehouse they are affiliated respectively.

Annex 2: Annual Orders Forecast

Period	Forecasted Orders Quantity (ten thousand)
From January to December, 2020	[***]
From January to December, 2021	[***]
From January to June, 2022	[***]

Note: Parent-subsidiary orders shall be counted into one order; and the double shipment under one abnormal delivery order shall be counted into one order.

Annex 3: Contents of Value-added Services

No.	Services	Contents
1.	Payment on Delivery	SF shall collect payment from end customers on behalf of Vipshop based upon the value of Goods, at [***]% of the basic service fee, RMB[***] per order at the minimum.
2.	Goods Exchange Service	Basic service fee shall be changed twice respectively for the to and from journey (the service fee shall be subject to the adjustment mechanism provided in Article 3.2 of this Agreement)
3.	Packing Materials	SF shall provide packaging reinforcement services to Goods including valuables, precious metals or Goods whose package is unsuitable for transportation. value-added service fee shall be charged at RMB[***] per order.
4.	Intelligent Goods Inspection	SF courier person may provide intelligent Goods inspection services, for which value-added service fee will be charged. For Goods Exchange: RMB[***] per order For Goods Return: RMB[***] per order
5.	Parent-subsidiary Orders	If the ratio of parent orders against subsidiary orders does not exceed 1: [***], parent order and subsidiary order shall be counted into one order. Where subsidiary order exceeds parent order by [***]%, the surplus part shall be charged separately. [***]
6.	Abnormal Delivery Order	Including services of order intercepting, change of delivery address, parcel rejection handling and failure of delivery due to reasons attributable to Vipshop or consignee. The second shipment under abnormal delivery order shall be charged for basic service fee (subject to the price adjustment mechanism provided in Article 3.2 of this Agreement)
7.	Others	The price rate is only applicable for Vipshop Warehouses services, JITX Services, Cross-border Business, returned goods services, abnormal delivery orders, but excluding services for other business scenarios. The price rate will remain unchanged during the Spring Festival or Vipshop promotional events. Long distance delivery fee shall be borne by SF.

The terms in the above table shall have the following meanings:

- (1) Change of delivery address: means Vipshop or the consignee requests to change the delivery address after SF picks up the Parcels from Vipshop Warehouses, JITX Warehouses or Haitao Warehouses. In such case, SF is entitled to charge the basic service fee plus a value-added service fee equals to the basic service fee for the change of delivery address services; or Vipshop requests to change the delivery warehouse after SF picks up returned Goods from end customers. In such case, SF shall charge the basic service fee plus a value-added service fee equals to the basic service fee for the change of delivery address services.
- (2) Order intercepting: means Vipshop requests to cancel the delivery to the end customers and return the Parcels to Vipshop warehouses after SF picks up the Parcels from Vipshop Warehouses, JITX Warehouses or Haitao Warehouses. In such case, SF shall charge the basic service fee plus a value-added service fee equals to the basic service fee for the order intercepting services.

Annex 4: Price Adjustment Mechanism

Proportion of Vipshop Warehouse' Outbound Orders against all Vipshop's Outbound Orders	Final price (RMB / order)
40% £ figure < 45%	[***]
45% £ figure < 50%	[***]
50% £ figure < 55%	[***]
55% £ figure < 58%	[***]
figure = 58%	[***]
58% < figure £ 61%	[***]
61% < figure £ 66%	[***]
66% < figure £ 71%	[***]
71% < figure £ 76%	[***]

Annex 5: Anti-Commercial Bribery Agreement

In order to safeguard the common interests of the Parties, promote good development, maintain the good faith cooperation between the Parties, and prevent commercial bribery, the Parties reached the following agreements through friendly negotiations:

- Article 1 “Commercial bribery” means SF or its employees directly or indirectly offer spiritual and material presents, such as kickbacks, tangible articles, entertainment, etc., to Vipshop employees with the view to seek business cooperation opportunities with Vipshop and the relevant benefits.
- Article 2 No employee or department of Vipshop shall request or receive any money, tangible articles or gifts of any form from SF, whether or not in the name of Vipshop. SF and its employees may report to Vipshop if any of the above behaviors are discovered. Upon verification of the violation, the reporter shall be given a monetary reward ranging from RMB1,000 to RMB10,000 by Vipshop.
- Article 3 SF or its employees shall not bribe Vipshop personnel (including but not limited to Vipshop employees and other personnel authorized to engage in business on behalf of Vipshop) either in the name of SF or in the name of the employee himself/herself:
1. directly bribe Vipshop personnel with cash or articles and tangible objects of cash value;
 2. bribe Vipshop personnel by paying off-the-book kickbacks, commissions or benefits of any form or promising to provide any off-the-book benefits;
 3. bribe Vipshop personnel in the name of providing loan to Vipshop personnel;
 4. bribe Vipshop personnel in the form of providing Vipshop personnel with tourism, banquets and other entertainment paid by SF;
 5. bribe Vipshop personnel in other ways.
- Article 4 If any Vipshop personnel requests improper benefits of any form from SF, SF shall promptly report to Vipshop by providing relevant evidence. Upon verification of the violation, Vipshop shall deal with relevant personnel. The identity of reporter shall be kept confidential by Vipshop. Vipshop will open more business cooperation opportunities to SF according to the circumstances if SF actively report the improper behaviors.
- Article 5 SF undertakes to comply with provisions of the *U.S. Foreign Corrupt Practices Act* (the “**FCPA**”).

Article 6 If SF gives commercial bribery to Vipshop's personnel in breach of this Agreement, regardless of whether any consequences are caused, Vipshop shall have the right to take one or more of the following measures: 1. If the commercial bribery of SF is verified and the situation is serious, Vipshop shall have the right to terminate the Cooperation Agreement between the Parties by a thirty (30) days' prior written notice; 2. request SF to pay liquidated damages of RMB 500,000; and 3. request SF to compensate for the actual losses suffered by Vipshop.

Suppliers may submit complaints to the following email boxes:
jubao@vipshop.com, citeam@vipshop.com or via@vipshop.com.

Annex 6 For-Third Party Payment Service Agreement

Article 1 Third Party Payment Service

Definition: It means that Vipshop provides its account which settled on a monthly basis to Vipshop's Affiliate or its goods suppliers (together referred to as "Users"). Vipshop will be jointly and severally liable to Users' conduct in using SF service, and forward service fee to SF on behalf of Users.

Article 2 Range of Service

Vipshop hereby agrees that it shall conduct third party payment in accordance with the following methods, whereas SF shall issue an invoice to Vipshop and its Affiliates in accordance with Article 3.3 in the Master Agreement:

- (1) Subject to its actual business needs, Vipshop shall be entitled to choose the third party payment service category ✓ within the zone or ✓ outside the zone.
- (2) During the effective term of Master Agreement, as long as the business accounts provided by sender or addressee are similar with the Vipshop business account, all the service fee incurred (including delivery fee and value-added service fee) shall be transferred to business accounts pursuant to type of certain service (Warehouse Services [***], JITX Services [***], Returned Package Services [***]) to settle at one time. If SF increases new business account, it shall notify Vipshop ten (10) days in advance.
- (3) Vipshop hereby undertakes that all conducts using Vipshop's accounts to send or receive parcels shall be deemed as Vipshop's conducts. Subject to Master Agreement and the Annexes, the risk arising from Vipshop's account's disclosure shall be borne by Vipshop. Vipshop shall not reject to make payment under any grounds.

Article 3 Service Risks

- 3.1 Vipshop hereby confirms that when using third party payment service, SF has duly informed Vipshop related risks. Vipshop further covenants that it shall strictly protect the monthly-settled account and take appropriate measures to control the range such account may be used.
- 3.2 If such account is disclosed for any reasons not attributable to SF, then the risks shall be borne by Vipshop and Vipshop shall not reject to make payment under any grounds.

Article 4 Termination of Service

Under any of the following circumstances, SF shall be entitled to terminate such third party payment service:

- (1) Vipshop fails to pay in full and on time as agreed in Master Agreement and service terms in annex.

(2) The amount settled monthly by Vipshop is less than RMB 10,000.

(3) Any events of default as agreed in this agreement (including Master Agreement) occurs.

Annex 7: Out-of-range Forwarding Agreement

Out-of-range forwarding operation is to achieve Vipshop package mailing requirements. When Vipshop intends to mail a parcel, which is beyond the delivery zone operated by SF, SF shall pick up such package and assist in forwarding.

Article 1 Operation Details

If parcels to be delivered by Vipshop is beyond the delivery zone where SF provide service, SF shall charge the delivery fee in accordance with the price as agreed in Master Agreement. Vipshop hereby authorizes SF to forward such parcels to a third party courier service company and the costs and expenses therefrom shall be borne by SF.

Article 2 Operation Requirements

- 2.1 Due to the fact that out-of-range package delivery is operated by third party courier service company, such delivery fee may not be collected at destination. When Vipshop engages in out-of-range delivery, the payment method is limited to payment settled on a monthly basis, or payment when delivers to third party courier service company.
- 2.2 When SF is collecting parcels, it may fail to recognize the delivery address is out of range and fail to forward such parcels. SF may provide forwarding service at destination for Vipshop.
- 2.3 The out-of-range parcels to be forwarded by Vipshop shall not be more than [***]% of all the parcels mailed by Vipshop monthly. If the number of out-of-range parcels continuously be more than [***]% of the total number in consecutive three months, SF shall be entitled to cease to collect out-of-range parcels.
- 2.4 For parcel under the following circumstances, SF shall be entitled not to forward:
 - (1) The parcels to be mailed by Vipshop weighs over 50kg (excluding) per parcel, or the charged weight is over 130kg (excluding) per order.
 - (2) The goods to be mailed by Vipshop is longer than [***] meter, or the sum of length, width and height is over [***] meter; the claimed value is over RMB[***] or falls within the category of large furniture (mattress, closet, sofa), large electric appliance (LCTV, household refrigerator, kitchen equipment), large instrument and equipment (measuring instrument, automobile instrument) or fresh foods which requires cold transportation (crabs, fruits) as determined by SF.
 - (3) Vipshop requires value-added service by SF other than general insurance service (claimed value less than or equal to RMB[***]).

2.5 Due to the requirement that senders shall register under its real name by Ministry of Public Security, SF will use SF/SF transfer site or other SF relating names as senders' names. Vipshop shall inform its consignee of such operation. SF shall not be liable to any complaints, refusal to delivery or other transactional controversies arising from or relating to such arrangement.

2.6 Other Arrangements:

- (1) Out-of-range delivery shall only be applicable to delivery within mainland China. Based on the gradual opening of SF sites, SF shall be entitled to make certain adjustments at its own discretion.
- (2) 15 working days before and after Chinese Spring Festival, SF shall not provide our-of-range forwarding service.
- (3) Under the circumstances as provided in Article 2.2, if any parcel or product falls within the scope as agreed in Article 2.4 and SF may elect not to forward, SF shall notify Vipshop and conduct under the instructions of Vipshop, whereas costs incurred shall be borne by Vipshop.
- (4) The delivery time for forwarded parcels is subject to third party courier service company's official promise and shall not be subject to SF's delivery time. If third party courier service deliver such parcels later than SF's promised delivery time, SF shall not be liable for any damages.
- (5) If the consignee's address specified by Vipshop is not covered by SF services areas (including services areas of SF's subcontractors and regional agents), SF may decide on its discretion to forward the order to EMS with forwarding cost to be borne by SF. However, SF must obtain the consent of Vipshop in advance if it decides to forward the order to courier service providers other than EMS.

Article 3 Damages

- 3.1 If parcels forwarded through third party courier service company is destroyed or lost due to third party courier service company's fault, SF shall be jointly and severally liable and reimburse Vipshop in accordance with the terms in the event of SF's default as agreed in the Master Agreement.
- 3.2 After Vipshop receives SF's reimbursement, it shall provide SF with an assignment of claims and value proof materials so as to assist SF to claim its rights against third party service company.

Annex 8: Bank Account Information of Vipshop and its Affiliates

Company Name: **Vipshop (China) Co., Ltd.**

Address: [***] Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Shenyang) E-Commerce Co., Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Tianjin) E-Commerce Co., Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Taian) E-Commerce Co., Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Kunshan) E-Commerce Co., Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Zhejiang Vipshop E-Commerce Co. Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Zhaoqing) E-Commerce Co., Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Hubei) E-Commerce Co. Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Xi'an) E-Commerce Co. Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **Vipshop (Jianyang) E-Commerce Co. Ltd.**

Address: [***]

Tax No.: [***]

Account Opening Bank: [***]

Bank Account: [***]

Company Name: **VIPSHOP INTERNATIONAL HOLDINGS LIMITED**
Address: [***]

Annex 9: Vipshop Assessment Standards and Requirements

Whereas both parties need to confirm the assessment standard and complete both parties' system mutual connection via early stage operation and data, both parties agree that during the period between the effective date of this agreement to March 31, 2020, it shall be the test operation period ("**Test Operation Period**"). During the Test Operation Period, the KPI detailed standards listed in following forms and other information in this Annex 9 (excluding the Assessment Items During Test Operation Period (as defined below)) shall only be deemed as the expectations to the quality of Services of both parties and shall not be deemed as the grounds of assessments or punishments. During the Test Operation Period, SF shall provide customary industry standard high-quality Services and shall reasonably improve KIP standards monthly so as to achieve such KPI standards. After the termination of the Test Operation Period, both parties shall commence to exercise the KPI and relevant punishment system as listed in this Annex 9.

Article 1.1.4, Article 1.2 and Article 2.2(4) ("**Assessment Items During Test Operation Period**") shall be effective during the Test Operation Period and be the grounds on which Vipshop grant to SF rewards or punishments, and shall continue to be effective after the termination of Test Operation Period.

For the purpose of business operation under this agreement, both parties shall form full-time project team (the members to be confirmed by both Parties). Full time project team shall convene meetings regularly and review previous operation circumstance (including successful delivery rate, effective complaint rate, package broken rate, package loss rate etc.). Project team shall discuss operation standard, plan and arrangements for the next stage.

Both parties shall complete connection between tracking information system from both Parties. KPI standards shall be assessed by the number of orders.

During legal holidays, the occurrence of major events in certain areas and significant sale event (Double Eleventh, Double Twelfth, 6.18 big sale, spring festival sale) the following standards shall not apply.

Article 1 **Outbound Orders Services**

1.1 The KPI applicable to Vipshop's assessment for outbound orders services is as follows:

No.	Item Name	Item Definition	Expectation Rate
1	Monthly rate of successful delivery	Number of parcels delivered successfully in a month /number of total parcels collected in such month	[***]%
2	Monthly rate of effective complaint	Number of effective complaint orders in a month/ number of total parcels collected in such month	[***]%
3	Rate broken parcels	Number of broken parcels in a month τ / number of total parcels collected in such month	[***]%
4	Rate of lost parcels	Number of lost parcels in a month / number of total parcels collected in such month	[***]%

Note: Each Rate shall be confirmed by both Parties and be reviewed and adjusted every season. SF shall improve on the basis of current rate. If both Parties have not made any adjustments, the original rate shall apply. Both Parties agree that the above KPI rate shall not be applicable for assessment during the Test Operation Period.

The promised delivery time in this agreement shall refer the time of delivery specified in the Table of Time of Delivery confirmed by both Parties. The specified time of delivery is only applicable to outbound order SF picks up before 18:00 p.m., and if the order is picked up after 18:00 p.m., the specified time of delivery shall be plus by 24 hours.

1.1.1 Assessment, Rewards and Punishments of Successfully Delivered Parcels

“Successful delivery” shall mean that SF successfully delivers parcels within the promised delivery time. Delivery time shall subject to SF’s messages which display successful delivery time. The numerator and denominator shall not include those unsuccessfully delivered parcels due to reasons not attributable to SF (including unsuccessfully delivered parcels due to reasons attributable to Vipshop or consignee, weather reasons etc.). The unsuccessfully delivered parcels shall be calculated outside the regular promised delivery time to avoid any miscalculations for regular parcels due to a cross of natural months.

- (1) When the monthly successful delivery rate is under [***]%, if such delay is due to operation reason attributable to SF, and if number of parcels delayed over 24 hours of promised delivery time (“Delayed Orders”) is over [***]% of the total number of orders in a month, then the penalty shall be RMB[***] per order for Delayed Orders in such month. If such delay is due to reasons not attributable to SF, SF shall claim to Vipshop within 48 hours when Vipshop notify SF about the delay. If SF fails to make such claims in a timely manner, then Vipshop shall ignore and calculate the penalty. Claims shall be made in accordance with the template provided by Vipshop and shall be made via email. Vipshop will verify the claims after receiving it and make adjustments after both Parties’ confirmation. The adjustment is eventually illustrated in monthly penalty.
- (2) During legal holidays and the occurrence of major events in certain areas, SF shall not be liable for delay in delivery. During significant sale event (Double Eleventh, Double Twelfth, 6.18 big sale, spring festival sale), delivery time shall be extended to another 2 to 3 days as the case may be.

1.1.2 Assessments, Rewards and Punishments of Effective Complaints

“Effective complaints delivery” refers to the complaint orders of customers’ complaint incoming to Vipshop customers service department (excluding inquiry and statement of demand), which are confirmed by both Parties to be caused by SF and belongs to the type of complaint. The type of complaint including: complaint with respect to delay, return without contacting, bad service attitude of express delivery personnel, broken parcels.

- (a) SF shall require end customers of Vipshop to sign off the parcel when it is delivered (including signing off on site, storing in parcel cabinet with permission by customers, deliver to convenience stores or property management division). When the monthly effective complaint rate is higher than [***]%, for the parcels exceeding such complaint rate, if it is resulted from the customers' failure to sign off (excluding delivery cannot be signed off on site due to reason attributable to customers), the penalty standard is RMB[***] per order; but if customers confirm receiving of such parcels within 24 hours after Vipshop issues work sheet and informs SF customer service department, it shall be exempt from punishments.

1.1.3 Assessment, Rewards and Punishments of Broken Parcels

- (a) For the broken goods that are uninsured, SF shall compensate at the actual loss of such goods but it shall not exceed RMB[***] per order.
- (b) For the broken goods that are insured, SF shall compensate at the insured amount (not exceeding the actual value of such goods). If such goods are partially broken or certain components are lost, then SF shall compensate in accordance with the proportion of insured amount (not exceeding the actual value of such goods) and the loss.
- (c) Both Parties agree to review and conclude rate of broken orders exceeding RMB[***] each quarter. If the abovementioned broken rate is over [***]‰ (excluding), both Parties agree to negotiate a new compensation rate or insured price applicable for the next quarter.

1.1.4 Assessment, Rewards and Punishments of Lost Parcels

- (a) For the lost goods that are uninsured, SF shall compensate at the actual loss of such goods but it shall not exceed RMB[***] per order.
- (b) For the lost goods that are insured, SF shall compensate at the insured amount (not exceeding the actual value of such goods).
- (c) Both Parties agree to review and conclude rate of lost orders exceeding RMB[***] each quarter. If the abovementioned lost rate is over [***]‰ (excluding), both Parties agree to negotiate a new compensation rate or insured price applicable for the next quarter.

1.2 Miscellaneous:

- (1) For settlement of delivery Services, SF shall provide date of actual delivery and order weight. If SF provides fake data that result in extra amount of service fees payable by Vipshop, and Vipshop may provide relevant evidence, then Vipshop is entitled to require SF return the extra amount of services fee paid by Vipshop. As the manner to provide fake data is fraud, Vipshop is entitled to require SF to pay treble damages on the basis of such services fee (which may be deducted from Vipshop's payable services fees directly; if such payable services fees is insufficient, Vipshop is entitled to recover from SF). For the amount that are not discovered, Vipshop is entitled to trace back on such amount and such right shall not be waived upon the termination of both Parties' cooperation.

- (2) When SF delivers the goods to end customers of Vipshop, if SF courier personnel uses fake signature and such manner is confirmed by both Parties, then when the rate of such orders with fake signatures is over 1 in 1 hundred thousand, liquidated damages for those orders exceeding such rate shall be RMB[***] per order.
- (3) If courier was complained due to bad service attitude of express delivery personnel (other than circumstances stated in Article 1.2(4)) and such order is confirmed to be an effective complaint order (Vipshop shall reserve relevant documents), and if the rate of effective complaints (number of complaint orders regarding service attitude in a month/ number of total orders in such month) concerning service attitude is over 1 in 1 hundred thousand, then the penalty for those orders exceeding such rate shall be RMB[***] per order.
- (4) If express delivery personnel conduct verbal insults, humiliation, threats, attacks or other bad attitude manner to customers and customers complain to Vipshop, the penalty to such manner shall be RMB[***] per order upon confirmation of such conducts. SF shall also arrange face-to-face apologies to obtain customers' forgiveness. If any external complaint occurs (including but not limited to complaints to the administration for industry and commerce or complaints on Weibo, etc.) and result in adverse effect, Vipshop shall be entitled to require SF to eliminate the impact through reasonable means.
- (5) If SF is found to intentionally place orders (i.e., SF places and returns order on Vipshop platform so as to earn the service fee) or disclose customers' information of Vipshop and Vipshop has relevant evidence, then SF shall be subject to a liquidated damage at RMB[***] per order paid to Vipshop.

Article 2 Returned Orders Services

2.1 The KPI applicable to Vipshop's assessment for returned orders services is as follows:

No.	Item Name	Item Definition	Expectation Rate
1	Monthly Rate of Successfully Returned Orders	Monthly Rate of Successfully Returned Parcels = Number successfully returned orders in a month/number of collected returned orders in such month	[***]%
2	Rate of Appeal Accuracy	Rate of Appeal Accuracy = number of accuracy information of randomly inspected orders on a daily basis / total number of accuracy information of randomly inspected orders on a daily basis	[***]%
3	Monthly Rate of Effective Complaint	Rate of Monthly Effective Complaint = number of monthly effective complaint / number of monthly collected parcels	[***]%

Note: Each Rate shall be confirmed by both Parties and be reviewed and adjusted each quarter. SF shall improve on the basis of current rate. If both Parties have not made any adjustments, the original rate shall apply. Both Parties agree that during the Test Operation Period the above KPI rate shall not be applicable for assessment.

2.1.1 Assessment, Rewards and Punishments of Monthly Rate of Successful Returned Delivery

- (a) Returned parcels due to reasons not attributable to SF and successfully appealed orders shall be calculated as successfully returned parcels.

Reasons not attributable to SF shall include: customers return goods on its own within returned period or customers inform courier not to collect such goods at door; SF courier personnel presents at door within returned period but such returned parcels have been collected by other courier service company that has no note of returned order; customers require an extension and during such extension customers refuse SF to collect such goods, courier it on its own or inform courier personnel not to collect goods at door; SF is unable to contact customers; Force Majeure.

- (b) The return time shall be the time SF inputs information of such orders into its system and simultaneously forwards such information to interface. The assessment time for returned parcels collection shall be subject to the period of return collection period promised by Vipshop (i.e. 9 -14 o'clock, 14-18 o'clock). Vipshop shall instruct SF to collect such returned parcels one hour before promised time (i.e. 9 -10 o'clock, 14-15 o'clock). Vipshop shall make such instructions through its system forwarding. SF courier personnel shall present on time at door to collect the returned parcels (i.e. 9 -14 o'clock, 14-18 o'clock) and inputs into its system to meet the efficiency demand. If customers fail to answer phone calling and result in failure for goods collection, SF shall inform Vipshop and records down. After confirmation of such matter, it shall be excluded from assessment.

- (c) If monthly rate of successfully returned parcels is lower than [***]%, pay services fee on pro rata basis shall be paid with respect to the orders fail to meet the efficiency demand (e.g.: monthly rate of successfully returned parcels is [***]%, then service fees of successfully returned parcels = services fee of successfully returned parcels + number of parcels failing to meet the efficiency demand * [***]).

2.1.2 Accuracy of Complaint Information

The submitted complaint information shall be subject to Vipshop's random inspection on that day (for the avoidance of doubt, the inspected sample shall not be fewer than [***]% of total complaints or [***] orders, whichever is higher; when the complaints is fewer than [***], all of them shall be inspected). If the accuracy rate is under [***]%, all complaint information submitted in that day shall be invalid. If SF re-submits invalid data, it shall not be accepted.

2.1.3 Assessment, Rewards and Punishment of Effective Complaint

- (a) "Effective Complaint Orders" shall mean customers complain to Vipshop customer service department (excluding checking or stating claims) and both Parties confirm that such complaints are with respect to failure to achieve promised service quality due to any reason attributable to SF (including delay in collecting parcels, fake collecting of parcels, delay in confirming status of collecting parcels, delay in delivery, fake signing off, tracking information disorder, bad comment for service).
- (b) After SF courier personnel successfully collects the returned parcels, it is required to input accurate collected information within 10 minutes (from the time SF courier personnel successfully collects such returned parcels till the time such information is successfully submitted), and transfer such information to Vipshop's system via forwarding interface. If the information is not timely submitted and result in customer's complaint and be confirmed, if such complaint rate is higher than [***]%, then each parcels shall be subject to RMB[***] penalty.
- (c) If monthly rate of effective complaint \geq [***]% but $<$ [***]%, those collected returned orders exceeding the [***]% rate shall be subject to RMB[***] penalty per order. If monthly rate of effective complaint \geq [***]%, those collected returned orders shall be subject to RMB[***] penalty per order. Effective complaint events include overtime collecting, fake collecting, overtime confirmation on the status of collecting, overtime delivery, fake signing for delivery, tracking information disorder, bad comment in service. The assessment data shall be based on effective complaints. Notwithstanding, if such effective complaint order has been subject to penalty under Article 2 below, then it shall be excluded from the complaint rate under this Article.

2.2 Miscellaneous:

- (1) The returned period shall be calculated from collecting time from Vipshop warehouses till SF signs off for successful delivery and records such information into system. When the returned period is over 10 natural days, such parcels shall be categorized as delay parcels and shall be treated as lost parcels. The compensation shall be subject to the actual amount of such orders and up to RMB[***]. If such delay is caused by Force Majeure and informed within 24 hours upon its occurrence, such delay can be exempted from penalty. If influence of Force Majeure is increased due to SF's treatment or other efficiency issue, Vipshop shall reserve the right to take any legal action. Both Parties agree that this Article shall not be applicable during the Test Operation Period.

- (2) When using intelligent goods checking value-added service, SF courier personnel shall correct its courier when it collects goods that are not listed on the return receipt, and shall waive the basic service fee and value-added service fee with such orders. Both Parties agree that this Article shall not be applicable during the Test Operation Period.
- (3) When SF courier personnel inputs the collection time in advance and such goods has not been returned, such parcels shall be treated as lost parcels. The compensation shall be subject to the actual amount of such orders and up to RMB[***]. Both Parties agree that this Article shall not be applicable during the Test Operation Period.
- (4) When SF conducts dishonest manner, it shall be subject to penalty of RMB[***] per order. Vipshop shall provide relevant evidence and such dishonest manners include:
 - a) Intentionally overcharge from customers, and refuse to handle it after Vipshop's feedback and cause customers' complaints.
 - b) Collect goods without any return order (excluding when customers courier it back on its own, but shall be subject to customers confirmation).
 - c) Intentionally input wrong information into system and hence result in a failure of collecting returned goods, and then transfer such goods to a to a third party courier service company (excluding the situation that failure to enter the system by mistake after successful collection and change it to successful collection, such behaviour shall not be treated as dishonest.).
 - d) For the orders within the area of returned goods collection service, SF intentionally induce customer to return goods by itself.
 - e) Other obvious dishonest manners that are confirmed by both Parties.

Any order that is subject to penalty in accordance with Article 1 (Outbound Orders Services) or Article 2 (Returned Orders Services) in this Annex shall only be subject to penalty at once. The penalty shall not be calculated cumulatively, and the higher amount of penalty shall apply.

Vipshop Holdings Limited
List of Significant Consolidated Entities

Name	Jurisdiction of Incorporation
Significant Subsidiaries:	
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
Significant Consolidated Affiliated Entities:	
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, 2019.

**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 27, 2020

By: /s/ Eric Ya Shen
Name: Eric Ya Shen
Title: Chief Executive Officer

**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 27, 2020

By: /s/ Donghao Yang
Name: Donghao Yang
Title: Chief Financial Officer

**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, 2019 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 27, 2020

By: /s/ Donghao Yang
Name: Donghao Yang
Title: Chief Financial Officer

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 27, 2020, relating to (1) the consolidated financial statements and the financial statement schedule of Vipshop Holdings Limited and its subsidiaries (collectively, the “Company”), and (2) the effectiveness of the Company’s internal control over financial reporting appearing in the Annual Report on Form 20-F of the Company for the year ended December 31, 2019.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 27, 2020

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HANKUN
汉坤律师事务所
Han Kun Law Offices

Date: April 27, 2020

VIPSHOP HOLDINGS LIMITED

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

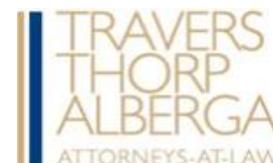
Dear Sir/Madam:

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, 2019, which will be filed by Vipshop Holdings Limited on April 27, 2020 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



Office: +852 2801 6066
Mobile: +852 9718 8740
Email: rthorp@tta.lawyer

Vipshop Holdings Limited
No. 20 Huahai Street,
Liwán District, Guangzhou 510370
People's Republic of China

27 April 2020

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 2019, which will be filed with the Securities and Exchange Commission in the month of April 2020, 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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