

**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, 2020
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)
128 Dingxin Road
Haizhu District, Guangzhou 510220
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: 119,223,484 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, 2020.

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;
- “discount retailers” refers to retailers that primarily offer branded merchandise systematically at lower-than regular prices through both online and offline channels on a permanent basis;
- “discount retail market” includes discount retailers that primarily offer brand-named merchandise systematically at lower-than regular prices branded through both online and offline channels on a permanent basis. Regular retailers that may employ special discount events from time to time are excluded from this market;
- “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

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- “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.

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 RMB6.5250 to US\$1.00, which was the certified noon buying rate in effect as of December 31, 2020, 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 9, 2021 was RMB6.5522 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, 2018, 2019, and 2020, and the selected consolidated balance sheets data as of December 31, 2019 and 2020 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, 2016 and 2017, and our selected consolidated balance sheets data as of December 31, 2016, 2017, and 2018 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,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	<i>(in thousands, except percentages, number of shares, and per share and per ADS data)</i>					
Selected Consolidated Statements of Income Data:						
Product revenues	55,281,900	71,171,653	81,510,275	88,721,311	97,449,712	14,934,822
Other revenues	1,309,402	1,740,660	3,013,673	4,273,107	4,408,777	675,675
Total net revenues	56,591,302	72,912,313	84,523,948	92,994,418	101,858,489	15,610,497
Cost of revenues ⁽¹⁾	(42,994,688)	(56,618,471)	(67,454,981)	(72,314,190)	(80,573,181)	(12,348,380)
Gross profit	13,596,614	16,293,842	17,068,967	20,680,228	21,285,308	3,262,117
Operating expenses ⁽²⁾						
—Fulfillment expenses ⁽³⁾	(4,904,526)	(6,899,654)	(7,489,393)	(7,317,706)	(6,878,991)	(1,054,251)
—Marketing expenses	(2,837,680)	(2,978,621)	(3,240,450)	(3,323,927)	(4,284,274)	(656,594)
—Technology and content expenses	(1,563,582)	(1,808,452)	(2,000,894)	(1,568,107)	(1,221,264)	(187,167)
—General and administrative expenses	(1,941,146)	(2,447,724)	(2,674,179)	(4,064,264)	(3,748,548)	(574,490)
—Goodwill impairment loss	—	—	—	(278,263)	—	—
Total operating expenses	(11,246,934)	(14,134,451)	(15,404,916)	(16,552,267)	(16,133,077)	(2,472,502)
Other operating income	358,029	531,055	757,062	645,413	707,855	108,483
Income from operations	2,707,709	2,690,446	2,421,113	4,773,374	5,860,086	898,098

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	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	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)/income of equity method investees	2,666,084	2,540,853	2,747,075	4,942,805	7,019,357	1,075,765
Income tax expenses	(601,828)	(626,140)	(566,604)	(983,554)	(1,130,016)	(173,183)
Share of (loss)/income of equity method investees	(71,489)	(22,280)	(46,999)	27,182	30,015	4,600
Net income	1,992,767	1,892,433	2,133,472	3,986,433	5,919,356	907,182
Net loss/(income) attributable to non-controlling interests	44,050	57,222	(4,685)	30,399	(12,399)	(1,900)
Net income attributable to our shareholders	2,036,817	1,949,655	2,128,787	4,016,832	5,906,957	905,282
Shares used in calculating earnings per share						
Class A and Class B ordinary shares:						
—Basic	115,958,088	117,554,229	132,266,157	133,524,129	135,077,790	135,077,790
—Diluted	125,817,183	125,715,833	140,083,610	136,081,415	138,036,010	138,036,010
Net earnings per Class A and Class B ordinary share						
Net income attributable to our shareholders—Basic	17.57	16.59	16.09	30.08	43.73	6.70
Net income attributable to our shareholders—Diluted	16.86	15.94	15.61	29.58	42.79	6.56
Net earnings per ADS (1 Class A ordinary share equals 5 ADSs)						
—Basic	3.51	3.32	3.22	6.02	8.75	1.34
—Diluted	3.37	3.19	3.12	5.92	8.56	1.31

Notes:

- Excludes shipping and handling expenses, and includes inventory write-down that amounted to RMB303.2 million, RMB206.7 million, RMB440.8 million, RMB347.5 million, and RMB554.9 million (US\$85.0 million) for the years ended December 31, 2016, 2017, 2018, 2019, and 2020, respectively.
- Include share-based compensation expenses as follows:

	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Fulfillment expenses	(38,428)	(73,235)	(73,151)	(112,683)	(100,486)	(15,400)
Marketing expenses	(38,459)	(40,364)	(41,063)	(35,038)	(16,534)	(2,534)
Technology and content expenses	(183,122)	(206,073)	(203,594)	(180,493)	(152,234)	(23,331)
General and administrative expenses	(215,644)	(347,426)	(353,402)	(359,869)	(681,794)	(104,490)
Total	(475,653)	(667,098)	(671,210)	(688,083)	(951,048)	(145,755)

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- (3) Include shipping and handling expenses, which amounted to RMB2.58 billion, RMB3.83 billion, RMB4.50 billion, RMB4.63 billion, and RMB4.51 billion (US\$690.9 million) for the years ended December 31, 2016, 2017, 2018, 2019, and 2020, respectively.

	As of December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Selected Consolidated Balance Sheets Data:						
Cash, cash equivalents and restricted cash	4,109,577	10,221,992	10,038,472	7,719,285	12,811,321	1,963,421
Total current assets	14,580,872	25,916,138	27,325,637	23,028,041	31,172,982	4,777,468
Total assets	25,094,453	37,982,820	43,562,663	48,582,678	58,940,814	9,033,075
Total liabilities	19,312,649	23,732,244	26,351,870	26,332,981	29,555,025	4,529,506
Total shareholders' equity	5,781,804	14,250,576	17,210,793	22,249,697	29,385,789	4,503,569

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. To continue to expand into the offline business, we further acquired additional equity interests of 30.38% and 40% in Shanjing business management Co., Ltd. and Harbin Shan Shan Chunxiaqiudong Properties Co., Ltd in May and July 2020, respectively, and obtained control over these two entities. In December 2020, we also made capital injection to Guiyang Shan Shan Guangda Outlets Plaza Co., Ltd., to acquire 60% equity interests and obtain control over the entity.

We also operate offline retail stores under our own Vipshop brand to expand cooperation with our brand partners and help them clear their inventories more effectively. As of December 31, 2020, we had approximately 240 Vipmaxx offline stores and approximately 310 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. Starting from 2019, we have 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 channel fees at certain percentages of the loan amounts. See “—We have limited experience in operating an Internet

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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.

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.

Our business, financial condition, and results of operations have been and may continue to be adversely affected by the COVID-19 pandemic.

The COVID-19 pandemic has created unique global and industry-wide challenges, including challenges to many aspects of our business. In the first half of 2020, the COVID-19 pandemic resulted in quarantines, travel restrictions, and the temporary closure of business venues and facilities in China, with some of these restrictive measures still sporadically in effect today.

In the first quarter of 2020, we experienced 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. Since late February 2020, we and our suppliers and business partners have been gradually recovering from the general shutdown and delay in commencement of operations in China. During the heights of the COVID-19 pandemic, 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. Moreover, the COVID-19 pandemic also had an adverse impact on our construction projects. In addition, the global spread of COVID-19 has also affected our overseas suppliers. The global spread of COVID-19 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.

Many of the quarantine measures within China have since been relaxed as of the date of this annual report, and we have resumed normal operations since late February 2020. The sales of apparel, our best-selling product

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category, returned to normal in May 2020. However, our results of operations may still be adversely affected to the extent that COVID-19 pandemic continues to affect the Chinese economy in general or the re-imposition of regional quarantine measures as a result of newly discovered COVID-19 cases. We are unable to predict the duration and severity of the COVID-19 pandemic, the responses thereto, as these depend on rapidly evolving developments, which are highly uncertain and will be a function of factors beyond our control. Such factors include, among others, the continued spread or recurrence of contagion, the implementation of effective preventative and containment measures, the development of effective medical solutions, and the extent to which governmental restrictions on travel, public gatherings, mobility and other activities remain in place or are augmented. 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 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, 2018, 2019, and 2020, we worked with over 17,000, 18,000, and 21,000 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. 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.

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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 pure-play online discount retailers and other online discount retailers 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 apparel-related categories;
- ability to offer a curated selection of products catering to consumer preferences;
- pricing advantage due to our discount retail model;
- breadth and quality of product offerings;
- platform features;
- customer service and fulfillment capabilities; and
- solid 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 RMB440.8 million, RMB347.5 million, and RMB554.9 million (US\$85.0 million) in inventory write-down in the years ended December 31, 2018, 2019, and 2020, 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, 2019, and 2020 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, furniture, bed and bath, food and snacks, 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

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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 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 2020.

Additionally, we intend to continue using our available cash and financing options to upgrade and improve our IT systems and cybersecurity to support our business growth. For the year ended December 31, 2018, 2019, and 2020, we spent RMB244.5 million, RMB126.7 million, and RMB37.0 million (US\$5.6 million) to maintain our IT and cybersecurity protections. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies. In particular, our systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all. If our existing or future IT systems do not function properly, it could cause system disruptions and slow response times, affecting data transmission, which in turn, could materially and adversely affect our business, financial condition, and results of operations.

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

To remain competitive, we must continue to enhance and improve the responsiveness, functionality, and features of our Vipshop Online Platform. The online retail industry is characterized by rapid technological evolution, changes in end user requirements and preferences, frequent introductions of new products and services embodying new technologies, and the emergence of new industry standards and practices that could render our existing proprietary technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire, or license leading technologies useful in our business, enhance our existing services, develop new services and technologies that address the increasingly sophisticated and varied needs of our existing and prospective customers, and respond to technological advances and emerging industry standards and

practices, such as mobile Internet, on a cost-effective and timely basis. The development of mobile applications, websites, and other proprietary technology entails significant technical and business risks. We can provide no assurance that we will be able to use new technologies effectively or adapt our platform, proprietary technologies, and transaction-processing systems to meet customer requirements or emerging industry standards. If we are unable to accurately project the need for such system expansion or upgrade or to adapt our systems in a cost-effective and timely manner in response to changing market conditions or customer requirements, whether for technical, legal, financial, or other reasons, our business, prospects, financial condition, and results of operations could be materially and adversely affected.

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 WeChat Pay and Alipay. 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 WeChat Pay and Alipay. In the year ended December 31, 2018, 2019, and 2020, approximately 93%, 97%, and 100% of our total online orders were collected through online payment services, of which WeChat Pay 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-

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cyclical, online purchases tend to decline significantly during recessionary periods and approximately 100%, 98%, and 97% of our total net revenue is derived from online retail sales, which is total net revenue exclusive of net revenue from Shan Shan Outlets and offline stores in China in 2018, 2019, and 2020. 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, 2018, 2019, and 2020, we worked with over 17,000, 18,000, and 21,000 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.

Our business generates and processes a large amount of data, and we are required to comply with PRC laws relating to privacy and cyber security. The improper use or disclosure of data could have a material and adverse effect on our business and prospects.

Our business generates and processes a large quantity of data. We face risks inherent in handling and protecting large volume of data. In particular, we face a number of challenges relating to data from transactions and other activities on our platforms, including:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use by our employees;
- addressing concerns related to privacy and sharing, safety, security, and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, storage, transfer, disclosure, and security of personal information, including any requests from regulatory and government authorities relating to this data.

The PRC regulatory and enforcement regime with regard to data security and data protection is constantly evolving and can be subject to significant change, making the extent of our responsibility in that regard

uncertain. According to the PRC Cybersecurity Law and relevant regulations, network operators, including us, are obligated to provide assistance and support in accordance with the law for public security and national security authorities to protect national security or assist with criminal investigations. In addition, the PRC Cybersecurity Law provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in China should be stored in China, and the law imposes heightened regulation and additional security and privacy protection obligations on operators of critical information infrastructure. See “Item 4.B. Information on the Company—Business Overview—Regulation—Regulations Relating to Internet Privacy.” However, there are uncertainties with respect to how the PRC Cybersecurity Law will be implemented and interpreted in practice. PRC regulators, including the PRC Ministry of Industry and Information Technology, or the MIIT, and the PRC Cyberspace Administration, have been increasingly focusing on regulation in the areas of data security and data protection. On November 28, 2019, the PRC Cyberspace Administration, the MIIT, the PRC Ministry of Public Security, and the PRC State Administration for Market Regulation, or the SAMR, promulgated the Identification Method of Illegal Collection and Use of Personal Information Through App, which provides guidance for regulatory authorities to identify the illegal collection and use of personal information through mobile apps and for mobile app operators to conduct self-examination and self-correction. In July 2020, the Standing Committee of the National People’s Congress published for public comment a draft Data Security Law, which provided that at the national level, varying levels of data protective measures will be applied based on the level of importance of the data and a centralized mechanism for risk assessment, risk monitoring, early potential data security risk warning, and emergency response will be established. The draft Data Security Law also sets forth the data security protection obligations for entities and individuals handling personal data, including that no entity or individual may acquire such data by stealing or other illegal means, and the collection and use of such data should not exceed the necessary limits. In addition, the Anti-monopoly Guidelines for the Platform Economy Sector published by the Anti-Monopoly Committee of the State Council on February 7, 2021 also prohibits compulsory user information collection by online platforms operators. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

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, 2020, we had been granted 118 patents and submitted 246 patent applications in China, owned 1,864 registered trademarks in China and 115 registered trademarks outside China, 154 copyrights (including copyrights with respect to 151 software products in China developed by us relating to various aspects of our operations), and 332 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.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, copyrights, or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual property that is infringed by our products, services or other aspects of our business. There could also be existing patents of which we are not aware that our products may inadvertently infringe. We cannot assure you that holders of patents purportedly relating to some aspect of our technology platform or business, if any such holders exist, would not seek to enforce such patents against us in China, the United States, or any other jurisdictions. Further, the application and interpretation of China’s patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may

incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question. Finally, we use open source codes in self-developed software in connection with our products and services. Companies that incorporate open source software into their products and services have, from time to time, faced claims challenging the ownership of open source software and compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, results of operations, and financial condition.

We may be subject to litigation and regulatory proceedings.

We may be subject to litigation and regulatory proceedings relating to third-party and principal intellectual property infringement claims, contract disputes involving brand partners, consumer protection claims, claims relating to data and privacy protection, employment related cases, and other matters in the ordinary course of our business. There can be no assurance that we will be able to prevail in our defense or reverse any unfavorable judgment, ruling or decision against us. In addition, we may decide to enter into settlements that may adversely affect our results of operations and financial condition. Furthermore, in May 2020, the Hong Kong Independent Commission Against Corruption charged two individuals with commercial bribery offenses in connection with alleged conduct dating back to the period from 2013 to 2016. The two individuals were associated with entities that had business dealings with us during the referenced period. Although neither our company nor any of our employees is a party to the case or has been accused of any wrongdoing, there can be no assurance that the outcome or consequence of such case, if any, will not have any material and adverse effect on our public image, reputation, business prospects, results of our operations, and financial condition.

As a publicly-listed company, we may face additional exposure to claims and lawsuits inside and outside China, including securities law class actions. We will need to defend against these lawsuits, including any appeals should our initial defense be successful. The litigation process may utilize a material portion of our cash resources and divert management's attention away from the day-to-day operations of our company, all of which could harm our business. There can be no assurance that we will prevail in any of these cases, and any adverse outcome of these cases could have a material adverse effect on our reputation, business and results of operations. In addition, although we have obtained directors' and officers' liability insurance, the insurance coverage may not be adequate to cover our obligations to indemnify our directors and officers, fund a settlement of litigation in excess of insurance coverage or pay an adverse judgment in litigation. Our directors and executive officers may also face litigation or proceedings unrelated to their respective capacity as a director or executive officer of our company, and such litigation or proceedings may adversely affect our public image and reputation.

The existence of litigation, claims, investigations, and proceedings may harm our reputation, limit our ability to conduct our business in the affected areas and adversely affect the trading price of our ADSs. The outcome of any claims, investigations, and proceedings is inherently uncertain, and in any event defending against these claims could be both costly and time-consuming, and could significantly divert the efforts and resources of our management and other personnel. An adverse determination in any litigation, investigation, or proceeding could cause us to pay damages, incur legal and other costs, limit our ability to conduct business, or require us to change the manner in which we operate.

We may be subject to potential government investigations or enforcement actions under anti-monopoly and anti-competition laws and regulations.

The PRC government, media outlets, and public advocacy groups have been increasingly focused on anti-monopoly and anti-unfair competition recently. In October 2020, the SAMR issued the Interim Provisions for Regulating Promotional Activities, which took effect on December 1, 2020. Among other things, these interim provisions are designed to promote consumer protection and prohibit false or misleading commercial information used in promotional activities. Failure to comply with these provisions may subject us to penalties or other administrative actions by regulatory authorities. On February 7, 2021, the Anti-Monopoly Committee of the State Council further published the Anti-monopoly Guidelines for the Platform Economy Sector that aims at enhancing anti-monopoly administration of businesses that operate under the platform model and the overall platform economy. Such guideline specifically prohibits certain acts of the platform economy operators that may have the effect of eliminating or limiting market competition, such as forcing the users to choose the product or service of one operator exclusively from the other. However, since it is newly enacted, there are substantial uncertainties relating to its interpretation and implementation. We may face challenges in addressing its requirements and making necessary changes to our policies and practices, and may incur significant costs and expenses in an effort to do so. We have been subject to administrative proceedings relating to anti-unfair competition laws, and may be subject to administrative proceedings relating to anti-monopoly and anti-unfair competition laws and regulations in the future. For instance, we received an administrative penalty decision issued by the SAMR in December 2020 for certain unfair pricing conduct during the November 11 promotional campaign. On January 14, 2021, we received a notice of investigation from the SAMR, which stated that the SAMR had commenced an investigation against us pursuant to the Anti-Unfair Competition Law. On February 8, 2021, we received the decision from the SAMR regarding the investigation. We are subject to a fine of RMB3 million and we have paid such fine on February 8, 2021. We will rectify the identified issues with respect to our business operations in accordance with the decision issued by the SAMR, and stay compliant with the Anti-Unfair Competition Law. The fine and rectification to our business operations will have limited impact to our operations and financial condition. Due to the uncertainties associated with the evolving legislative activities and varied local implementation practices of anti-monopoly and competition laws and regulations in China, compliance with these laws, regulations, rules, guidelines, and implementations may be costly, and any incompliance or associated inquiries, investigations, and other governmental actions may divert significant management time and attention and our financial resources, bring negative publicity, subject us to liabilities or administrative penalties, and/or materially and adversely affect our financial conditions, operations, and business prospects.

We are subject to changing law and regulations regarding regulatory matters, corporate governance, and public disclosure that have increased both our costs and the risk of non-compliance.

We are subject to rules and regulations by various governing bodies, including, for example, the Securities and Exchange Commission, or SEC, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

Moreover, because these laws, regulations, and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

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 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. In May and July of 2020, we acquired additional equity interests of 30.4% and 40% in Ningbo Shanjing and Harbin Shan Shan for cash consideration of RMB236,250 and RMB311,200, respectively. As a result of these transactions, we obtained control in these two entities.

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 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 logistics hubs and self-owned servers located in data centers operated by major PRC Internet datacenter providers. Our 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.

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.

In addition to the impact of COVID-19, global pandemics, epidemics in China or elsewhere in the world, or fear of spread of contagious diseases, such as H1N1 flu, H7N9 flu, avian flu, severe acute respiratory syndrome (SARS), Ebola, or other disease 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.

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. Starting from 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

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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.” 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 or authorization of sublease 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 and failure to make corrections within specified time limit. 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. However, we cannot assure you that our use of the leased properties 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 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, 2020, 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, 2020 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, 2020. 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, 2020. 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 has gradually slowed in recent years and the trend may continue in the foreseeable future. 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. United Kingdom's exit from the European Union, commonly referred to as 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 holidays in China, particularly during the Chinese New Year period in the first quarter of the year, when customers tend to shop less. 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. 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 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 and obtain value-added telecommunication business operating licenses to operate any value-added telecommunications business in China. Because commercial Internet content provision is a value-added telecommunication business, foreign-invested enterprises that plan to engage in Internet content provision business must obtain value-added telecommunication business operating licenses for Internet content provision business. Operators of domestic call centers are required to obtain value-added telecommunication business operating 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 value-added telecommunication business operating licenses for online data processing and transaction processing (operating e-commerce) services. Under the MIIT Circular, a PRC domestic company that holds a value-added telecommunication business operating license, including the value-added telecommunication business operating license for Internet content provision business or online data processing and transaction processing (operating e-commerce) services, 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, and Pin Jun Tong Enterprise Management & Consulting Co., Ltd., or Pin Jun Tong. 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. For a detailed description of these licenses and permits, see “Item 4.B. Information on the Company—Business Overview—Regulation—Regulations Relating to Licenses and Permits.” 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, do not violate any 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 two 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 the China Securities Regulatory Commission, 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, subject to any applicable fiduciary obligations, 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 two consolidated affiliated entities, namely Vipshop Information and Pin Jun Tong, 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. Equity interest held by each of these shareholders in our company is less than its interest in Vipshop E-Commerce. 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 approved the PRC Foreign Investment Law, which became effective on January 1, 2020 and replaced 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 26, 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 requires every enterprise in China to submit annual report of enterprise income tax 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— Regulations Relating to Foreign Investments in Value-Added Telecommunications Businesses.” 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—Regulations Relating to 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 foreign-invested enterprise subject to laws and regulations applicable to foreign investment

in China and, in particular, laws applicable to foreign-invested enterprises. 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, including e-commerce business.

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 as well as the interpretation by the relevant authorities with regard to the laws and regulations. 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. For example, the live streaming service we offered to brands may require the License for Online Transmission of Audio-Visual Programs, and as of the date of this annual report, we have submitted an application for the record-filing in the “Information Management System for National Online Audio-Visual Platforms” for the live streaming service we offered to brands. There is, however, no assurance that such application will eventually be approved in a timely manner, or at all. In addition, our financial services may require the entity operating such services to hold the value-added telecommunication business operating licenses for Internet content provision business and for online data processing and transaction processing (operating e-commerce) services from competent Communications Administration. If such licenses or permits are deemed necessary and 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.

As the e-commerce industry is still evolving in China, new laws and regulations may be adopted from time to time to address new issues that arise from time to time. In August 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which became effective on January 1, 2019. The E-Commerce Law imposes a number of new requirements and obligations on e-commerce platform operators. Failure to comply with the relatively new regulatory requirements may have a material adverse impact on our business and results of operations. As no detailed interpretation and implementation rules have been promulgated, it remains uncertain how the newly adopted E-Commerce Law will be interpreted and implemented. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations Relating to E-Commerce." We have adopted a series of measures to comply with such requires under the E-Commerce Law. We cannot assure you, however, that our current business operations meet the requirements under the E-Commerce Law in all respects. If the PRC governmental authorities determine that we are not in compliance with all the requirements under the E-Commerce Law and other applicable laws and rules, we may be subject to fines and/or other sanctions.

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. In November 2016, China promulgated the Cyber Security Law, which came into effect on June 1, 2017, to protect cyberspace security and order. Cyber Security Law tightens control of cyber security and sets forth various security protection obligations for network operators. 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 illegal gains, 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.

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Our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. Under the HFCA Act, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the PRC authorities, our auditor is currently not inspected by the PCAOB.

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCA Act. We will be required to comply with these rules if the SEC identifies us as having a “non-inspection” year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the HFCA Act, including the listing and trading prohibition requirements described above.

The SEC may propose additional rules or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President’s Working Group on Financial Markets, or the PWG, issued the Report on Protecting United States Investors from Significant Risks from Chinese Companies to the then President of the United States. This report recommended the SEC implement five recommendations to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfil its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the HFCA Act. However, some of the recommendations were more stringent than the HFCA Act. For example, if a company was not subject to PCAOB inspection, the report recommended that the transition period before a company would be delisted would end on January 1, 2022.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the HFCA Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The implications of this possible regulation in addition the requirements of the HFCA Act are uncertain. Such uncertainty could cause the market price of our ADSs to be materially and adversely affected, and our securities could be delisted or prohibited from being traded “over-the-counter” earlier than would be required by the HFCA Act. If our securities are unable to be listed on another securities exchange by then, such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ADSs.

The PCAOB’s inability to conduct inspections in China prevents it from fully evaluating the audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ordinary shares 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 the 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.

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In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB in China or by the China Securities Regulatory Commission or the PRC Ministry of Finance in the United States. The PCAOB continues to be in discussions with the China Securities Regulatory Commission and the PRC Ministry of Finance to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

If the settlement reached between SEC and the “Big Four” China-based accounting firms, including auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC, 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, the PRC-based “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and PRC laws. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the PRC firms access to their audit work papers and related documents from audits in China. The firms were, however, advised and directed 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 the China Securities Regulatory Commission.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioners had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the China Securities Regulatory Commission. The firms will receive matching Section 106 requests, 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 the China Securities Regulatory Commission. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the 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 current proceeding against all four firms. If additional remedial measures are imposed on the PRC-based “big four” accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms’ failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event that the 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, 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 audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the 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 be not 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 the 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. 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 foreign-invested enterprises, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System 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 the Circular on Further Promoting the Facilitation of Cross-Border Trade and Investment, or the 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 the 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 People's Bank of China on January 12, 2017, or the People's Bank of China Notice No. 9, the outstanding amount of the loans shall not exceed 200% of the net asset of the relevant PRC subsidiary.

Furthermore, pursuant to the People's Bank of China Notice No. 9, after an one-year transition period following its promulgation, SAFE and the People's Bank of China will determine the cross-border financing regulatory regime for foreign-invested enterprises after evaluating the overall implementation of PBOC Notice No. 9. As of the date of this annual report, neither SAFE nor the People's Bank of China 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 foreign-invested enterprises in 2015 to allow foreign-invested enterprises to settle their foreign exchange capital at their discretion and further relaxed its rules in 2016 to allow foreign-invested enterprises (excluding financial institutions) to go through foreign exchange settlement formalities for their foreign debts at their discretion, the current SAFE rules continue to prohibit foreign-invested enterprises 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 foreign-invested enterprises 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 foreign-invested enterprises, 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 SAFE Circular 28. The SAFE Circular 28 allows all foreign-invested enterprises (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 Relating to Foreign Currency Exchange and Dividend Distribution."

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 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 the National People's Congress, 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 the PRC Ministry of Commerce 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 the Ministry of Commerce, but we cannot assure you that the Ministry of Commerce 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

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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 the Ministry of Commerce 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 the Ministry of Commerce, 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 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 a special purpose vehicle, is required to update its filed registration with the local branch of SAFE with respect to that special purpose vehicle, to reflect any material change. Moreover, any subsidiary of such special purpose vehicle 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 special purpose vehicle fails to make the required registration or to update the previously filed registration, the subsidiary of such special purpose vehicle in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the special purpose vehicle, and the special purpose vehicle 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, which became effective on June 1, 2015. Under such notice, 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 2020. 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, the People's Bank of China 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. 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 Relating to Foreign Currency Exchange and Dividend Distribution—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, the PRC State Taxation Administration, or STA, issued a Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or STA Public Notice 7. In December 2017, Article 13 and Paragraph 2 of Article 8 of STA Public Notice 7 were abolished. Pursuant to STA 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 enterprise income tax 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 STA 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 enterprise income tax 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 STA 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 STA Public Notice 7. As a result, we may be required to expend valuable resources to comply with STA 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 STA Public Notice 7 is not intended to apply to purchase and sale of shares of publicly traded companies in the open market, STA 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 STA Public Notice 7 and may be required to expend valuable resources to comply with STA Public Notice 7 or to establish that we should not be taxed under STA 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 may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 of the PRC Securities Law have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

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 PRC Enterprise Income Tax 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 China is considered a PRC resident enterprise and will be subject to enterprise income tax at the rate of 25% on its global income. The implementation rules of the PRC Enterprise Income Tax 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, STA 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 STA 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 STA 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 STA on December 29, 2017. STA 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, STA 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, STA 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 STA Bulletin 45, providing more guidance on the implementation of STA Circular 82. STA 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—Regulations—Regulations Relating to Tax—Enterprise Income Law.” Although both STA Circular 82 and STA 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 STA Circular 82 and STA Bulletin 45 may reflect STA’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 enterprise income tax at 25% on our global income as well as PRC enterprise income tax reporting obligations. If we are considered a PRC resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% enterprise income tax 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 PRC Enterprise Income Tax 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 Relating to Tax—Enterprise Income Tax.” 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 the National People’s Congress 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 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 for some of our employees. In addition, we engage third-party human resources agencies to make social insurance and/or housing fund contributions for some of our employees, and there is no assurance that such third-party agencies will make such contributions in full in a timely manner, or at all. 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 2020, the trading prices of our ADSs on NYSE have ranged from US\$11.53 to US\$28.38 per ADS, and the last reported trading price on April 15, 2021 was US\$27.73 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.

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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 137,522,547 Class A and Class B ordinary shares outstanding, including 99,824,468 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

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exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause a registration statement, if filed, to be declared effective. There might not be an exemption from registration under the Securities Act available to us for our rights offering. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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

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

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

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

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and consolidated affiliated entities. Substantially all of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Act (Revised), or the Companies Act, 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.

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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, 2021, Mr. Eric Ya Shen beneficially owned approximately 56.4% 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. In addition, Mr. Eric Ya Shen has informed us that, as of December 31, 2020, 3,400,000 Class B ordinary shares beneficially owned by him were pledged as collateral in connection with certain margin loans. Any possible enforcement against such collateral could materially affect the influence of Mr. Eric Ya Shen over important corporate matters or the trading price of our ADSs.

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, 2020 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 Foreign 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.

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, 2020, we mainly rely on the following six principal subsidiaries of Vipshop China for our business operations:

- 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;
- Chongqing Vipshop E-Commerce Co., Ltd., or Vipshop Chongqing;
- Guangzhou Pinwei Software Co., Ltd., or Pinwei Software; and
- Vipshop (Zhuhai) E-Commerce Co., Ltd., or Vipshop Zhuhai.

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 2018, 2019, and 2020, 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."

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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 128 Dingxin Road, Haizhu District, Guangzhou, Guangdong 510220, People’s Republic of China. Our telephone number at this address is +86 (20) 2233-0025. 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

We pioneered an innovative “flash sales” model to reinvent how brands sell, and shoppers buy, off-price products. Through our twelve years of dedicated operations in discount retail, we have grown to be an expert in the industry and established a large and growing base of loyal customers and brand partners. As of December 31, 2020, we had approximately 440 million registered members and approximately 201 million cumulative customers, partnered with approximately 21,000 brand partners, and promoted and sold products for over 35,000 popular domestic and international brands. Our GMV increased by 11.3% from RMB148.2 billion in the 2019 to RMB165.0 billion in 2020.

With our dedicated operations in the discount retail industry and through our continuous innovations to stimulate customers’ excitement in their shopping experience, we have accumulated a large number of active customers and repeat customers. Our total number of active customers was 60.5 million, 69.0 million, and 83.9 million in 2018, 2019, and 2020, respectively. Our total number of repeat customers was 46.1 million, 55.0 million, and 68.2 million in 2018, 2019, and 2020, respectively, representing 76.1%, 79.7%, and 81.3%, respectively, of the total number of active customers during the same periods.

We built our highly scalable and customized e-commerce infrastructure to serve the needs of flash sales and business innovations and to become more intelligent and efficient with every order. Our core competencies in merchandising, technology, fulfillment and customer service differentiate us from our competitors and serve as the pillars of our success.

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. We offer sales events daily with an ever-changing and curated selection of popular branded products at deeply discounted prices in limited quantities during limited time periods, inspiring our customers with a “thrilling and exciting” shopping experience. We optimize the brand composition and product mix of our daily sales events based on our strong merchandizing expertise. As of December 31, 2020, we have offered diversified product offerings from over 35,000 popular domestic and international brands, including apparel for women, men, and children, handbags and shoes, cosmetics, mother and baby care products, home goods, and other lifestyle products. We offer products on our platform primarily through a consignment model. To foster customer confidence of purchasing high-quality products from our Vipshop Online Platform, we provide limited product quality insurance for our products.

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We primarily offer flash sales events through our two prime traffic channels, Fengqiang and Kuaiqiang. Each item is available in limited quantities and remains on sale only while supplies last. The products we offer on Fengqiang are generally 70% or more off the original retail price and the discount level of the products on Kuaiqiang generally range from around 10% to 70% off the original retail price. We offer new daily sales events twice a day starting at 10 a.m. and 8 p.m. Beijing time, respectively. 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.

Our Integrated Platform

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 easily. Our Vipshop Online Platform includes the Vipshop App, the *vip.com* website, and the Vipshop WeChat Mini-Program.

Currently, the Vipshop App is our top portal of the Vipshop Online Platform in terms of GMV generated and 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 analytics, 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. For the year ended December 31, 2020, GMV generated by our Vipshop App users accounted for approximately 90% of our total online GMV. In 2017, we launched our Vipshop WeChat Mini-Program, which offers key features of our Vipshop App and allows users to access our platform directly through the 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 description to receive background information on the brand. In addition, we provide customers with curated descriptions and proprietary photographs of each product shown from multiple angles. We sort our product offerings into different categories, such as “women’s apparel,” “men’s apparel,” “handbags,” “footwear,” “baby and maternity,” “outdoors,” “cosmetics and skin care,” “accessories,” and so on to help our customers find the products they are interested in more quickly and easily.
- *Sales Events.* We primarily offer flash sales events through our two prime traffic channels, Fengqiang and Kuaiqiang. In particular, 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 orders online through their Vipshop member accounts. Customers can 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.

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We launched a variety of channels on our Vipshop Online Platform to meet our customers' diversified needs for brands and products. Specifically, we operate different channels for various kinds of branded products, such as apparel, footwear, handbags, accessories, skin care and cosmetics, personal care, baby and maternity, bed and bath, kitchenware, furniture, consumer electronics, etc. Furthermore, we have launched a Vipshop Outlet channel to offer well-known luxury or premium designer products at discounted price and a Clearance Sales channel to offer branded products at clearance prices.

Our Offline Initiatives

In addition to our Vipshop Online Platform, we also operate a nationwide offline network consisting of offline retail stores and outlets to supplement our online business. As of December 31, 2020, we had approximately 240 Vipmaxx offline stores and approximately 310 Vipshop offline stores in China. Our Vipshop offline stores focus on using the latest retail technology and big data from our flash sales model to provide a differentiated and personalized offline shopping experience to consumers, while our Vipmaxx offline stores offer lower-priced apparel, skin care and cosmetics, and fast-moving consumer goods at community shopping centers or shops along the street to attract consumers looking for value-for-money products. The offline stores enhance consumer experience by providing a personalized shopping experience to consumers with the personal recommendations and interactive services from sales staff. Leveraging our extensive experience from our online platform operations, the offline stores offer popular branded products with steep discounts catered to the preferences of consumers at different geographic locations. The offline stores accumulate more customer traffic and data which feed back to our online platform.

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. Shan Shan Outlets currently operates nine outlets in Ningbo, Taiyuan, Harbin, Zhengzhou, Nanchang, Ganzhou, Hengyang, Lanzhou, and Urumchi, and expects to open more outlets in other cities in the future. To continue to expand into the offline business, we further acquired additional equity interests of 30.38% and 40% in Shanjing business management Co., Ltd. and Harbin Shan Shan Chunxiaqiudong Properties Co., Ltd in May and July 2020, respectively, and obtained control over these two entities. In December 2020, we also made capital injection to Guiyang Shan Shan Guangda Outlets Plaza Co., Ltd., to acquire 60% equity interests and obtain control over the entity. In December 2020, we opened our first city outlet in Hefei, Anhui Province. Our city outlet differs from the traditional outlets located in the suburbs with its convenient location close to city center, providing consumers with easy access to quality products at low prices.

In 2020, most of our sales were generated through our Vipshop Online Platform and the sales through these offline stores and outlets were immaterial to our business as a whole. Approximately 100%, 97%, and 94% of our GMV were sourced from our Vipshop Online Platform in 2018, 2019, and 2020.

Our Brand Partners

Since our inception in August 2008, we have attracted a broad and diverse group of brand partners. Our brand partners include primarily brand owners, and to a lesser extent, brand distributors and resellers. As of December 31, 2018, 2019, and 2020, we worked with over 17,000, 18,000, and 21,000 brand partners, respectively. None of the brands accounted for more than 3% of our total revenues in 2018, 2019, and 2020. We also collaborated with some brand partners to develop merchandise especially for our Vipshop Online Platform. 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 more 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 approximately 1,300 members as of December 31, 2020, is responsible for identifying potential qualified brands based on our selection guidelines. Leveraging our proprietary consumer behavior and performance data and the industry expertise of our merchandizing team, 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 desirable 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. 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 the flash sales model, 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 with, we often enter into agreements with them on an annualized 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 comply with our anti-bribery and anti-corruption policies.

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. We also have a professional merchandizing team that optimizes our brand composition and product mix. Before each flash sales event, we consider and analyze historical data, fashion trends, seasonality, and customer feedback to project the volume of each 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. We are able to select appealing products from a broad brand base, negotiate favorable terms with our brand partners, and engage in exclusive cooperation with certain brand partners.

We effectively collect and analyze 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 data analytics and insights 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. Capitalizing on our business intelligence system with proprietary customer behavior data, in 2020, we collaborated with some of our brand partners to design merchandise for Vipshop ("Made for Vipshop").

Inventory Management

We offer a comprehensive selection of products primarily through a consignment model. For brands we have established long-term relationships with, we typically do not pay any deposit on the products we purchase.

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For other brands, however, we generally pay a deposit ranging from 5% 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 leverage 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 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.

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Our Product and Service Offerings

Product Categories

We offer a broad spectrum of apparel, handbags and shoes, cosmetics, home goods, and lifestyle products from desirable 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 styles for different age groups, including casual wear, jeans, dresses, outerwear, lingerie, pajamas, and maternity clothes.
<i>Menswear</i>	Men's apparel, featuring a variety of styles for different age groups, including casual and smart-casual T-shirts, stylish polo shirts, jackets, pants, and underwear.
<i>Skin care and cosmetics</i>	High-quality, affordable, and premium skin care and cosmetic products, including cleansers, lotions, face and body creams, face masks, sunscreen, foundations, lipsticks, eye shadows, and other cosmetics-related items.
<i>Handbags</i>	Purses, satchels, luggage, 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>Accessories</i>	Fashion accessories in various styles and materials for women and men, including belts, jewelry, watches, and glasses complementing our apparel offerings.
<i>Home goods and other lifestyle products</i>	Home goods with an extensive selection of home furnishings, including bed and bath products, home decor, kitchen and tabletop items, and small household appliances.
<i>Supermarkets</i>	Food and snacks, beverages, fresh produce, and pet goods.
<i>Luxury goods</i>	Luxury or premium designer apparel, footwear, and accessories, beauty products, health supplements, home appliances.

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 10% to 70% off the original retail price, which is one of the key elements of the "thrill and excitement" shopping experience that we create for our customers. Our attractive pricing is made possible by cost savings achieved primarily through volume discounts that we receive from our suppliers, particularly for off-season or slower-moving inventories, and less physical retail space and related overhead costs. Leveraging our focused discount

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retail model, we typically enjoy a meaningful pricing advantage when procuring branded merchandise. We also launch special promotional campaigns such as anniversary sales campaign and promotional campaigns during Singles' Day promotion period around November 11 each year.

Other Services

The significant scale of our business allows us to provide a variety of services to create additional value for our business partners and ultimately benefit our customers, including platform access service, promotional and advertising service, inventory and warehouse management service, and membership service. Our Internet finance offerings primarily consist of 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. Starting from 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 channel fees at certain percentages of the loan amounts.

Our developing supplier financing business targets our suppliers' need of liquidity to facilitate our inventory procurement. Wei Yidai, our supplier financing 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 WeChat Pay and Alipay. In the year ended December 31, 2018, 2019, and 2020, approximately 93%, 97%, and 100% of our total online orders were collected through online payment services, of which WeChat Pay 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.

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 automated warehouse management system enables us to closely monitor each step of the fulfillment process, from when a purchase order is confirmed with a brand partner, to when the products are stocked in our logistics centers, and eventually when the product is packaged and picked up for shipment to the customer. We have continuously focused on implementing new initiatives to refine our automated warehouse management

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system throughout our operations. For example, we have implemented the honeycomb system, an automated goods-to-person warehousing system well-suited for handling large quantities with high access speeds, in our South China, Southwest China, and East China logistics hubs to improve picking efficiency and accuracy of consumers' orders. As we offer a curated selection of brands and products for each daily sale, our logistics centers and inventory management systems are also specifically designed to support the frequent sales events on our flash sales platform and a large volume of inventory turnover. In 2018, 2019, and 2020, we processed approximately 437.4 million, 566.3 million, and 692.4 million customer orders, respectively.

Since 2013, we have been implementing innovative solutions to further enhance our logistics efficiency. The "just-in-time" method, or JIT, allows some of our suppliers to not load inventories to our warehouses 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 us and our suppliers to increase the number of products offered on our platform and further diversify our product offerings. We process orders containing products from multiple suppliers in our mega-warehouses across China. Moreover, the "third-party logistics" method launched in 2013, 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' warehouses to the end customers.

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 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' service quality and their compliance with our contractual terms.

Return Policy

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 generally 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. To facilitate a convenient return service and enhance customer experience, we provide door-to-door collection and free return without charging any service fee or warehousing fee. For return of luxury goods, the anti-tampering lock on the product must remain intact. For certain products that have other sizes remaining available in stock, we also offer exchange services via SF Express.

Customer Service

We believe that our emphasis on customer service enhances our ability to maintain a large and loyal customer base and create a superior customer experience, encouraging repeat visits and purchases. We have a

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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, 2020, we had over 2,100 customer service personnel, including independent contractors.

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, 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

Our business model and associated value propositions help us build a large base of active customers with relatively low customer acquisition cost. We continue 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 strategically reinvest our profits into various marketing channels, especially digital marketing channels, to strengthen our brand awareness, 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 can increase their customer stickiness while also serve as a means to attract new customers. Moreover, some of our offline stores are making efforts to utilize private domain traffic by operating their own WeChat groups and provide direct marketing to consumers. We utilize our big data analytics and insights from our large consumer base and business intelligence system to refine our marketing initiatives and provide targeted marketing activities. For example, we launched social campaigns, such as live streaming by celebrities and super VIP special sessions to give customers more benefits and increase customer interaction. Furthermore, we proactively expanded precision marketing, and adopted various marketing campaigns such as advertising in TV series and reality shows and marketing on new media channels, so as to keep customers informed of our latest promotional offerings and our Vipshop brand.

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 advanced 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. Please see “—Payment, Fulfilment and Return—Logistics Network and Warehouse Management System” for details.

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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 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 operations system for warehouse and logistics management 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, pricing and sales inventory management, and facilitates product lifecycle management for our online and offline businesses. These systems enhance the efficiency of our operations.

We have accumulated a large customer base and a vast amount of big data on customer behavior and performance throughout 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. For instance, the comprehensive customer profiles allow us to provide personalized product recommendations to customers that are within their price range, suit their brand preference, and are within their categories of interest. We also use customer profiles in various scenarios for our sales initiatives to effectively interact with its customers, such as notification via push method, text messages, e-mails, and sales events on our WeChat Mini-Program and other social media platforms. In addition, we have developed a real-time customer-intent identification system, which employs proprietary algorithm technologies with recent and real time customer behavioral data to provide recommendations to customers based on the different intentions of customers visiting our platform. Furthermore, our business intelligence system is built with our proprietary cloud computing infrastructure, providing insights for many 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 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.

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, 2020, we had been granted 118 patents and submitted 246 patent applications in China, owned 1,864 registered trademarks in China and 115 registered trademarks outside China, 154 copyrights (including copyrights to 151 software products in China developed by us relating to various aspects of our operations), and 332 registered domain names that are material to our business, including *vip.com* and *vipshop.com*.

Competition

Our competitors primarily include major pure-play online discount retailers and other online discount retailers 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;
- focus on and expertise in apparel-related categories;
- ability to offer a curated selection of products catering to consumer preferences;
- pricing advantage due to our discount retail model;
- breadth and quality of product offerings;
- platform features;
- customer service and fulfillment capabilities; and
- solid 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, which focus on technology-enabled consumer, retail, and other related businesses. As of December 31, 2020, the above commitment has been fulfilled.

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, 2020, the outstanding amount of contribution we made to the private equity fund was RMB1,770 million (US\$271.3 million).

In May and July of 2020, we further acquired equity interests of 30.38% and 40% in Ningbo Shanjing and Harbin Shan Shan for cash consideration of RMB236,250 and RMB311,200, respectively. As a result of these transactions, we obtained control in these two entities.

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 Relating to Foreign Investments

Investment activities in China by foreign investors are principally governed by the Industry Guidelines of Encouraged Foreign Investment and the Special Administrative Measures for Entrance of Foreign Investment (Negative List), which were promulgated and are amended from time to time by the Ministry of Commerce and the NDRC, and together with the PRC Foreign Investment Law and its respective implementation rules and ancillary regulations. The Industry Guidelines of Encouraged Foreign Investment and the Special Administrative Measures for Entrance of Foreign Investment (Negative List) lay out the basic framework for foreign investments in China, classifying businesses into three categories with regard to foreign investments: “encouraged,” “restricted,” and “prohibited.” Industries not listed in the Industry Guidelines of Encouraged Foreign Investment or the Special Administrative Measures for Entrance of Foreign Investment (Negative List) are generally deemed as falling into a fourth category “permitted” unless specifically restricted by other PRC laws.

On June 30, 2019, the Ministry of Commerce and the NDRC released the Industry Guidelines of Encouraged Foreign Investment (2019 Version) and on December 27, 2020, the Ministry of Commerce and the NDRC released Industry Guidelines of Encouraged Foreign Investment (2020 Version), which took effect on January 27, 2021 and replaced the Industry Guidelines of Encouraged Foreign Investment (2019 Version). On June 23, 2020, the Ministry of Commerce and NDRC promulgated the Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2020 Version), which became effective on July 23, 2020.

On March 15, 2019, the National People’s Congress approved the PRC Foreign Investment Law, which took effect on January 1, 2020 and replaced three then existing laws on foreign investments in China, namely, the PRC Sino-Foreign Equity Joint Venture Enterprise Law, the PRC Sino-Foreign Cooperative Joint Venture Enterprise Law, and the PRC Wholly Foreign-invested Enterprise Law. 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 invested enterprises in China. The PRC Foreign Investment Law establishes the basic framework for the access to and the promotion, protection, and administration of foreign investments in view of investment protection and fair competition.

According to the PRC Foreign Investment Law, foreign investments shall enjoy pre-entry national treatment, except for those foreign-invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” While foreign investors shall refrain from investing in any of the foreign “prohibited” industries, foreign-invested entities operating in foreign “restricted” industries shall require market entry clearance and other approvals from relevant PRC governmental authorities. The PRC Foreign Investment Law does not comment on the concept of “de facto control” or contractual arrangements with variable interest entities, however, it has a catch-all provision under the definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the PRC State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment. Furthermore, the PRC Foreign Investment Law provides that foreign-invested enterprises established according to the said three existing laws regulating foreign investments may maintain their structure and corporate governance within five years after the implementation of the PRC Foreign Investment Law.

On December 26, 2019, the State Council promulgated the Regulations for Implementing the PRC Foreign Investment Law, which took effect on January 1, 2020. The implementation rules further clarified that the state encourages and promotes foreign investments, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening.

On December 30, 2019, the Ministry of Commerce and the SAMR, jointly promulgated the Measures for Information Reporting on Foreign Investment, which became effective on January 1, 2020. Pursuant to the

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Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department.

Regulations Relating to Foreign Investments in Value-Added Telecommunications Businesses

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, 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 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.

On June 19, 2015, the 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, allowing foreign investors to own more than 50% of equity interest in an operator of “operating e-commerce” business. The latest Special Administrative Measures for Entrance of Foreign Investment (Negative List) further provides that foreign investors are allowed to hold more than 50% equity interests in a value-added telecommunications service provider engaging in e-commerce, domestic multiparty communication, storage-and-forward, and call center businesses, while other requirements with respect to track record and experience provided by the Provisions on Administration of Foreign-Invested Telecommunications Enterprises shall still apply and 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 the MIIT on July 13, 2006, reiterates the regulations on foreign investments in telecommunications businesses. Under the MIIT Circular, a PRC domestic company that holds a Value-added Telecommunication License, or a VAT License, is prohibited from leasing, transferring, or selling the VAT 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. The MIIT Circular further requires each VAT 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.

Regulations Relating to Licenses and Permits

We are required to hold a variety of licenses and permits in connection with various aspects of our business, including the following:

VAT License

The Telecommunications Regulations promulgated by the State Council and its related implementation rules, including the Catalog of Classification of Telecommunications Business issued by the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services. Under the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain a VAT License from the MIIT or its provincial level counterparts. In 2017, the MIIT replaced the Administrative Measures on Telecommunications Business Operating Permit promulgated in 2009 by promulgating the Administrative Measures on Telecommunications Business Operating Permit, which set forth more specific provisions regarding the different types of VAT Licenses required to operate different value-added telecommunications services, the qualifications, and procedures for obtaining such different types of VAT Licenses. Our consolidated affiliated entity Vipshop E-Commerce currently holds a VAT

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License for the provision of online data processing and transaction processing services, which remains valid until December 28, 2022. In addition, Zhejiang Vipshop Payment Service Co., Ltd., an indirect subsidiary of our consolidated affiliated entity Vipshop Information, currently holds a VAT License for the provision of online data processing and transaction processing services and online information service, which remains valid until September 4, 2021.

Record-filing for Provision of Online Trading Platform Services for Distribution of Publications

Under the latest Administrative Provisions for the Publication Market, which were jointly promulgated by the State General Administration of Press, Publication, Radio, Film, and Television, and the Ministry of Commerce on May 31, 2016, and became effective on June 1, 2016, an online trading platform that provides services for the distribution of publications shall complete record-filing formalities with the competent publication administrative authority. As of the date of this annual report, Vipshop E-Commerce has completed the required record-filing with competent publication administrative authority.

Food Operating Permit

China has adopted a licensing system for food supply operations under the Food Safety Law and its implementation rules. Entities or individuals that intend to engage in food production, food distribution, or food service businesses shall obtain licenses or permits for such businesses. On August 31, 2015, the China Food and Drug Administration issued the Administrative Measures for Food Operating Permit, which was amended and took effect as of November 17, 2017. The Administrative Measures for Food Operating Permit requires an enterprise engaging in food operating business to obtain a Food Operating Permit. Each of Vipshop China, Vipshop Chongqing, Vipshop Jianyang, Vipshop (Kunshan) E-Commerce Co., Ltd., or Vipshop Kunshan, Vipshop Tianjin, Vipshop (Hubei) E-Commerce Co., Ltd., or Vipshop Hubei, Vipshop Zhaoqing, and Shanjing Business Management (Ningbo) Co., Ltd., or Ningbo Shanjing holds a valid Food Operating Permit.

Record-filing by Third-Party Platform Providers for Online Food Trading

On July 13, 2016, the China Food and Drug Administration promulgated the Measures for Investigation and Handling of Illegal Acts Involving Online Food Safety, pursuant to which a third-party platform provider for online food trading in China shall file a record with the food and drug administration at the provincial level and obtain a filing number. Vipshop E-Commerce has completed the required record-filing formalities as a third-party platform provider for online food trading on February 9, 2018.

Record-filing for Operation of Medical Devices

Pursuant to the Regulations on Supervision and Administration of Medical Devices, which was issued by the State Council in 2000 and further amended in March 2014 and May 2017, medical devices are divided into three types based on their risk levels. On July 30, 2014, the China Food and Drug Administration promulgated the Measures on the Supervision and Administration of the Business Operations of Medical Devices, which became effective on October 1, 2014 and was amended on November 17, 2017. Pursuant to the Regulations on Supervision and Administration of Medical Devices and the Measures on the Supervision and Administration of the Business Operations of Medical Devices, any entities that engage in the business operation of Type II medical devices shall file a record with the local food and drug administration. Each of Vipshop China, Vipshop Chongqing, Vipshop Jianyang, Vipshop Tianjin, Vipshop Hubei, and Vipshop Zhaoqing has completed the record-filing formalities regarding its operation of medical devices with the competent food and drug administration.

Furthermore, according to the Measures for the Administration and Supervision of Online Sales of Medical Devices, which was promulgated by the China Food and Drug Administration on December 20, 2017 and became effective on March 1, 2018, enterprises engaged in online sales of medical devices shall be medical

device operation enterprises that have obtained medical device operation licenses or record-filings and shall fill in the table of information of online sales of medical devices and file the relevant information to the competent food and drug administration. Each of Vipshop Jiayang, Vipshop Tianjin, Vipshop Hubei, and Vipshop Zhaoqing has filed the information of its online sales of medical devices to the competent food and drug administration.

Record-Filing by Third-Party Platforms Providers for Medical Device Online Trading Services

Pursuant to the Measures for the Administration and Supervision of Online Sales of Medical Devices, a provider of a third-party platform for online trading services for medical devices shall obtain the Internet Drug Information Service Qualification Certificate and shall complete filing procedures with the competent provincial food and drug administrative department. Vipshop E-Commerce has completed the required record-filing formalities as a provider of a third-party platform for online trading services for medical devices with the competent food and drug administration on December 29, 2018.

Internet Drug Information Service Qualification Certificate

Pursuant to the Administrative Measures on Internet Drug Information Service which was promulgated by the China Food and Drug Administration on July 8, 2004 and most recently amended on November 17, 2017, an internet information service operator that provides information regarding drugs or medical equipment shall obtain an Internet Drug Information Service Qualification Certificate from the competent food and drug administration. Vipshop E-Commerce has obtained the Internet Drug Information Service Qualification Certificate on November 6, 2018, which remains valid until November 5, 2023.

Payment Business License

On June 14, 2010, the People's Bank of China issued the Administrative Measures for the Payment Services of Non-Financial Institutions, which was most recently amended on April 29, 2020. Under these measures, a non-financial institution shall obtain a Payment Business License to provide payment services and qualifies as a paying institution. With the Payment Business 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 the People's Bank of China. Zhejiang Vipshop Payment Service Co., Ltd. currently holds the Payment Business License for online payment services which remains valid until June 26, 2022.

Registration and Record-Filing of E-commerce Livestream Platform

Pursuant to Notice of National Radio and Television Administration on Strengthening the Administration of Livestream Shows and E-commerce Livestream promulgated by State Administration of Radio and Television on November 12, 2020, platforms providing live streaming services for online shows and e-commerce activities should effectively implement their responsibilities as subjects, strive to improve various management systems, responsibility systems, content security systems, human resources, and material allocation for webcast services, actively participate in the development of industry ethics and industry self-discipline, so as to jointly promote the standardized, orderly, and sound development of live streaming of online shows and e-commerce activities. The aforesaid platforms should register and file the information of business operators and business development information in the "Information Management System for National Online Audio-Visual Platforms" by November 30, 2020. Vipshop E-Commerce has submitted an application for the record-filing in the "Information Management System for National Online Audio-Visual Platforms."

Network Cultural Business License

Pursuant to the Interim Administrative Provisions on Internet Culture, which was issued by Ministry of Culture on May 10, 2003 and most recently amended on December 15, 2017, the enterprises engaged in

operational Internet culture activities shall obtain the Network Cultural Business License. Operational Internet culture activities mean the activities of providing Internet culture products and services to obtain benefits by charging fees from users accessing the Internet or by electronic commerce, advertisement, financial supports, etc., for the purpose of making profits. Vipshop E-commerce currently holds a Network Cultural Business License, which remains valid until May 27, 2021.

Registration of Issuers of Single-Purpose Commercial Prepaid Cards

On September 21, 2012, the Ministry of Commerce issued the Administrative Measures on Single-Purpose Commercial Prepaid Cards (Tentative), which took effect on November 1, 2012 and was amended on August 18, 2016. Under the Administrative Measures on Single-Purpose Commercial Prepaid Cards (Tentative), among other things and subject to implementing rules adopted by the local branch of the Ministry of Commerce, the issuer of single-purpose commercial prepaid 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 the Ministry of Commerce or its local branches within 30 days after it starts offering such single-purpose commercial prepaid cards, and (ii) adopt sufficient measures to control risks, by means of controlling the total balance of the single-purpose commercial prepaid cards and providing advance deposit, guarantee insurance, bank guarantee, or other types of commercial guarantee as required. Some of our PRC subsidiaries and our consolidated affiliated entities, including Vipshop E-Commerce and Ningbo Shanjing, have completed the required registration formalities with the competent municipal branches of the Ministry of Commerce.

Record Filing and Registration of Foreign Trade Operators

Pursuant to the Foreign Trade Law of the PRC promulgated by the Standing Committee of the National People's Congress on May 12, 1994 and most recently amended on November 7, 2016, and the Measures for Record Filing and Registration of Foreign Trade Business Operators promulgated by the Ministry of Commerce on June 25, 2004 and most recently amended on November 30, 2019, foreign trade business operators engaging in import or export of goods shall go through record filing and registration with the Ministry of Commerce or authorities entrusted by the Ministry of Commerce, unless otherwise stipulated by laws and administrative regulations and the Ministry of Commerce. Each of Vipshop Chongqing and Ningbo Shanshan Outlets Cross-border Trade Co., Ltd., or Ningbo Shanshan, which engages in import and export of goods, has completed the required filings and registration with the competent authorities entrusted by the Ministry of Commerce.

Certificate of the Customs on Registration of a Customs Declaration Entity

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities promulgated by the General Administration of Customs on March 13, 2014 and most recently amended on May 29, 2018, in completing customs declaration formalities, any customs declaration entity shall go through the application registration formalities with the Customs in accordance with the Provisions, unless otherwise required by the laws, administrative regulations, or rules of the Customs. Each of Vipshop China, Vipshop Chongqing, and Ningbo Shanshan has obtained a Certificate of the Customs on the Registration of a Customs Declaration Entity for its customs declaration business.

Record-Filing with the Immigration Inspection and Quarantine Agency

Pursuant to the Law on Import and Export Commodity Inspection promulgated by the Standing Committee of the National People's Congress on February 21, 1989 and most recently amended on April 27, 2018, and the Implementing Regulations of the Law on Import and Export Commodity Inspection promulgated by the State Council on August 31, 2005 and most recently amended on March 2, 2019, the consignees or the consignors of imported and exported commodities may complete declaration formalities for inspection on its own or entrust a declaration agent enterprise to complete declaration formalities for inspection and shall complete filing

formalities with the immigration inspection and quarantine agency in accordance with the law. Each of Vipshop China, Vipshop Chongqing, and Ningbo Shanshan has completed the required filings formalities with the competent immigration inspection and quarantine agency.

Regulations Relating to 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 the Internet use to protect personal information from any unauthorized disclosure. Under the Several Provisions on Regulating the Market Order of Internet Information Services which was promulgated by the MIIT on December 29, 2011, an ICP service operator may not collect any user personal information or provide any such information to third parties without the consent of a user, unless otherwise stipulated by laws and administrative regulations. An ICP service operator must expressly inform the users of the method, content, and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunication regulatory authority.

In addition, the Decision on Strengthening Network Information Protection, which was promulgated by the Standing Committee of the National People's Congress on December 28, 2012, provides that electronic information that is able to identify personal identities of citizens or is concerned with personal privacy of citizens is protected by law and shall not be unlawfully obtained or provided. ICP service operators collecting or using personal electronic information of citizens shall specify purposes, manners, and scopes of information collection and use, obtain the consent of citizens concerned, and strictly keep confidential personal information collected. ICP service 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 service operators to prevent personal information collected from unauthorized disclosure, damage, or being lost. ICP service 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 which was promulgated 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 which was issued by the Standing Committee of the National People's Congress on August 29, 2015 and became effective on November 1, 2015, any Internet service provider that fails to fulfil 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 the 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.

To further regulate cybersecurity and privacy protection, the PRC Cybersecurity Law which was promulgated by the Standing Committee of the National People's Congress 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.

On June 28, 2016, the Cyberspace Administration of China issued the Administrative Provisions on Mobile Internet Applications Information Services, which became effective on August 1, 2016, to further strengthen the regulation of the mobile app information services. Pursuant to these provisions, owners or operators of mobile apps that provide information services are required to be responsible for information security management, establish and improve the protective mechanism for user information, observe the principles of legality, rightfulness and necessity, and expressly state the purpose, method, and scope of, and obtain user consent to, the collection and use of users' personal information.

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 marks 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 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 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. On August 22, 2019, the Cyberspace Administration of China promulgated the Provisions on the Cyber Protection of Children's Personal Information 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.

On November 28, 2019, the Cyberspace Administration of China, the MIIT, the Ministry of Public Security, and the SAMR jointly promulgated 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.

On May 28, 2020, the National People's Congress approved the PRC Civil Code, which came into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that needs to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process, or transmit personal information of others, or illegally purchase or sell, provide, or make public personal information of others.

Regulations Relating to E-Commerce

On January 26, 2014, the State Administration for Industry and Commerce, the predecessor of the SAMR, adopted the Administrative Measures for Online Trading, which took effect on March 15, 2014. Under the Administrative Measures for Online Trading, 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. Online business operators and service providers are also required to procure the security and reliability of the transactions, and provide the products or services consistent with their commitments.

On March 24, 2016, STA, 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 the 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.

To further regulate the e-commerce industry, on August 31, 2018, the Standing Committee of the National People's Congress 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 cybersecurity 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 the 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.

Regulations Relating to Internet Finance

On July 18, 2015, ten PRC governmental authorities jointly issued the Guidance on Promoting the Healthy Development of Internet Finance. This 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 Guidance on Promoting the Healthy Development of Internet Finance, 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.

On May 4, 2008, the People's Bank of China and China Banking Regulatory Commission 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 governmental authorities at the provincial or equivalent level, including Shanghai, issued local implementing rules on the administration of microcredit companies pursuant to this guidance. The specific local authority that supervises 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 supervises 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.

On September 7, 2020, the China Banking and Insurance Regulatory Commission issued the Circular on Strengthening the Supervision and Administration of Microcredit Companies. This circular provides that the microcredit companies shall mainly operate the lending business and shall act in accordance with the requirements regarding the loan concentration, loan purposes, fund management, and debt collection and disclosure. Local authorities shall enhance supervision and administration of the establishment of the microcredit companies and suspend newly-incorporated microcredit companies from engaging in the Internet microcredit business and other inter-provincial business. We currently are permitted to engage in microcredit businesses through a subsidiary of Vipshop China in Shanghai.

Regulations Relating to Commercial Factoring Services

On June 27, 2012, the Ministry of Commerce issued the Notice on the Pilot Launch of Commercial Factoring which launched a commercial factoring pilot program in the Shanghai Pudong New Area and the Tianjin Binhai New Area. The Ministry of Commerce further expanded the list of commercial factoring pilot areas to include Guangzhou and Shenzhen in December 2012, and Chongqing Liangjiang New Area and certain other areas in August 2013. Pursuant to the notices of the Ministry of Commerce, the 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 the Ministry of Commerce 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, and 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.

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.

Regulations Relating to Product Quality and Consumer Protection

The Product Quality Law, which was promulgated by Standing Committee of the National People's Congress on February 22, 1993 and most recently amended on December 29, 2018, applies to all production and sale activities in China. Pursuant to this law, products offered for sale must satisfy relevant quality and safety standards. Enterprises may not produce or sell counterfeit products in any fashion, including forging brand labels or giving false information regarding a product's manufacturer. Violations of state or industrial standards for health and safety and any other related violations may result in civil liabilities and administrative penalties, such as compensation for damages, fines, suspension, or shutdown of business, as well as confiscation of products illegally produced and sold and the proceeds from such sales.

The Consumer Rights and Interests Protection Law or the Consumer Protection Law, which was promulgated by Standing Committee of the National People's Congress on October 31, 1993 and most recently amended on October 25, 2013, sets out the obligations of business operators and the rights and interests of the consumers in China. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about the commodities, and guarantee the quality, function, usage, and term of validity of the commodities. The Consumer Protection Law was further amended in October 2013 and became effective in March 2014. The amended Consumer Protection Law further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on the business operators through the internet. The consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers. Where the providers of the online marketplace platforms are unable to provide the real names, addresses, and valid contact details of the sellers or service providers, the consumers may also claim damages from the providers of the online marketplace platforms. Providers of online marketplace platforms that know or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liabilities with the sellers or service providers.

Regulations Relating to Leasing

Pursuant to the Law on Administration of Urban Real Estate, which was promulgated on July 5, 1994 and most recently amended on August 26, 2019 by the Standing Committee of the National People's Congress, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to the Civil Code, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. In addition, in the event of change of ownership of the leased premises, the lease contract between the lessee and the lessor will still remain effective. The Civil Code further provides that where the leased property has been leased and transferred for possession before the creation of the mortgage, the established leasehold relationship will not be affected by the mortgage.

Regulations Relating to Anti-Monopoly

The PRC Anti-Monopoly Law, which was promulgated by the Standing Committee of the National People's Congress on August 30, 2007 and effective from August 1, 2008, prohibits monopolistic conduct such as entering into monopoly agreements, abuse of dominant market position, and concentration of undertakings that have the effect of eliminating or restricting competition.

The dominant market position shall refer to a market position where an operator may manipulate the price, volume, and other trade conditions of commodities on a relevant market, or may obstruct or otherwise affect the entrance of other operators into relevant markets. Operators who hold the dominant market position are prohibited from engaging in such practices which may be classified as an abuse of said position as: (a) selling commodities at unfairly high or buying commodities at unfairly low prices, (b) conducting tie-in sales or adding other unreasonable conditions on a deal without justified reasons, (c) discriminating among trading counterparts of the same qualifications with regard to trade price, etc. without justified reasons, or (d) other practices recognized by the enforcement authorities as abuse of dominant market position. Furthermore, where an operator violates the provisions of the Anti-Monopoly Law by abusing dominant market position, the enforcement authorities shall order such operator to stop the illegal activities, confiscate the illegal earnings, and impose a fine of 1% to 10% of the previous year's sales revenue.

In March 2018, the SAMR was formed to take over, among other things, the anti-monopoly enforcement functions from the relevant departments under the Ministry of Commerce, the NDRC, and the State Administration for Industry and Commerce, respectively. Since its inception, the SAMR has continued to strengthen its anti-monopoly enforcement. The SAMR issued the Notice on Anti-Monopoly Enforcement Authorization on December 28, 2018, which grants authorizations to the SAMR's provincial branches for anti-monopoly enforcement within their respective jurisdictions, and further issued the Anti-Monopoly Compliance Guideline for Operators on September 11, 2020 for establishing an anti-monopoly compliance management system and preventing anti-monopoly compliance risks.

On June 26, 2019, the SAMR issued the Interim Provisions on the Prohibitions of Acts of Abuse of Dominant Market Positions, which took effect on September 1, 2019 to further prevent and prohibit the abuse of dominant market positions. On February 7, 2021, the Anti-Monopoly Committee of the State Council promulgated the Anti-monopoly Guidelines for the Platform Economy Sector, aiming to improve anti-monopoly administration on online platforms. The guideline, operating as the compliance guidance under the existing PRC anti-monopoly regulatory regime for platform economy operators, specifically prohibits certain acts of the platform economy operators that may have the effect of eliminating or limiting market competition, such as forcing the users to choose the product or service of one operator exclusively from the other.

Regulations Relating to Anti-Unfair Competition

Competition among business operators is generally governed by the PRC Anti-Unfair Competition Law, which was promulgated by the Standing Committee of the National People's Congress on September 2, 1993 and amended on November 4, 2017 and April 23, 2019, respectively. According to the Anti-unfair Competition Law, business operators must abide by the principles of voluntariness, equality, fairness and good faith, and observe laws and business ethics. In particular, business operators are prohibited from any of the following unfair activities: (i) committing acts of confusion; (ii) seeking transaction opportunities or competitive advantages by bribing relevant entities or individuals with property or by any other means; (iii) conducting commercial promotions for the performance, function, quality, sales status, user evaluation, honor received concerning its products in a false or misleading manner; (iv) infringing trade secrets; (v) premium campaign in contravention to the Anti-Unfair Competition Law; and (vi) fabricating or disseminating false or misleading information to undermine the goodwill or commodity reputation of any competitors. On October 29, 2020, the SAMR issued the Interim Provisions on Regulating Promotional Activities, which took effect on December 1, 2020. Among other things, these interim provisions are designed to promote consumer protection and prohibit false or misleading

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commercial information used in promotional activities. Failure to comply with these provisions may subject the business operators to penalties or other administrative actions by the regulatory authorities.

Regulations Relating to Advertising

The PRC government regulates advertising, including online advertising, principally through the SAMR. The PRC Advertising Law, as promulgated on October 27, 1994 and most recently amended on October 26, 2018 by the Standing Committee of the National People's Congress, outlines the general regulatory framework for advertising. According to the Advertising Law, advertisers, advertising service providers, and advertising publishers are required to ensure that the contents of the advertisements they prepare or distribute are true and in full compliance with applicable laws and regulations. For example, advertisements must not contain terms such as "the state-level," "the highest grade," "the best," or such similar wording. In addition, the use of Internet to distribute advertisements must not affect the normal use of the Internet by users. Where Internet information service providers are aware or ought to be aware that illegal advertisements are being published or distributed using their services, they are obliged to prevent such distribution.

The Interim Measures for Administration of Internet Advertising, which was promulgated by the State Administration for Industry and Commerce on July 4, 2016 and took into effect on September 1, 2016, set forth certain compliance requirements for online advertising businesses. The Internet Advertisement Measures regulate any advertisement published on the Internet, including without limitation, through websites, webpage, and Apps, in the form of word, picture, audio, and video. Advertising operators and distributors of Internet advertisement must examine, verify, and record identity information for advertisers including name, address and contact information, and maintain a verification record that is updated on a regular basis. Moreover, advertising operators and advertising distributors must examine the supporting documentation provided by advertisers and verify the contents of the advertisements against supporting documents before publishing. If the contents of advertisements are inconsistent with the supporting documents, or the supporting documents are incomplete, advertising operators and distributors must refrain from providing design, production, agency, or publishing services.

Violation of the foregoing laws and regulations may subject the operators to civil liabilities and penalties, including fines, confiscation of advertising income, orders to stop dissemination of the advertisements, and orders to publish an advertisement correcting the misleading information. In case of serious violations, the SAMR or its local branches may force the violators to terminate its advertising operation or revoke its business license.

Regulations Relating to Pricing

According to the Pricing Law, as promulgated on December 29, 1997 and took effect on May 1, 1998 by the Standing Committee of the National People's Congress, business operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the name, origin of production, specifications, and other related particulars clearly. Business operators may not sell products at a premium or charge any fees that are not explicitly indicated. Business operators must not commit the specified unlawful pricing activities, such as colluding with others to manipulate the market price, using false or misleading prices to deceive consumers to purchase, or conducting price discrimination against other business operators. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, stopping unlawful activities, confiscating illegal gains and fines. The business operators may be ordered to suspend business for rectification, or have their business licenses revoked if the circumstances are severe.

Regulations Relating to Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks, and domain names.

Copyright

Copyright in China, including copyrighted software, is principally protected under the Copyright Law which was promulgated by Standing Committee of the National People's Congress on September 7, 1990 and of which the most recent amendment will come into effect as of June 1, 2021. Under the Copyright Law, PRC citizens, legal persons, or other organizations enjoy copyright over their works which refer to original intellectual achievements in the fields of literature, art, and science which can be expressed in a certain form including written works, oral works, computer software, and other intellectual achievements which comply with the characteristics of the works, whether published or not. The term of protection for copyrighted software is 50 years.

In addition, the Regulations on the Protection of Rights to Information Network Communication, which was promulgated by the State Council on May 18, 2006 and amended on January 30, 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries, and internet service providers. The Computer Software Copyright Registration Procedures, which was promulgated by the State Copyright Bureau on February 20, 2002, applies to software copyright registration, license contract registration, and transfer contract registration.

Patent

According to the PRC Patent Law, which was promulgated by the Standing Committee of the National People's Congress on March 12, 1984 and most recently amended on October 1, 2009, patent protection is divided into three categories, namely, invention patents, utility model patents, and design patents. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness, and practicability. Once an invention patent, or an utility model patent is granted, unless otherwise permitted by law, no individual or entities are permitted to engage in the manufacture, use, sale, or import of the product protected by such patent or otherwise engage in the manufacture, use, sale, or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder, otherwise, the use will constitute an infringement of the patent rights.

Trademark

Registered Trademarks are protected by the PRC Trademark Law which was adopted by the Standing Committee of the National People's Congress on August 23, 1982 and most recently amended on April 23, 2019 as well as the Implementation Regulation of the PRC Trademark Law which was adopted by the State Council on August 3, 2002 and amended on April 29, 2014. The Trademark Office of the National Intellectual Property Administration under the 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. For licensed use of a registered trademark, the licensor shall file record of the licensing of the said trademark with the Trademark Office, otherwise it may not defend against a bona fide third party. 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.

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

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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.

Domain Names

Domain names are protected under the Administrative Measures on the Internet Domain Names which was promulgated by the MIIT on August 24, 2017 and became effective on November 1, 2017. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center, is responsible for the daily administration of .cn domain names and Chinese domain names. The China Internet Network Information Center adopts the "first to file" principle with respect to the registration of domain names. On November 27, 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services, which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity's shareholders), or the entity's principal or senior manager.

Regulations Relating to Foreign Currency Exchange and Dividend Distribution

Foreign Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations which was promulgated by the State Council on January 29, 1996 and most recently amended on August 5, 2008. Under the Foreign Exchange Administration Regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, may be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities or banks is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency denominated loans or foreign currency is to be remitted into China under the capital account, such as a capital increase or foreign currency loans to our PRC subsidiaries.

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 a foreign invested enterprise, or an foreign-invested enterprise, of foreign currency into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 requires that the registered capital of an foreign-invested enterprise 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 foreign-invested enterprise 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, and was partially amended on December 30, 2019. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises 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, foreign-invested enterprises (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. On October 23, 2019, SAFE issued the SAFE Circular 28, pursuant to which foreign-invested enterprises whose approved business scope does not include equity investments are allowed to use their capital funds obtained from foreign exchange settlement to make domestic equity investments in China, provided that such investments do not violate the Special Administrative Measures for Entrance of Foreign Investment (Negative List) and the target investment projects are genuine and in compliance with laws.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, or SAFE Circular 59, which was further amended in May 2015. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts, and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in China, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which was further revised in 2015, 2018, and 2019, which specify that the administration by SAFE or its local branches over direct investment by foreign investors in China shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in China based on the registration information provided by SAFE and its branches.

On January 26, 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 foreign-invested enterprises' foreign exchange distribution above US\$50,000, and strengthening genuineness and compliance verification of foreign direct investments.

Dividend Distribution

The principal regulations governing distribution of dividends of foreign-invested enterprises include the PRC Foreign Investment Law, the Implementation Rules of the PRC Foreign Investment Law, and the Company Law which was 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.

Offshore Financing

SAFE 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, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. Under SAFE Circular 37, (i) a "special purpose vehicle" 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 "special purpose vehicle," including, without limitation, establishing foreign-invested enterprises and using such foreign-invested enterprises 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 special purpose vehicles 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 a special purpose vehicle. SAFE Circular 37 further requires the filing of amendment to the registration in the event of any changes with respect to the special purpose vehicle, including basic information changes such as changes in a PRC resident individual shareholder, name of special purpose vehicle 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 events. On February 13, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, which became effective on June 1, 2015 and was amended on December 30, 2019. After such notice 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. Beneficial owners of the special purpose vehicle who are PRC citizens are also required to make annual filing with the local banks regarding their overseas direct investment status. If any PRC resident shareholder of the special purpose vehicle fails to make the required registration or to update the previously filed registration, the PRC subsidiaries of the special purpose vehicle may be prohibited from distributing their profits or the proceeds from any capital reduction, share transfer or liquidation to the special purpose vehicle, and the special purpose vehicle also may be prohibited from making additional capital contribution into its PRC subsidiaries.

Stock Incentive Plans

Pursuant to the Administrative Measures for Individual Foreign Exchange, which was promulgated by the People's Bank of China on December 25, 2006 and became effective on February 1, 2007, all foreign exchange matters involved in employee share ownership plans and share option plans in which PRC citizens participate require approval from SAFE or its authorized branch. Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, or SAFE Notice 7, which was promulgated by SAFE on February 15, 2012, PRC residents or non-PRC citizens residing in China for a consecutive period of no less than one year, subject to a few exceptions, 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 SAFE Notice 7, 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 these individuals 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 such individuals' exercise of the employee share options. The foreign exchange proceeds received by such individuals 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 China opened by the PRC agents before distribution to such individuals.

Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives promulgated and became effective on August 24, 2009 by the STA, listed companies and their domestic organizations will, according to the individual income tax calculation methods for "wage and salary income" and stock option income, lawfully withhold and pay individual income tax on such income.

Regulations Relating to Tax

Enterprise Income Tax

The PRC enterprise income tax is calculated based on the taxable income determined under the PRC Enterprise Income Tax Law, which became effective on January 1, 2008 and was most recently amended on December 29, 2018. The PRC Enterprise Income Tax Law imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including foreign-invested enterprises. The PRC Enterprise Income Tax Law and its implementation rules permit "high and new technology enterprises" to benefit from a preferential enterprise income tax rate of 15% subject to these high and new technology enterprises meeting certain qualification criteria.

Moreover, under the PRC Enterprise Income Tax Law, enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and are therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Though the implementation rules of the PRC Enterprise Income Tax Law define "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", the only detailed guidance currently available for the definition of "de facto management body" as well as the determination of offshore incorporated PRC tax resident status and its administration are set forth in the Circular Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, or Circular 82, and the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or STA Bulletin 45, both issued by STA, which provide guidance on the administration as well as determination of the tax residency status of a Chinese-controlled offshore-incorporated enterprise, defined as an enterprise that is incorporated under the law of a foreign country or territory and that has a PRC company or PRC corporate group as its primary controlling shareholder.

According to Circular 82, a Chinese-controlled offshore-incorporated enterprise will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions set forth in Circular 82 are met: (i) the primary location of the day-to-day operational management and the places where they perform their duties are in China; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval of organizations or personnel in China; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in China; and (iv) 50%

or more of voting board members or senior executives habitually reside in China. In addition, STA Bulletin 45 provides clarification on the resident status determination, post-determination administration, and competent tax authorities. It also specifies that when provided with a copy of a PRC resident determination certificate from a resident Chinese-controlled offshore-incorporated enterprise, the payer should not withhold 10% income tax when paying certain PRC-sourced income such as dividends, interest and royalties to the Chinese-controlled offshore-incorporated enterprise.

Dividend Withholding Tax

The PRC Enterprise Income Tax 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 State Council or a tax treaty between China and the jurisdictions in which the non-PRC investors reside may reduce such income tax. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, issued by STA on February 20, 2009, 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, issued by STA on February 3, 2018, 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. On October 14, 2019, STA promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Treaties, which became effective on January 1, 2020, 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.

Indirect Transfer of Properties

On February 3, 2015, STA issued a Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or STA Public Notice 7. In December 2017, Article 13 and Paragraph 2 of Article 8 of STA 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 STA Circular 37, effective on December 1, 2017, which was amended on June 15, 2018, 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 STA 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 enterprise income tax 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 STA 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. STA Public Notice 7 also brings challenges to both offshore transferor and transferee (or another 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 enterprise income tax, and the transferee or another 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.

Issues concerning the withholding of enterprise income tax 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 STA Circular 37. China-sourced income includes income from equity investment such as dividend and bonus, income from interest, rental and royalties, income from the property transfer, and other income. Pursuant to the STA Circular 37, non-PRC resident enterprises shall pay enterprise income tax 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 enterprise income tax for a non-PRC resident enterprise, or is unable to perform its obligation mentioned above, the non-PRC resident enterprise shall declare and pay enterprise income tax to the competent tax authority, and complete the Withholding Statement of the PRC for Enterprise Income Tax.

Value-Added Tax

On March 23, 2016, the Ministry of Finance and STA jointly issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-Added Taxes in Lieu of Business Taxes. Effective from May 1, 2016, the PRC tax authorities will collect Value-Added Tax, or the VAT, in lieu of business tax on a trial basis within China 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 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 China 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, the Ministry of Finance and STA 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. 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 the tax rate of 16%, the taxes are calculated at the deduction rate of 12%; (iv) for exported goods originally subject to the 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 the 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, the Ministry of Finance, STA, 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 the tax rate of 13%, the taxes are calculated at the deduction rate of 10%; (iv) for exported goods originally subject to the 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 the tax rate of 10% and export tax refund rate of 10%, the export tax refund rate is adjusted to 9%. Announcement 39 came into effect on April 1, 2019 and shall prevail in case of any conflict with existing provisions.

Regulations Relating to Employment Laws

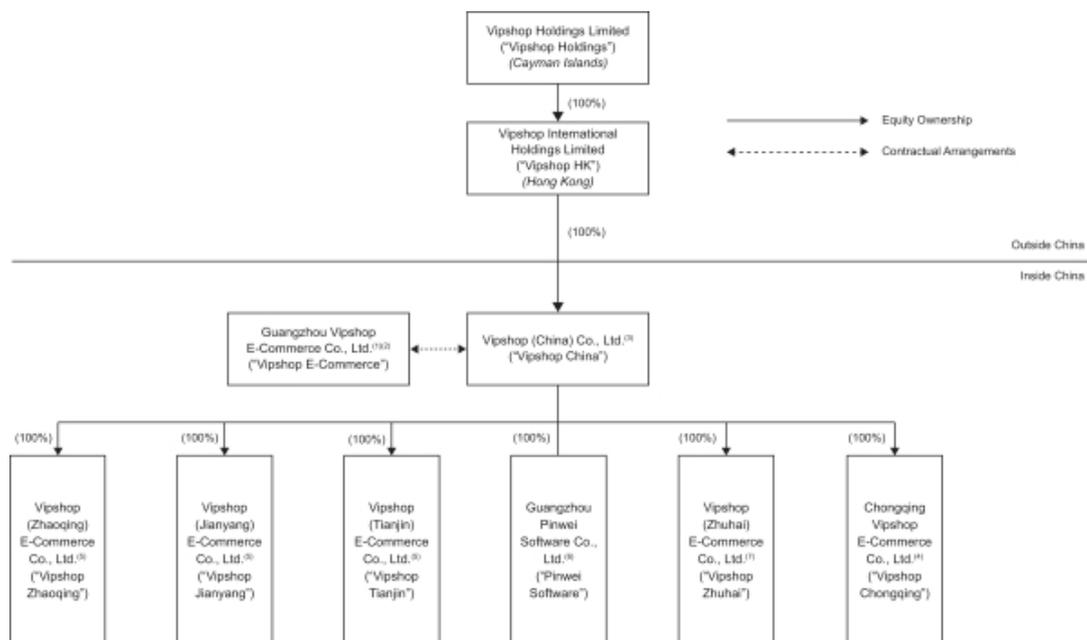
The PRC Labor Law, which became effective on January 1, 1995, and was amended on August 27, 2009 and December 29, 2018, and the PRC Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, provide requirements concerning employment contracts between an employer and its employees. Pursuant to the Labor Contract Law, a written labor contract is required when an employment relationship is established between an employer and an employee. An employer is obligated to sign a labor contract with an employee with an indefinite term if the employer continues to employ the employee after two consecutive fixed-term labor contracts. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations. Other labor-related regulations and rules of the PRC stipulate the maximum number of working hours per day and per week as well as the minimum wages. An employer is required to set up occupational safety and sanitation systems, implement the national occupational safety and sanitation rules and standards, educate employees on occupational safety and sanitation, and prevent accidents at work and reduce occupational hazards.

On October 28, 2010, Standing Committee of the National People's Congress 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. 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, which was promulgated on April 3, 1999, and was most recently amended on March 24, 2019, 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. An enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

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 operating e-commerce platform.
- (3) A subsidiary primarily engaged in warehousing, logistics, product procurement, research and development, technology development, and consulting businesses.
- (4) A subsidiary primarily engaged in product procurement business.
- (5) Subsidiaries primarily engaged in retail businesses and warehousing services in the cities of Jianyang, Tianjin, and Zhaoqing, and the regions around them.
- (6) A subsidiary primarily engaged in software development and information technology support.
- (7) A subsidiary primarily engaged in supplier chain services.

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 2018, 2019, and 2020, 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

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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 three 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 two sets of contractual arrangements include: (i) one set entered into by Vipshop China, Vipshop Information, and shareholders of Vipshop Information; and (ii) one set entered into by Vipshop China, Pin Jun Tong, and shareholders of Pin Jun Tong. 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, 2018, 2019, and 2020, our subsidiaries contributed in aggregate approximately 97.1%, 96.1%, and 97.7%, respectively, of our total consolidated net revenues, exclusive of revenues derived from our consolidated affiliated entities. As of December 31, 2018, 2019, and 2020, our holding company and our subsidiaries accounted for an aggregate of 86.3%, 78.7%, and 91.9%, 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 three 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;

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- Eric Ya Shen and Arthur Xiaobo Hong hold 99.2% and 0.8% of Vipshop Information, respectively; and
- Eric Ya Shen and Arthur Xiaobo Hong hold 65% and 35% of Pin Jun Tong, 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. We have completed registering the pledge of the equity interests in our consolidated affiliated entities with the local branches of the 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. Generally, 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, are not in violation of all applicable 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 are not in any violation of applicable 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 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."

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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, which was completed in 2020. We have moved into the new office headquarters in October 2020. In addition to the office headquarters in Guangzhou, as of December 31, 2020, we had approximately 52,000 square meters of office space and approximately 3.3 million square meters of warehouse space across China and overseas, of which approximately 3.1 million square meters of warehouse space is owned by our company.

A summary of our owned and leased properties as of December 31, 2020 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	20,374	Office space
Shanghai—Owned	18,385	Office space
Other cities in China—Owned	890	Office space
Other cities in China—Leased	12,794	Office space
<i>Sub-total</i>	220,962	
China Domestic—Owned ⁽¹⁾	3,147,983	Logistics centers
China Domestic—Leased ⁽¹⁾	129,830	Logistics centers
Cross Border ⁽²⁾	5,600	Logistics centers
<i>Sub-total</i>	3,283,413	
China Domestic—Owned	867,595	Retail property for Shan Shan Outlets
China Domestic—Leased	6,355	Office space and warehouses for Shan Shan Outlets
<i>Sub-total</i>	873,950	
China Domestic—Leased	229,126	Retail property for Vipshop offline stores
China Domestic—Leased	77,608	Retail property for Vipmaxx offline stores
<i>Sub-total</i>	306,734	

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 five 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 believe such related removal costs is likely to be insignificant.

ITEM 4B. 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

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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 2018, 2019, and 2020, we fulfilled approximately 437.4 million, 566.3 million, and 692.4 million customer orders, respectively, and we generated total net revenues of RMB84.52 billion, RMB92.99 billion, and RMB101.86 billion (US\$15.61 billion), respectively. In 2018, 2019, and 2020, we generated net income of RMB2.13 billion, RMB3.99 billion, and RMB5.92 billion (US\$907.2 million), respectively. Our net income in 2018, 2019, and 2020 reflected non-cash share-based compensation expenses in an aggregate amount of RMB671.2 million, RMB688.1 million, and RMB951.0 million (US\$145.8 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 Chinese government’s policies to encourage economic growth, we are also affected by the complexity, uncertainties and changes in China 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.”

Substantially all of our revenues and workforce are concentrated in China. In the first quarter of 2020, we experienced a meaningful decline in our sales and profitability as a result of the soft consumer demand 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. Since late February 2020, operations in China have been gradually resuming to normal. During the heights of the COVID-19 pandemic, 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. In addition, the global spread of COVID-19 has also affected our overseas suppliers. Although things have largely returned to normal in China since May 2020, the global spread of COVID-19 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 unpredictable.

Despite the temporary negative impact caused by COVID-19 outbreak, we are able to sustain our growth momentum and delivered net income growth in 2020. Our net income increased by 48.5% from RMB3.99 billion in 2019 to RMB5.92 billion (US\$907.2 million) in 2020. As of December 31, 2020, we had cash and cash equivalents of RMB12.00 billion (US\$1.84 billion) and short-term investments of RMB7.33 billion (US\$1.12

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billion). Our short-term investments consist primarily of investments in time deposits and financial products offered by commercial banks in China with fixed maturity dates ranging from three months to one year. We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. See also “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business and Industry—Our business, financial condition, and results of operations have been and may continue to be adversely affected by the COVID-19 pandemic.”

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 a 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.

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

	For the Year Ended December 31,		
	2018	2019	2020
Total net revenues (RMB in thousands)	84,523,948	92,994,418	101,858,489
Active customers (in millions)	60.5	69.0	83.9
Total orders (in millions)	437.4	566.3	692.4
Average orders per active customer	7.2	8.2	8.3
GMV (RMB in billions)	131.0	148.2	165.0

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,						
	2018		2019		2020		
	RMB'000	%	RMB'000	%	RMB'000	US\$'000	%
Fulfillment expenses	7,489,393	8.8	7,317,706	7.9	6,878,991	1,054,251	6.8
Marketing expenses	3,240,450	3.8	3,323,927	3.6	4,284,274	656,594	4.2
Technology and content expenses	2,000,894	2.4	1,568,107	1.7	1,221,264	187,167	1.2
General and administrative expenses	2,674,179	3.2	4,064,264	4.4	3,748,548	574,490	3.7
Goodwill impairment loss	—	—	278,263	0.2	—	—	—
Total operating expenses	15,404,916	18.2	16,552,267	17.8	16,133,077	2,472,502	15.9

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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 RMB4.50 billion, RMB4.63 billion, and RMB4.51 billion (US\$690.9 million) in 2018, 2019, and 2020, 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 our scale continues to grow and outsourcing of delivery services to third-party delivery companies.

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

Technology and content expenses. Technology and content expenses primarily consist of the compensation and benefits of our IT staff, telecommunications expenses, and expenses incurred in creating content for our sales events on our platform, including model fees and professional photography expenses. As we continue to expand our IT capabilities to support our anticipated growth, we expect our technology and content expenses to 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 2019. There is no goodwill impairment loss in 2020. 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, we generally experience less user traffic and purchase orders during holidays in China, particularly during the Chinese New Year period which occurs in the first quarter of the year, when customers tend to shop less. 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. The seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

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, 2018, 2019, and 2020, as our Hong Kong subsidiary generated assessable income in 2018, 2019, and 2020.

PRC

Our PRC subsidiaries and consolidated affiliated entities are companies incorporated under PRC law and, as such, are subject to enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Under the PRC Enterprise Income Tax Law and its implementation rules, both of which became effective on January 1, 2008, and were most recently amended in 2018 and 2019, respectively, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions. Our subsidiaries and the consolidated affiliated entities in China are all subject to the enterprise income tax rate of 25% for the periods presented, except for certain subsidiaries, for example 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 (2020 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. In 2018 and 2019, 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.

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, 2018, 2019, and 2020, 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 certain subsidiaries was RMB1.45 billion, RMB1.23 billion, and RMB1.27 billion (US\$194.8 million) as of December 31, 2018, 2019, and 2020, 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, 2018, 2019, and 2020, 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 enterprise income tax recoverable of approximately RMB12.1 million (US\$1.9 million) as of December 31, 2020. Enterprise income tax recoverable occurred due to the overpaid enterprise income tax for certain PRC subsidiaries during the quarterly filing in 2020 and is expected to be refunded in the final annual tax settlement in May 2021.

As of December 31, 2018, 2019, and 2020, we had VAT recoverable of approximately RMB770.9 million, RMB1.43 billion, and RMB907.7 million (US\$139.1 million), respectively. VAT recoverable occurs due to

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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 RMB749.1 million, RMB528.8 million, and RMB510.2 million (US\$78.2 million) as of December 31, 2018, 2019, and 2020, respectively, included as accrued expenses and other current liabilities. 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 Relating to 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 assets acquired in the business acquisitions, valuation of investments impairment assessment and valuation of account 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

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, fashion goods, cosmetics, home goods and lifestyle products, and other merchandise through our online platforms, including our internet website and cellular phone application. We recognize revenue at the point of time when the goods have been accepted by the customers. The customers have the options to pay for the goods in advance, upon acceptance of the goods or over an agreed-upon installment period. The delivery day estimate was determined based on the average delivery days for sales made during the last month of the reporting period, derived from customer locations and delivery reports. A one-day change in the estimated good in-transit period would result in an increase or decrease of approximately RMB239.0 million, RMB347.2 million, and RMB409.8 million (US\$62.8 million) to our total net revenues in the years ended December 31, 2018, 2019, and 2020.

For offline product revenue and merchandizes sold through Shan Shan Outlets, we recognize product revenue at the point of time when customers pay and obtain control of the merchandizes.

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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.

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.

Inventory write-down is estimated based on significant management estimates and assumptions used to determine the write-down percentages that are applied to different aging groups and assess the quality of the merchandizes within each category. In determining the write-down percentages on inventories, the Company takes into considerations of factors, such as the inventories' aging, historical trends, 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 balance of inventories on the financial statements.

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 3(ai) 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 2018, 2019, and 2020 in China were increases of 1.9%, 4.5%, and 0.2%, 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.

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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,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Product revenues	81,510,275	88,721,311	97,449,712	14,934,822
Other revenues	3,013,673	4,273,107	4,408,777	675,675
Total net revenues	84,523,948	92,994,418	101,858,489	15,610,497
Cost of revenues ⁽¹⁾	(67,454,981)	(72,314,190)	(80,573,181)	(12,348,380)
Gross profit	17,068,967	20,680,228	21,285,308	3,262,117
Operating expenses ⁽²⁾				
—Fulfillment expenses ⁽³⁾	(7,489,393)	(7,317,706)	(6,878,991)	(1,054,251)
—Marketing expenses	(3,240,450)	(3,323,927)	(4,284,274)	(656,594)
—Technology and content expenses	(2,000,894)	(1,568,107)	(1,221,264)	(187,167)
—General and administrative expenses	(2,674,179)	(4,064,264)	(3,748,548)	(574,490)
—Goodwill impairment loss	—	(278,263)	—	—
Total operating expenses	(15,404,916)	(16,552,267)	(16,133,077)	(2,472,502)
Other operating income	757,062	645,413	707,855	108,483
Income from operations	2,421,113	4,773,374	5,860,086	898,098
Impairment loss of investments	(20,073)	(127,589)	(43,160)	(6,614)
Interest expense	(159,744)	(86,004)	(67,357)	(10,323)
Interest income	242,872	217,027	449,017	68,815
Exchange gain/(loss)	71,065	(935)	(160,097)	(24,536)
Investment gain and revaluation of investments	191,842	166,932	980,868	150,325
Income before income taxes and share of (loss)/income of equity method investees	2,747,075	4,942,805	7,019,357	1,075,765
Income tax expenses	(566,604)	(983,554)	(1,130,016)	(173,183)
Share of (loss)/income of equity method investees	(46,999)	27,182	30,015	4,600
Net income	2,133,472	3,986,433	5,919,356	907,182
Net (income)/loss attributable to non-controlling interests	(4,685)	30,399	(12,399)	(1,900)
Net income attributable to our shareholders	2,128,787	4,016,832	5,906,957	905,282

Notes:

- (1) Excludes shipping and handling expenses, and includes inventory write-down which amounted to RMB440.8 million, RMB347.5 million, and RMB554.9 million (US\$85.0 million) in the years ended December 31, 2018, 2019, and 2020, respectively.

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

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Fulfillment expenses	(73,151)	(112,683)	(100,486)	(15,400)
Marketing expenses	(41,063)	(35,038)	(16,534)	(2,534)
Technology and content expenses	(203,594)	(180,493)	(152,234)	(23,330)
General and administrative expenses	(353,402)	(359,869)	(681,794)	(104,490)
Total	(671,210)	(688,083)	(951,048)	(145,754)

- (3) Include shipping and handling expenses, which amounted to RMB4.50 billion, RMB4.63 billion, and RMB4.51 billion (US\$690.9 million) in the years ended December 31, 2018, 2019, and 2020, respectively.

Segment Information

In 2018, we had two reporting segments, Vip.com and internet finance. Due to operational changes, we have determined to report four operating segments since 2019. 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, segment information for 2018 was restated to reflect the current reporting structure for the segments.

The following table sets forth our segment operating results for the years ended December 31, 2018, 2019, and 2020.

	For the Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Segment Net Revenues			
Vip.com	84,159,609	91,435,282	99,324,590
Shan Shan Outlets	—	245,817	1,151,331
Others	753,752	2,638,702	2,904,182
Inter-segment revenues ⁽¹⁾	(389,413)	(1,325,383)	(1,521,614)
Total	84,523,948	92,994,418	101,858,489
Segment Income/(Loss) from Operations			
Vip.com	3,353,658	5,267,814	6,656,721
Shan Shan Outlets	—	6,255	187,499
Others	(215,459)	227,719	2,291
Unallocated expenses ⁽²⁾	(717,086)	(728,414)	(986,425)
Total	2,421,113	4,773,374	5,860,086

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.

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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, 2018, 2019, and 2020.

	For the Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Segment Interest Income			
Vip.com	232,494	167,550	313,183
Shan Shan Outlets	—	11,746	63,282
Others	36,946	54,765	72,552
Inter-segment interest income	(26,568)	(17,034)	—
Total	<u>242,872</u>	<u>217,027</u>	<u>449,017</u>
Segment Interest Expense			
Vip.com	(103,504)	(42,424)	(61,850)
Shan Shan Outlets	—	(8,989)	(5,507)
Others	(82,808)	(51,625)	—
inter-segment interest expense	26,568	17,034	—
Total	<u>(159,744)</u>	<u>(86,004)</u>	<u>(67,357)</u>

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

	For the Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Segment Assets			
Vip.com	34,867,619	37,727,525	44,087,467
Shan Shan Outlets	—	5,732,260	8,766,027
Others	8,695,044	5,122,893	6,087,320
Total	<u>43,562,663</u>	<u>48,582,678</u>	<u>58,940,814</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 2020 and 2019

Net Revenues. Our total net revenues increased from RMB92.99 billion in 2019 to RMB101.86 billion (US\$15.61 billion) in 2020, primarily due to an increase in the number of active customers as 96.7% of our net revenues are from product revenue, and the fluctuation of other revenue between 2020 and 2019 was not material. The number of our active customers increased from 69.0 million in 2019 to 83.9 million in 2020. The number of our total orders increased from 566.3 million in 2019 to 692.4 million in 2020, primarily due to an increase in the number of active customers. Through our regional logistics hubs, we were able to continue tailoring our product offerings to regional customer demographics and offer additional sales events and SKUs in 2020. 97.7% of the total orders we fulfilled in 2020 were placed by repeat customers, as compared to 97.6% in 2019.

Cost of Revenues. Our cost of revenues increased from RMB72.31 billion in 2019 to RMB80.57 billion (US\$12.35 billion) in 2020, primarily due to the significant increase in cost of products sold in line with the increase in our products sales volume.

We recorded RMB347.5 million and RMB554.9 million (US\$85.0 million) in inventory write-down in 2019 and 2020, respectively. In addition, inventory write-down as a percentage of costs of goods sold, was 0.5% in

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2019 and 0.7% in 2020. Such write-down primarily reflected the estimated net realizable value of damaged or obsolete inventory. The increase in write-down from 2019 to 2020 was mainly due to the increase in the volume of aged inventory in our offline stores as a result of the COVID-19.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased from RMB20.68 billion in 2019 to RMB21.29 billion (US\$3.26 billion) in 2020. Our gross margin decreased from 22.2% in 2019 to 20.9% in 2020, primarily due to (i) implementation of free shipping on orders over RMB88, which in turn reduced our shipping revenues included as part of our net revenues, and the introduction of certain new discount privileges of our Super VIP Membership program and our strategy to increase discounts and coupons during promotional events, and (ii) increase in inventory write-down due to the temporary inventory backlog in offline stores during the COVID-19 pandemic as described above.

Operating Expenses. Our operating expenses decreased from RMB16.55 billion in 2019 to RMB16.13 billion (US\$2.47 billion) in 2020, primarily due to decreases in fulfillment expenses, technology and content expenses, and general and administrative expenses, partially offset by the increase in marketing expenses:

- Fulfillment expenses. Our fulfillment expenses decreased from RMB7.32 billion in 2019 to RMB6.88 billion (US\$1.05 billion) in 2020. Our fulfillment expenses as a percentage of our total net revenues decreased from 7.9% in 2019 to 6.8% in 2020. Shipping and handling expenses, the largest component of our fulfillment expenses during these periods, decreased from RMB4.63 billion in 2019 to RMB4.51 billion (US\$690.9 million) in 2020. The decrease in our fulfillment expenses is primarily due to optimized logistics through outsourcing all the deliveries of our orders to third-party delivery partners with national coverage in 2020 and order fulfillment arrangements such as more employment of JITX model.
- Marketing expenses. Our marketing expenses was increased from RMB3.32 billion in 2019 to RMB4.28 billion (US\$656.6 million) in 2020, primarily attributable to increased investment in advertising activities relating to customer acquisition and retention.
- Technology and content expenses. Our technology and content expenses decreased from RMB1.57 billion in 2019 to RMB1.22 billion (US\$187.2 million) in 2020, primarily due to decrease in the number of personnel in our IT department. In the past two years, it was our strategy to focus on the online discount retail as its core business, and therefore reduced headcounts in certain non-core business areas in order to improve operating efficiency. Our technology and content expenses also decreased from 1.7% to 1.2% 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 and the aforementioned decrease in IT personnel.
- General and administrative expenses. Our general and administrative expenses decreased from RMB4.06 billion in 2019 to RMB3.75 billion (US\$574.5 million) in 2020, primarily due to severance payments and impairment of assets related to the discontinuation of Pinjun in 2019, partially offset by (i) an increase in share-based compensation derived from options granted to executives in January 2020, and (ii) an increase in general and administrative expenses of Shan Shan Outlets since its acquisition during the third quarter of 2019.
- Goodwill impairment loss. Our goodwill impairment loss was nil in 2020.

Other Operating Income. Our other operating income amounted to RMB707.9 million (US\$108.5 million) in 2020, as compared to RMB645.4 million in 2019. Our other operating income in 2020 was primarily due to income derived from tax rebates.

Interest Expenses. We incurred RMB67.4 million (US\$10.3 million) interest expenses in 2020, as compared to RMB86.0 million in 2019, primarily due to the decrease in interest expenses for the securitization debt as it was paid off in the second and third quarter of 2019.

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Interest Income. Our interest income increased from RMB217.0 million in 2019 to RMB449.0 million (US\$68.8 million) in 2020, primarily due to the increase of interest bearing investments, such as the deposits and short-term investments in the banks.

Share of Income of Equity Method Investees. Our share of results of equity method investees increased from share of income of RMB27.2 million in 2019 to share of income of RMB30.0 million (US\$4.6 million) in 2020, which was primarily due to the increase of share of income from Shan Shan Outlets, partially offset by the increase of share of loss from Shenzhen Tencent Puhe Limited Partnership and Sequoia Fashion and Technology Industry Fund Investment Limited Partnership.

Net Income. As a result of the foregoing, we recorded a net income of RMB5.92 billion (US\$907.2 million) in 2020, as compared to a net income of RMB3.99 billion in 2019.

Net (Income)/Loss Attributable to Non-controlling Interests. We recorded net income attributable to non-controlling interests of RMB12.4 million (US\$1.9 million) in 2020, as compared to net loss attributable to non-controlling interests of RMB30.4 million in 2019, which was primarily due to (i) net income/loss attributable to non-controlling shareholders of Shan Shan Outlets changed from a loss of RMB3.1 million to an income of RMB15.1 million, mainly attributable to the acquisition of Shanjing Business Management (Ningbo) Co., Ltd. in 2020, and (ii) the net income attributable to non-controlling shareholders of Pinjun changed from net loss in 2019 to net income in 2020, as a result of termination of Pinjun, our delivery service unit.

Comparison of 2019 and 2018

Net Revenues. Our total net revenues increased from RMB84.52 billion in 2018 to RMB92.99 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 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 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. For detailed accounting policy regarding inventory write-down, please see “—Critical Accounting Policies—Inventory write-down.”

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 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.

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Operating Expenses. Our operating expenses increased from RMB15.40 billion in 2018 to RMB16.55 billion in 2019, primarily due to increase in general and administrative expenses and goodwill impairment loss, partially offset by the decreases in fulfillment expenses and technology and content expenses.

- Fulfillment expenses. Our fulfillment expenses decreased from RMB7.49 billion in 2018 to RMB7.32 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 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, 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 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 in 2019, primarily due to an increase in the severance payment of RMB652.0 million and impairment of assets of RMB154.2 million related to the termination of Pinjun logistic service unit, as well as an impairment of RMB475.7 million related to our Zhaoqing, Tai'an and Hengyang warehouses.
- Goodwill impairment loss. Our goodwill impairment loss was RMB278.3 million in 2019, primarily attributable to the goodwill impairment of Pinjun.

Other Operating Income. Our other operating income amounted to RMB645.4 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 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 on the available-for-sale debt securities, and an amount of RMB44.0 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 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.

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

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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, 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 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 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.

B. Liquidity and Capital Resources

As of December 31, 2019 and 2020, we had RMB7.72 billion and RMB12.81 billion (US\$1.96 billion), respectively, in cash, cash equivalents and restricted cash. We had short-term investments with an aggregate outstanding amount of RMB7.33 billion (US\$1.12 billion) as of December 31, 2020. 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 RMB1.04 billion (US\$159.9 million) and had unutilized banking facilities in an amount of RMB3.40 billion (US\$521.5 million) as of December 31, 2020. 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, 2019 and 2020, 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,							
	2019				2020			
	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	10,441,474	177,069	—	10,618,543	19,930,187	14,816	—	19,945,003
US\$	36,452	46,044	5,686	88,182	96,768	33,750	5,054	135,572
Others	—	65,286	—	65,286	6,358	53,107	—	59,465
Total	<u>10,477,926</u>	<u>288,399</u>	<u>5,686</u>	<u>10,772,011</u>	<u>20,033,313</u>	<u>101,673</u>	<u>5,054</u>	<u>20,140,040</u>

Note:

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

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As of December 31, 2019 and 2020, our cash, cash equivalents and restricted cash held by our consolidated affiliated entities and subsidiaries in China are as follows:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Cash, Cash Equivalents and Restricted Cash		(in thousands)	
Consolidated affiliated entities	5,173,333	1,671,208	256,124
Subsidiaries in China	2,251,867	11,033,386	1,690,940
Total	7,425,200	12,704,594	1,947,064

As of December 31, 2019 and 2020, our short-term investments held by our consolidated affiliated entities and which consisted of our consolidated VIEs and other entities in China are as follows:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Short-term Investments:		(in thousands)	
Consolidated affiliated entities	2,300,014	1,051,966	161,221
Subsidiaries in China	752,712	6,276,753	961,954
Total	3,052,726	7,328,719	1,123,175

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,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash from operating activities	5,745,748	12,290,183	11,820,444	1,811,562
Net cash used in investing activities	(6,693,812)	(8,240,560)	(6,695,043)	(1,026,060)
Net cash provided by/(used in) financing activities	586,968	(6,256,700)	(20,839)	(3,194)
Effect of exchange rate changes	177,576	(112,110)	(12,526)	(1,919)
Cash, cash equivalents and restricted cash at beginning of year	10,221,992	10,038,472	7,719,285	1,183,032
Cash, cash equivalents and restricted cash at end of year	10,038,472	7,719,285	12,811,322	1,963,421

Operating Activities

Net cash from operating activities amounted to RMB11.82 billion (US\$1.81 billion) in 2020, which was primarily attributable to a net income of RMB5.92 billion (US\$907.2 million), adjusted for certain non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB951.0 million (US\$145.8 million), (ii) depreciation of property and equipment of RMB970.1 million (US\$148.7 million), attributable to increases in warehouse and outlets, (iii) inventory write-down of RMB554.9 million (US\$85.0 million), (iv) investment gain and revaluation of investments of RMB293.1 million (US\$44.9 million), primarily due to the market to market adjustments of changes of the fair values of investments, (v) non-cash lease expenses of RMB403.9 million (US\$61.9 million), and (vi) changes in operating assets and liabilities, and gain on disposal of other investments of RMB351.9 million (US\$53.9 million) reclassified to investing activities. The adjustment for changes in operating assets and liabilities primarily reflected (i) an increase in accounts payable of RMB1.39 billion (US\$212.6 million), primarily due to the increase in amounts received on behalf of third-party merchants along with the expansion of platform sales, (ii) a decrease in account receivables of RMB988.1 million (US\$151.4 million), primarily due to the down-scale of our internet financing business, (iii) an increase in inventories of RMB527.2 million (US\$80.8 million) to support the increase in sales volume and develop the offline shops, (iv) a decrease in other receivables and prepayments of RMB727.4 million (US\$111.5 million), primarily due to the decrease in the input tax to be deducted as a result of our taxation arrangements, and (v) an increase in accrued expenses and other current liabilities of RMB1.27 billion (US\$194.3 million), primarily due to the increase in accrued shipping and handling expenses as well as accrued advertising expenses driven by the growth in our business.

Net cash from operating activities amounted to RMB12.29 billion in 2019, which was primarily attributable to a net income of RMB3.99 billion, adjusted for certain non-cash expenses consisting primarily of (i) share-based compensation expenses of RMB688.1 million, (ii) inventory write-down of RMB347.5 million and provision for allowance for doubtful accounts of RMB229.5 million, (iii) depreciation of property and equipment of RMB830.4 million attributable to increases in warehouse and logistic facilities, (iv) impairment of long-lived assets of RMB537.6 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 (i) a significant decrease in account receivables of RMB4.17 billion, primarily due to the down-scale of our internet financing business, (ii) an increase in accounts payable of RMB1.68 billion and accrued expenses and other current liabilities of RMB1.15 billion, 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, and (iii) an increase in inventories of RMB2.63 billion 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-

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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 (i) 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, (ii) a decrease in advances from customers of RMB873.9 million primarily due to the adoption of ASU 2014-09, (iii) a decrease in inventories of RMB291.8 million due to improving inventory management, and (iv) 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.

Investing Activities

Net cash used in investing activities amounted to RMB6.70 billion (US\$1.03 billion) in 2020, primarily consisting of (i) RMB14.35 billion (US\$2.20 billion) used for purchase of short-term investments, offset by RMB9.63 billion (US\$1.48 billion) from redemption of short term investments upon maturities, (ii) RMB2.27 billion (US\$348.2 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, (iii) RMB1.60 billion (US\$245.5 million) cash paid for investment in equity method investments and other investments, primarily consisting of investment in private equity fund and other equity method investees, (iv) RMB1.12 billion (US\$171.3 million) received from loan payments, offset by RMB819.8 million (US\$125.6 million) cash paid for loan originations, and (v) RMB1.05 billion (US\$161.5 million) of proceeds from disposal of other investments.

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

Financing Activities

Net cash used in financing activities amounted to RMB20.8 million (US\$3.2 million) in 2020, primarily consisting of RMB2.54 billion (US\$390.0 million) of proceeds from bank borrowings and other borrowings, offset by RMB2.69 billion (US\$412.3 million) of repayment to bank and other borrowings.

Net cash used in financing activities amounted to RMB6.26 billion in 2019, primarily consisting of (i) RMB4.22 billion of repayment of convertible senior notes, (ii) RMB1.82 billion of proceeds from bank

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borrowings and other borrowings, offset by RMB2.61 billion of repayment to bank and other borrowings, and (iii) RMB969.0 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.

Capital Expenditures

Our capital expenditures paid to acquire property and equipment and land use rights amounted to RMB3.59 billion, RMB4.28 billion, and RMB2.27 billion (US\$348.2 million) in the years ended December 31, 2018, 2019, and 2020, respectively. Out of the foregoing capital expenditures, we paid RMB1.07 billion, RMB974.5 million, and RMB34.6 million (US\$5.3 million) in the years ended December 31, 2018, 2019, and 2020, respectively, to acquire the land use rights of certain land located in China. Our capital expenditures were primarily for construction and expansion of warehouses, land use rights, and other logistic infrastructure from 2018 through 2020. We expect our capital expenditures to increase in 2021.

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 RMB121.1 million, RMB184.2 million, and RMB61.9 million (US\$9.5 million) to the general reserve during the years ended December 31, 2018, 2019, and 2020, respectively.

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

Research and Development

Our systems play an important role in the success of our business, and are designed to enhance A1A28(4) 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 advanced 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. Please see “—Payment, Fulfilment and Return—Logistics Network and Warehouse Management System” for details.

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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 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 operations system for warehouse and logistics management 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, pricing and sales inventory management, and facilitates product lifecycle management for our online and offline businesses. These systems enhance the efficiency of our operations.

We have accumulated a large customer base and a vast amount of big data on customer behavior and performance throughout 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. For instance, the comprehensive customer profiles allow us to provide personalized product recommendations to customers that are within their price range, suit their brand preference, and are within their categories of interest. We also use customer profiles in various scenarios for our sales initiatives to effectively interact with its customers, such as notification via push method, text messages, and e-mails, and sales events on our WeChat Mini-Program and other social media platforms. In addition, we have developed a real-time customer-intent identification system, which employs proprietary algorithm technologies with recent and real time customer behavioral data to provide recommendations to customers based on the different intentions of customers visiting our platform. Furthermore, our business intelligence system is built with our proprietary cloud computing infrastructure, providing insights for many 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 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.

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 platform, including model fees and professional photography expenses. We incurred RMB2.0 billion, RMB1.57 billion, and RMB1.22 billion (US\$187.2 million) in technology and content expenses in 2018, 2019, and 2020.

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, 2020, we had been granted 118 patents and submitted 246 patent applications in China, owned 1,864 registered trademarks in China and 115 registered trademarks outside China, 154 copyrights (including copyrights to 151 software products developed by us relating to various aspects of our operations), and 332 registered domain names that are material to our business, including *vip.com* and *vipshop.com*.

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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 2020 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

As of December 31, 2020, we have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, 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 2021 through December 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, 2018, 2019, and 2020, we incurred rental expenses of RMB595.3 million, RMB746.2 million, and RMB610.4 million (US\$93.6 million), respectively. 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. Our purchase obligations as of December 31, 2020 amounted to RMB1,255.7 million (US\$192.4 million), representing property, equipment, and software contracts.

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, 2020, the outstanding amount of our contribution to the fund under this agreement was RMB1,770 million (US\$271.3 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, 2020.

	Payment Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations	2,008,202	342,173	762,745	404,933	498,351
Capital expenditures commitment	1,255,703	875,183	366,336	14,184	—
Purchase of services	261,000	130,500	130,500	—	—

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 RMB11.82 billion (US\$1.81 billion) for the year ended December 31, 2020.

We commit to purchase services from one of its related parties at an annual amount of US\$20.0 million (approximately RMB130.5 million) from the year ended December 31, 2021 to 2022.

G. *Safe Harbor*

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

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

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

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

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

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

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. None of our directors or directors of our operating entities are officials of the Chinese Communist Party.

Directors and Executive Officers	Age	Position/Title
Eric Ya Shen	49	Chairman of the Board of Directors, Chief Executive Officer
Arthur Xiaobo Hong	48	Vice Chairman of the Board of Directors, Chief Operating Officer
Martin Chi Ping Lau	48	Director
Jacky Yu Xu	49	Director
Donghao Yang	49	Non-executive Director
Chun Liu ⁽¹⁾	53	Independent Director
Frank Lin ⁽²⁾	56	Independent Director
Xing Liu ⁽³⁾	50	Independent Director
Kathleen Chien ⁽¹⁾⁽²⁾⁽³⁾	51	Independent Director
Nanyan Zheng ⁽¹⁾⁽²⁾⁽³⁾	52	Independent Director
David Cui	52	Chief Financial Officer
Daniel Tsun-Ming Kao	55	Co-Chief Technology Officer
Pengjun Lu	40	Co-Chief Technology Officer
Yizhi Tang	47	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 ten 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 15 years of experience in the distribution of consumer goods and e-commerce industry. From 2004 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 import and export of products. Mr. Shen received an EMBA degree from Cheung Kong Graduate School of Business in Beijing, China in September 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 10 years of experience in the distribution of consumer goods and e-commerce industry.

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

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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 has served as a non-executive director of Kingsoft Corporation Limited (SEHK: 3888) since July 2011, an Internet based software developer, distributor and software service provider listed on Hong Kong Stock Exchange, a director of JD.com Inc. (Nasdaq: JD, SEHK: 9618) since March 2014, a major retailer of China listed on the Nasdaq and the Hong Kong Stock Exchange, a director of Tencent Music Entertainment Group (NYSE: TME) since July 2016, an online music entertainment platform in China listed on the NYSE, and a non-executive director of Meituan (SEHK: 3690) since October 2017, 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 in July 1994, a master of science degree in electrical engineering from Stanford University in July 1995 and an MBA degree from Kellogg Graduate School of Management, Northwestern University in June 1998.

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. He is co-founder, chairman and chief executive officer of Trendy International Group Co., Ltd., an international fashion conglomerate.

Mr. Donghao Yang has served as our non-executive director since November 2020, and was previously our chief financial officer from August 2011 to November 2020. Mr. Yang has held senior executive and managerial positions in various public companies, including serving as the chief finance officer of Synutra International Inc. (Nasdaq: SYUT), as the chief financial officer of Greater China of Tyson Foods, Inc. (NYSE: TSN), and as a finance director of Asia Pacific of Valmont Industries, Inc. (NYSE: VMI) from October 2003 to March 2007. Mr. Yang has served as a director since July 2020 and the chief financial officer since November 2020 of Yatsen Holding Limited (NYSE: YSG), and an independent director of Xpeng, Inc. (NYSE: XPEV) since August 2020. Mr. Yang received an MBA degree from Harvard Business School in June 2003 and a bachelor's degree in international economics from Nankai University in July 1993.

Mr. Chun Liu has served as our independent director since March 2013. Mr. Chun Liu is currently the senior vice president of Phoenix TV. Prior to joining Phoenix TV in 2018, he worked at Zhong Nan Wen Hua, and was the vice president and chief editor of Sohu.com Inc., and chairman of Sohu TV. Earlier in his career, Mr. Liu worked at CCTV, China's state television broadcaster from 1998 to 2002. As the executive producer of a famous program "News Investigation," he won an award as the editor of "A Memorandum on Dragged-out Constructions." Mr. Liu has been an independent non-executive director of DL Holdings Group Limited (SEHK: 1709) since April 2020 and was a director of Zhongnanhong Cultural Group Co., Ltd. (SZSE: 002445) from May 2016 to August 2018. Mr. Chun Liu previously studied at Cheung Kong Graduate School of Business in Beijing, China. Mr. Liu received a master's degree in Arts from the Communication University of China in June 1994 and a bachelor's degree in Chinese from the Anhui Normal University in 1987.

Mr. Frank Lin has served as our independent 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. Mr. Lin currently serves on the board of directors of numerous DCM portfolio companies. He has been a director of Kuaihou Technology (SEHK: 1024) since May 2016, China Online Education Group (NYSE: COE) since June 2013, and Tuniu Corporation (Nasdaq: TOUR) since December 2009, and was an independent director of 58.com, Inc. (NYSE: WUBA, delisted) from March 2010 to April 2020. Mr. Lin received an MBA degree from Stanford University in June 1993 and a bachelor's degree in engineering from Dartmouth College in June 1988.

Mr. Xing Liu has served as our independent director since January 2011. Mr. Liu is a currently partner of Sequoia Capital China, which he joined in May 2017. Mr. Liu has served a non-executive director of ZTO Express (Cayman) Inc. (NYSE: ZTO, SEHK: 2057) since May 2013 and as a non-executive director of China Renaissance Holdings Limited (SEHK: 1911) since June 2020. Mr. Liu served as an independent non-executive

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director of China Online Education Group (NYSE: COE) from July 2014 to April 2019. Mr. Liu received an MBA degree from The Wharton School of the University of Pennsylvania in May 2004, a master's degree in computer engineering from Syracuse University in December 2015, and a bachelor's degree in management information systems from Fudan University.

Ms. Kathleen Chien has served as our independent director since March 2012. Ms. Chien is currently the chief operating officer and acting chief financial officer of 5l job, Inc. (Nasdaq: JOBS), a Nasdaq-listed provider of integrated human resource services in China. Ms. Chien joined 5l job, Inc. in 1999 and served as its chief financial officer from 2004 to March 2009. Ms. Chien received her bachelor's degree in economics from the Massachusetts Institute of Technology in June 1992 and an MBA degree from the Walter A. Haas School of Business at University of California, Berkeley in May 1996.

Mr. Nanyan Zheng has served as our independent director since March 2012. Mr. Zheng is currently a co-founder and chairman of My Futurewood Limited, a physical education training company founded in 2019, and the chairman of Betterwood Lifestyle Lab since 2020. Mr. Zheng co-founded 7 Days Groups Holdings Ltd. (NYSE: SVN, delisted), and served as chief executive officer since October 2004 and as a director since its listing in 2009. 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, and served as the chairman of Plateno Group Ltd. from 2013 to 2019. Mr. Zheng was a director of Kona Grill, Inc. (Nasdaq: KONA, delisted) from May 2018 to March 2019. Mr. Zheng received an EMBA from Sun Yat-Sen University in China in December 2019 and a bachelor's degree in computer science from Sun Yat-Sen University in China in March 2001.

Mr. David Cui has served as our chief financial officer since October 2020. Before joining us, Mr. Cui was the chief financial officer of Huami Corp. (NYSE: HMI) from July 2017 to September 2020, and the chief financial officer of China Digital Video Holdings Limited (SEHK: 8280) from August 2015 to April 2017. Previously, Mr. Cui was the chief financial officer of iKang Healthcare Group, Inc. (Nasdaq: KANG), and was an audit senior manager of Deloitte Touche Tohmatsu, China. Prior to joining Deloitte, Mr. Cui worked in various roles at Symantec Corporation, California, Ernst & Young LLP, California, Health Net, Inc., California (NYSE: HNT), and was employed at various public accounting firms in Canada and the United States. Mr. Cui received a bachelor's degree in business administration from Simon Fraser University, Canada in September 1997, became a chartered accountant in Canada in February 2000 and became a licensed certified public accountant in the United States in July 2005.

Mr. Daniel Tsun-Ming Kao has served as our chief technology officer from June 2012 to October 2016, and again since April 2019 (as co-chief technology officer since November 2020). Mr. Kao also serves as a director of the board of ZTO Express (Cayman) Inc. (NYSE: ZTO, SEHK: 2057) since October 2017. Mr. Kao has industry experience in leading e-commerce and Internet companies in the United States and China. From January 2018 to April 2019, Mr. Kao served as the chief technology officer of Noah Holdings Limited (NYSE: NOAH). Between June 2000 and April 2012, Mr. Kao worked at eBay Inc. (Nasdaq: EBAY) and was later assigned to work at e-Bay e-Commerce Technology Operations (Shanghai) Co., Ltd. as general manager and board director of China Operations Center. Mr. Kao received a bachelor's degree in computer science from Iowa State University in August 1995.

Mr. Pengjun Lu has served as our co-chief technology officer since November 2020. From March 2018 to September 2020, Mr. Lu served as the chief technology officer of JOYY Inc. (formerly known as YY Inc.) (NASDAQ: YY), where he led the technology department. From October 2017 to March 2020, Mr. Lu worked at the research and development team at Baidu Inc. (NASDAQ: BIDU). From July 2006 to August 2014, Mr. Lu worked at Google and received the Google Founders Award for the QueST project. Mr. Lu received a master's degree in computer science and technology from Fudan University in June 2006, and a bachelor's degree in computer science and technology from Wuhan University in June 2003.

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 September 2009 to September 2010. From August 2006 to April 2008, Mr. Tang worked as the senior director of the logistics department of Dangdang.com. Mr. Tang received an MBA degree from Sun Yat-Sen University in December 2003 and a bachelor's degree in air transport management from Nanjing University of Aeronautics and Astronautics in July 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, 2020, we paid an aggregate of RMB11.0 million (US\$1.6 million) in cash to our executive officers, and we paid an aggregate of RMB2.1 million (US\$0.3 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 431,985 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 consumption 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 132,475 Class A ordinary shares have been granted and are outstanding under the 2012 Plan.

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

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

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

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

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

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

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

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

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

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

2014 Share Incentive Plan

In July 2014, we adopted our 2014 Plan, which permits the grant of options to purchase our ordinary shares, restricted shares, share appreciation rights, and other types of awards as deemed appropriate by the administrator. The maximum aggregate number of shares that may be issued pursuant to our 2014 Plan is (i) 5,366,998 Class A ordinary shares, and (ii) an automatic increase on January 1 of each year after the effective date of the 2014 Plan by that number of shares representing 1.5% of our then total issued and outstanding share capital as of December 31 of the preceding year, or such less number as determined by the board of directors. In December 2017, we registered additional securities consisting of 5,237,297 Class A ordinary shares that were automatically added to our 2014 Plan, effective January 1, 2015, January 1, 2016 and January 1, 2017, pursuant to the evergreen provisions. As of the date of this annual report, options to acquire 5,995,474 Class A ordinary shares and 2,798,796 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.

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

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

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

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

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

Amendment and Termination of the Plan. With the approval of our board of directors, at any time and from time to time, the plan administrator may terminate, amend or modify the 2014 Plan; provided, however, that to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, unless we decide to follow home country practice, shareholder approval is required for any plan amendment, including any amendment to the plan that (i) increases the number of shares available under the 2014 Plan, (ii) permits the plan administrator to extend the exercise period for an option beyond ten years from the date of grant, or (iii) results in a change in eligibility requirements.

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Share Incentive Grants

The following table summarizes, for the year ended December 31, 2020, 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	2,681,894	66.85	January 1, 2020	December 31, 2029
	660,000	68.35	January 1, 2017	December 31, 2026
Arthur Xiaobo Hong	2,681,894	66.85	January 1, 2020	December 31, 2029
Donghao Yang	*	0.50	August 30, 2011	August 29, 2021
	*	0.50	August 30, 2011	August 29, 2021
	*	0.50	January 1, 2013	August 29, 2021
	*	26.30	January 1, 2017	December 31, 2026
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	January 1, 2013	December 31, 2022

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

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The following table summarizes, for the year ended December 31, 2020, 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	151,001	January 1, 2017
Donghao Yang	*	December 1, 2020
Daniel Tsun-Ming Kao ⁽¹⁾	*	June 1, 2012
	*	January 1, 2013
	*	May 1, 2019
Yizhi Tang	*	January 1, 2013
	*	January 1, 2017
	*	May 1, 2019
	*	October 1, 2019
Frank Lin	*	January 1, 2013
	*	April 1, 2016
	*	April 1, 2020
Xing Liu	*	January 1, 2013
	*	April 1, 2016
	*	April 1, 2020
Nanyan Zheng	*	January 1, 2013
	*	April 1, 2016
	*	April 1, 2020
Kathleen Chien	*	January 1, 2013
	*	April 1, 2016
	*	April 1, 2020
Chun Liu	*	January 1, 2013
	*	April 1, 2016
	*	April 1, 2020
David Cui	*	November 1, 2020
Pengjun Lu	*	December 1, 2020

Notes:

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

(1) Daniel Tsun-Ming 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 ten 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.

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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;

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- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regard to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

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

Terms of Directors and Officers

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

D. Employees

As of December 31, 2020, we had 7,567 full-time employees, compared with 57,638 and 20,442 employees as of December 31, 2018 and 2019, respectively. Since 2019, we took initiatives to streamline our business operations and improve operational efficiency, and outsourced certain supporting functions to independent contractors and part-time personnel. The following table sets forth the number of our full time employees categorized by areas of operations as of December 31, 2020:

<u>Operations</u>	<u>Number of Employees</u>
Merchandising	1,286
Products and technology support	1,467
Business development, sales and marketing	156
Internet finance	68
Customer services	672
Warehouse management	1,419
Offline stores	1,123
Administration and management	523
Shan Shan Outlets	853
Total	<u>7,567</u>

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

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including pension, unemployment insurance, childbirth

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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, 2020, 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, 2021 by:

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

The calculations in the shareholder table below are based on 137,522,547 ordinary shares issued and outstanding as of March 31, 2021, comprising of (i) 121,962,189 Class A ordinary shares, excluding the 4,326,552 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) 15,560,358 Class B ordinary shares.

	Number of Ordinary Shares Beneficially Owned ⁽¹⁾	%(2)
Directors and Executive Officers ** :		
Eric Ya Shen ⁽³⁾	16,511,262	12.0
Arthur Xiaobo Hong ⁽⁴⁾	9,548,787	6.9
Martin Chi Ping Lau ⁽⁵⁾	*	*
Jacky Xu ⁽⁶⁾	*	*
Donghao Yang	*	*
Chun Liu ⁽⁷⁾	*	*
Frank Lin ⁽⁸⁾	*	*
Xing Liu ⁽⁹⁾	*	*
Kathleen Chien ⁽¹⁰⁾	*	*
Nanyan Zheng ⁽¹¹⁾	*	*
David Cui	—	—
Daniel Tsun-Ming Kao	*	*
Pengjun Lu	—	—
Yizhi Tang	*	*
All directors and executive officers as a group	26,888,326	19.6
Principal Shareholders :		
Elegant Motion Holdings Limited ⁽¹²⁾	15,941,084	11.6
Tencent Mobility Limited ⁽¹³⁾	12,852,698	9.3
JD Entities ⁽¹⁴⁾	10,103,435	7.3
High Vivacity Holdings Limited ⁽¹⁵⁾	8,952,810	6.5
Morgan Stanley ⁽¹⁶⁾	8,921,124	6.5

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 128 Dingxin Road, Haizhu District, Guangzhou 510220, People's Republic of China.

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- *** 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, 2021.
 - (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, 2021, Mr. Eric Ya Shen beneficially owned (i) 2,533 Class A ordinary shares, (ii) 567,645 Class A ordinary shares issuable to Mr. Eric Ya Shen upon the exercise of options within 60 days after March 31, 2021, and (iii) 380,726 Class A ordinary shares and 15,560,358 Class B ordinary shares held by Elegant Motion Holdings Limited, representing 56.4% of the aggregate voting power of our company.
 - (4) Beneficially owned through High Vivacity Holdings Limited, a British Virgin Islands company, which is ultimately wholly owned by the Nasa Stand Trust, and options of Mr. Hong granted under our share incentive plans to acquire Class A ordinary shares. Under the terms of the Nasa Stand Trust, Mr. Hong has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to these shares. As of March 31, 2021, Mr. Hong beneficially owned (i) 595,977 Class A ordinary shares that can be acquired by Mr. Arthur Xiaobo Hong within 60 days after March 31, 2021; 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 5, 2021. 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.

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- (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 5, 2021. The registered address of High Vivacity Holdings Limited is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.
- (16) Based on the statement on the Schedule 13G/A filed on February 12, 2021 jointly by MORGAN STANLEY and Morgan Stanley Capital Services LLC. Morgan Stanley Capital Services LLC is a Delaware company, which is wholly owned by MORGAN STANLEY. The principal office address of Morgan Stanley Capital Services LLC is 1585 Broadway New York, NY 10036, United States.

To our knowledge and based on our review of our register of shareholders as of March 31, 2021, 104,151,020 Class A ordinary shares were held of record by one holder that resides in the United States, Deutsche Bank Trust Company Americas, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our Class A ordinary shares in the United States. For the different voting rights of our Class A ordinary shareholders and Class B ordinary shareholders, please refer to “Item 4.A. Information on the Company—History and Development of the Company—Our Company.” We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of the date of this annual report, none of our ordinary shares are held by governmental entities of our place of incorporation, and no government entity in the place where our registered public accounting firm is located and organized has a controlling financial interest in 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

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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 Relating to Our Consolidated Affiliated Entities.”

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 or major shareholders, in the amount of RMB243.5 million (US\$37.3 million) for the year ended December 31, 2020. As of December 31, 2020, the amounts due to companies controlled by our directors or major shareholders were RMB246.1 million (US\$37.7 million), which was unsecured and interest free. We also provided service to companies controlled or significantly influenced by our directors or major shareholders in the amount of RMB17.0 million (US\$2.6 million) for the year ended December 31, 2020. As of December 31, 2020, the amounts due from companies controlled or significantly influenced by our directors or major shareholders were RMB6.8 million (US\$1.0 million), which were unsecured and interest free.

Transactions with Other Related Parties

We purchased products and goods from companies significantly influenced by us in the amount of RMB1.53 billion (US\$234.8 million), and received service from our affiliates in the amount of RMB5.9 million (US\$0.9 million), for the year ended December 31, 2020. As of December 31, 2020, the amount due to companies significantly influenced by us were RMB198.0 million (US\$30.3 million), which were unsecured and interest free. We also provided service to companies significantly influenced by us in the amount of RMB27.2 million (US\$4.2 million) for the year ended December 31, 2020. Our sales of products to companies significantly influenced by us was RMB102.2 million (US\$15.7 million) for the year ended December 31, 2020. As of December 31, 2020, the amounts due from companies significantly influenced by us were RMB326.7 million (US\$50.1 million), of which RMB303.5 million (US\$46.5 million) were short-term loan originated to the Company’s joint ventures and carried an interest rate of 4.35%.

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.

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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 depository of our ADSs in U.S. dollars, which will distribute them to the holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depository to the holders of ADSs in any means it deems legal, fair and practical.

We are a holding company incorporated in the Cayman Islands. We principally rely on dividends from our subsidiaries in China and Hong Kong for our cash needs. To pay dividends to us, our subsidiaries in China and Hong Kong need to comply with the applicable regulations. See “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—We principally rely on dividends and other distributions on equity paid by 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.”

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.”

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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 Act 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 Act 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 Act.

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.

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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 Act 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 Act, 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 Act, 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

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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.

Differences Between the Law of Different Jurisdictions

The Companies Act 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 Act and the current Companies Act of England. In addition, the Companies Act 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 Act 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 Act 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 66²/₃% 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. 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 Act (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 Act 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

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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 Act 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

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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.

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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 Act 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

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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.

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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 Act 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).

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 PRC Enterprise Income Tax Law, an enterprise established outside of China with “de facto management bodies” within China may be considered a PRC “resident enterprise,” meaning it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes, although the dividends paid to a PRC resident enterprise from another may qualify as “tax-exempt income.” The implementation rules of the PRC Enterprise Income Tax 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. STA Circular 82 issued by STA 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 STA Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals, the determination criteria set forth in STA Circular 82 may reflect STA’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 enterprise income tax 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 enterprise income tax 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, STA issued STA Public Notice 7. In December 2017, Article 13 and Paragraph 2 of Article 8 of STA Public Notice 7 were abolished Pursuant to the STA 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 enterprise income tax 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. STA 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. STA 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 enterprise income tax, 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 China 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, the Ministry of Finance and STA 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, the Ministry of Finance and STA issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-Added Taxes in Lieu of Business Taxes. Effective from May 1, 2016, the PRC tax authorities will collect VAT in lieu of business tax on a trial basis within China 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 China 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, the Ministry of Finance and STA 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

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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, the Ministry of Finance, STA, and the General Administration of Customs jointly promulgated the Announcement on Relevant Policies for Deepening Value-Added Tax Reform, which took effect on April 1, 2019. According to the announcement: (i) for VAT taxable sales or importation of goods originally subject to VAT rates of 16% and 10%, tax rates are adjusted to 13% and 9%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 10%, the deduction rate is adjusted to 9%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 13%, the taxes are calculated at the deduction rate of 10%; (iv) for exported goods originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate is adjusted to 13%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate is adjusted to 9%.

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

$$\text{VAT payable} = \text{Output tax payable for the applicable period} - \text{Input tax receivable for the same applicable period}$$

As of December 31, 2018, 2019, and 2020, we had VAT recoverable of approximately RMB770.9 million, RMB1.43 billion, and RMB907.7 million (US\$139.1 million), respectively. VAT recoverable occurs due to timing difference on operation of certain entities, as we record the revenue and VAT output when goods are delivered, but VAT input invoice from suppliers may be delayed. We also had VAT tax payable of RMB749.1 million, RMB528.8 million, and RMB510.2 million (US\$78.2 million) as of December 31, 2018, 2019, and 2020, respectively, included as accrued expenses and other current liabilities. 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, and there can be no assurance that Internal Revenue Service, or 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, 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 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, 2020 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. 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

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 the PRC Enterprise Income Tax 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.

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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 PRC Enterprise Income Tax 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

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 PRC Enterprise Income Tax 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

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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 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, 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

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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 depository 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 depository 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 depository 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 expenses incurred by short-term loan and long-term loan. 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. However, due to changes in market interest rates, our future interest expense may increase and our future interest income may fall short of expectations.

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 cash and cash equivalents, restricted cash, and short-term investments. 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 for our operations, acquisitions, or for other uses within China, 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. As of December 31, 2020, the cash and cash equivalents, restricted cash and short-term investments denominated in foreign currencies are not material and our exposure to foreign exchange risk is limited.

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 depository 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 depository 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 depository may collect its annual fee for depository 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 depository 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 depository 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
• 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).

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- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for a portion of certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. Further, the depositary has agreed to reimburse us certain fees payable to the depositary by holders of ADSs. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of service fees to be charged to holders of ADSs, and (iii) our reimbursable expenses related to the program are not known at this time.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

On September 15, 2014, our shareholders voted in favor of a proposal to adopt a dual-class share structure, pursuant to which our authorized share capital was reclassified and re-designated into Class A ordinary shares and Class B ordinary shares, with each Class A ordinary share being entitled to one vote and each Class B ordinary share being entitled to ten votes on all matters that are subject to shareholder vote.

See “Item 10. Additional Information” for a description of the rights of securities holders.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our senior management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our senior management has concluded that, as of December 31, 2020, 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, 2020 based on the framework in Internal Control—Integrated Framework

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(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, 2020.

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, 2020.

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-4 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.

	2019	2020	
	RMB	RMB	US\$
Audit Fees ⁽¹⁾	15,200	14,600	2,237
Audit-Related Fees ⁽²⁾	826	235	36
Tax Fees ⁽³⁾	600	745	114

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

On March 30, 2021, our board of directors authorized a share repurchase program, under which we may purchase up to US\$500 million worth of our Class A ordinary shares over the 24-month period upon the establishment of share repurchase program. As the date of this annual report, the share repurchase program has not been established.

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
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. (incorporated by reference to Exhibit 4.16 to our Annual Report on Form 20-F (File No. 001-35454) filed with the Securities and Exchange Commission on April 27, 2020)
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 16, 2021

VIPSHOP HOLDINGS LIMITED

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Vipshop Holdings Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vipshop Holdings Limited and its subsidiaries, (collectively referred to as the “Company”) as of December 31, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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 16, 2021, 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (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 RMB 7.6 billion as of December 31, 2020, which represented approximately 24.5% of the Company's total current assets. Inventories are valued at cost or net realizable value. Write-downs are recorded when future estimated net realizable values are less than costs. Inventory write-downs are estimated based on significant management estimates and assumptions used to determine the write-down percentages that are applied to different aging and quality of the merchandizes within each product category. In determining the write-down percentages on inventories, the Company takes into considerations of factors such as the inventories' agings, historical trends, 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 balance of inventories in the consolidated financial statements.

Auditing management's estimates related to the inventory write-down percentages involves subjective and complex auditors' judgments 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-downs;
- We evaluated the appropriateness and consistency of management's methods and assumptions used in developing their estimates of the inventories write-downs;
- We tested the accuracy and completeness of the underlying data utilized in the management's write-down assessment, including categorization of the inventories and the aging distribution of the inventory by category;
- We made inquiries with management to obtain an understanding of the planned promotion events, expected sales trends in the upcoming promotion cycles and evaluate whether these factors have been appropriately incorporated into the valuation assessments;
- We performed retrospective reviews to assess the reasonableness of management's estimates on write-down percentages by comparing current period trends to historical trends across multiple fiscal periods, including sales trends, inventory agings and gross margin rates to evaluate management's ability to reasonably estimate inventory write-downs.

/s/ Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 16, 2021

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Vipshop Holdings Limited

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vipshop Holdings Limited and its subsidiaries (collectively referred to as the “Company”) as of December 31, 2020, 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, 2020, 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, 2020, of the Company and our report dated April 16, 2021, expressed an unqualified opinion on those financial statements.

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 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (CONTINUED)

Definition and Limitations of Internal Control over Financial Reporting (Continued)

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 16, 2021

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,		
	2019 RMB	2020 RMB	2020 US\$ Note 2(z)
ASSETS			
Current assets:			
Cash and cash equivalents	6,573,808	11,995,415	1,838,378
Restricted cash	1,145,477	815,906	125,043
Short-term investments	3,052,726	7,328,719	1,123,175
Accounts receivables, net	1,295,766	334,529	51,269
Amounts due from related parties	47,964	333,539	51,117
Other receivables and prepayments, net	2,897,893	2,286,359	350,400
Loan receivables, net	306,115	27,258	4,177
Inventories	7,708,292	7,642,509	1,171,266
Assets held for sale	—	408,748	62,643
Total current assets	<u>23,028,041</u>	<u>31,172,982</u>	<u>4,777,468</u>
Property and equipment, net	11,256,810	13,584,459	2,081,909
Deposits for property and equipment	101,800	73,718	11,298
Land use rights, net	5,541,108	6,062,792	929,164
Intangible assets, net	337,310	333,022	51,038
Investments in equity method investees	3,112,952	1,949,787	298,818
Other investments	2,002,756	2,861,034	438,472
Other long-term assets	608,073	100,328	15,376
Amounts due from related parties	102,000	—	—
Goodwill	236,711	593,662	90,983
Deferred tax assets, net	539,561	628,267	96,286
Right-of-use assets, net	1,715,556	1,580,763	242,263
Total assets	<u>48,582,678</u>	<u>58,940,814</u>	<u>9,033,075</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,		
	2019 RMB	2020 RMB	2020 US\$ Note 2(z)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable (Including accounts payable of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB136,359 and RMB42,615 as of December 31, 2019 and 2020, respectively)	13,792,200	15,191,313	2,328,171
Advances from customers (Including advances from customers of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB458,894 and RMB 281,260 as of December 31, 2019 and 2020, respectively)	1,233,165	1,558,891	238,911
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 RMB3,090,910 and RMB 2,720,520 as of December 31, 2019 and 2020, respectively)	6,534,575	7,696,996	1,179,616
Amounts due to related parties (Including amounts due to related parties of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB8,820 and nil as of December 31, 2019 and 2020, respectively)	532,788	444,100	68,061
Deferred income (Including deferred income of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB244,323 and RMB 289,815 as of December 31, 2019 and 2020, respectively)	405,994	334,431	51,254
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, 2019 and 2020, respectively)	1,093,645	1,043,426	159,912
Operating lease liabilities (Including operating lease liabilities of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB17,697 and RMB1,157 as of December 31, 2019 and 2020, respectively)	333,268	299,791	45,945
Total current liabilities	<u>23,925,635</u>	<u>26,568,948</u>	<u>4,071,870</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,		
	2019 RMB	2020 RMB	2020 US\$ Note 2(z)
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, 2019 and 2020, respectively)	64,515	—	—
Deferred tax liabilities (Including deferred tax liabilities of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB36,385 and RMB 31,773 as of December 31, 2019 and 2020, respectively)	165,098	432,995	66,359
Deferred income - noncurrent (Including deferred income of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and RMB21 as of December 31, 2019 and 2020, respectively)	782,068	1,070,891	164,121
Operating lease liabilities - noncurrent (Including operating lease liabilities-noncurrent of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB8,743 and RMB4,501 as of December 31, 2019 and 2020, respectively)	1,395,665	1,360,946	208,574
Other long term liabilities (Including other long term liabilities of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of nil and nil as of December 31, 2019 and 2020, respectively)	—	121,245	18,582
Total liabilities	26,332,981	29,555,025	4,529,506
Commitments and contingencies (Note 25)			
SHAREHOLDERS' EQUITY:			
Class A ordinary shares (US\$0.0001 par value, 483,489,642 shares authorized, and 117,584,362 and 119,223,484 shares issued and outstanding as of December 31, 2019 and 2020, respectively)	76	77	12
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, 2019 and 2020, respectively)	11	11	2
Additional paid-in capital	9,959,497	10,816,185	1,657,653
Retained earnings	11,924,228	17,740,415	2,718,838
Accumulated other comprehensive loss	(56,656)	(58,954)	(9,036)
Total Vipshop Holdings Limited shareholders' equity	21,827,156	28,497,734	4,367,469
Non-controlling interests	422,541	888,055	136,100
Total shareholders' equity	22,249,697	29,385,789	4,503,569
Total liabilities and shareholders' equity	48,582,678	58,940,814	9,033,075

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,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$ Note 2(z)
Net revenues:				
Product revenues	81,510,275	88,721,311	97,449,712	14,934,822
Other revenues	3,013,673	4,273,107	4,408,777	675,675
Total net revenues	<u>84,523,948</u>	<u>92,994,418</u>	<u>101,858,489</u>	<u>15,610,497</u>
Cost of revenues (Including inventory write-down of RMB440,823, RMB347,498 and RMB554,850 for the years ended December 31, 2018, 2019 and 2020, respectively)	(67,454,981)	(72,314,190)	(80,573,181)	(12,348,380)
Gross profit	<u>17,068,967</u>	<u>20,680,228</u>	<u>21,285,308</u>	<u>3,262,117</u>
Operating expenses:				
Fulfillment expenses (Including shipping and handling expenses of RMB4,498,678, RMB4,632,552 and RMB4,508,208 for the years ended December 31, 2018, 2019 and 2020, respectively)	(7,489,393)	(7,317,706)	(6,878,991)	(1,054,251)
Marketing expenses	(3,240,450)	(3,323,927)	(4,284,274)	(656,594)
Technology and content expenses	(2,000,894)	(1,568,107)	(1,221,264)	(187,167)
General and administrative expenses	(2,674,179)	(4,064,264)	(3,748,548)	(574,490)
Goodwill impairment loss	—	(278,263)	—	—
Total operating expenses	<u>(15,404,916)</u>	<u>(16,552,267)</u>	<u>(16,133,077)</u>	<u>(2,472,502)</u>
Other operating income	757,062	645,413	707,855	108,483
Income from operations	2,421,113	4,773,374	5,860,086	898,098
Impairment loss of investments	(20,073)	(127,589)	(43,160)	(6,614)
Interest expenses	(159,744)	(86,004)	(67,357)	(10,323)
Interest income	242,872	217,027	449,017	68,815
Exchange gain (loss)	71,065	(935)	(160,097)	(24,536)
Investment gain and revaluation of investments	191,842	166,932	980,868	150,325
Income before income taxes and share of (loss) income of equity method investees	2,747,075	4,942,805	7,019,357	1,075,765
Income tax expense	(566,604)	(983,554)	(1,130,016)	(173,183)
Share of (loss) income of equity method investees, net of tax nil	(46,999)	27,182	30,015	4,600
Net income	2,133,472	3,986,433	5,919,356	907,182
Net (income) loss attributable to non-controlling interests	(4,685)	30,399	(12,399)	(1,900)
Net income attributable to Vipshop Holdings Limited's shareholders	<u>2,128,787</u>	<u>4,016,832</u>	<u>5,906,957</u>	<u>905,282</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)

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$ Note 2(z)
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	132,266,157	133,524,129	135,077,790	135,077,790
—Diluted	140,083,610	136,081,415	138,036,010	138,036,010
Net earnings per Class A and Class B ordinary share				
—Basic	16.09	30.08	43.73	6.70
—Diluted	15.61	29.58	42.79	6.56
Net income	2,133,472	3,986,433	5,919,356	907,182
Other comprehensive loss:				
Foreign currency translation, net of tax of nil	(7,083)	(25,773)	(2,298)	(353)
Comprehensive income	<u>2,126,389</u>	<u>3,960,660</u>	<u>5,917,058</u>	<u>906,829</u>
Less: Comprehensive income (loss) attributable to non-controlling interests	<u>4,685</u>	<u>(30,399)</u>	<u>12,399</u>	<u>1,900</u>
Comprehensive income attributable to Vipshop Holdings Limited's shareholders	<u>2,121,704</u>	<u>3,991,059</u>	<u>5,904,659</u>	<u>904,929</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	Retained earnings	Accumulated other comprehensive income (loss)	Total Vipshop Holdings Limited Shareholders' Equity	Non-controlling interests	Total Equity
	No. of shares	Amount RMB	No. of shares	Amount RMB						
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>5,602,681</u>	<u>(24,242)</u>	<u>14,294,519</u>	<u>(43,943)</u>	<u>14,250,576</u>
Adoption of new accounting standards	—	—	—	—	—	175,928	442	176,370	—	176,370
Net income	—	—	—	—	—	2,128,787	—	2,128,787	4,685	2,133,472
Issuance of ordinary shares upon exercise of share options	356,736	—	—	—	3,947	—	—	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	—	671,210
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(5,935)	—	—	(5,935)	(12,764)	(18,699)
Capital contribution from non-controlling interests shareholders	—	—	—	—	—	—	—	—	1,000	1,000
Foreign currency translation	—	—	—	—	—	—	(7,083)	(7,083)	—	(7,083)
Balance as of December 31, 2018	<u>116,395,883</u>	<u>75</u>	<u>16,510,358</u>	<u>11</u>	<u>9,385,216</u>	<u>7,907,396</u>	<u>(30,883)</u>	<u>17,261,815</u>	<u>(51,022)</u>	<u>17,210,793</u>

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

VIPSHOP HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF 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	Retained earnings	Accumulated other comprehensive income (loss)	Total Vipshop Holdings Limited Shareholders' Equity	Non-controlling interests	Total Equity
	No. of shares	Amount RMB	No. of shares	Amount RMB						
Balance as of December 31, 2018	116,395,883	75	16,510,358	11	9,385,216	7,907,396	(30,883)	17,261,815	(51,022)	17,210,793
Net income	—	—	—	—	—	4,016,832	—	4,016,832	(30,399)	3,986,433
Issuance of ordinary shares upon exercises of share options	85,706	—	—	—	297	—	—	297	—	297
Issuance of ordinary shares upon vesting of shares awards	1,102,773	1	—	—	(1)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	682,357	—	—	682,357	—	682,357
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(10,497)	—	—	(10,497)	(16,400)	(26,897)
Dilution on non-controlling interests due to Company's contribution to its subsidiary	—	—	—	—	(97,875)	—	—	(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)	—	(25,773)
Balance as of December 31, 2019	117,584,362	76	16,510,358	11	9,959,497	11,924,228	(56,656)	21,827,156	422,541	22,249,697

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	Retained earnings	Accumulated other comprehensive income (loss)	Total Vipshop Holdings Limited Shareholders' Equity	Non-controlling interests	Total Equity
	No. of shares	Amount RMB	No. of shares	Amount RMB						
Balance as of December 31, 2019	117,584,362	76	16,510,358	11	9,959,497	11,924,228	(56,656)	21,827,156	422,541	22,249,697
Net income	—	—	—	—	—	5,906,957	—	5,906,957	12,399	5,919,356
Issuance of ordinary shares upon exercises of share options	157,429	—	—	—	895	—	—	895	—	895
Issuance of ordinary shares upon vesting of shares awards	1,481,693	1	—	—	(1)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	835,529	—	—	835,529	—	835,529
Adoption of Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”) (Note 2(ad))	—	—	—	—	—	(90,770)	—	(90,770)	—	(90,770)
Capital contribution from non-controlling interests shareholders	—	—	—	—	43,148	—	—	43,148	141,983	185,131
Disposal of a subsidiary	—	—	—	—	—	—	—	—	(2,463)	(2,463)
Non-controlling interests arising from acquisitions (Note (3)).	—	—	—	—	—	—	—	—	346,647	346,647
Acquisition of additional equity interest in a subsidiary	—	—	—	—	(21,314)	—	—	(21,314)	(19,853)	(41,167)
Dilution in non-controlling interest due to the Group's contribution to its subsidiary	—	—	—	—	703	—	—	703	(703)	—
Dividend distribution to non-controlling interest shareholders	—	—	—	—	—	—	—	—	(12,496)	(12,496)
Others	—	—	—	—	(2,272)	—	—	(2,272)	—	(2,272)
Foreign currency translation	—	—	—	—	—	—	(2,298)	(2,298)	—	(2,298)
Balance as of December 31, 2020	<u>119,223,484</u>	<u>77</u>	<u>16,510,358</u>	<u>11</u>	<u>10,816,185</u>	<u>17,740,415</u>	<u>(58,954)</u>	<u>28,497,734</u>	<u>888,055</u>	<u>29,385,789</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,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$ Note 2(z)
Cash flows from operating activities:				
Net income	2,133,472	3,986,433	5,919,356	907,182
Adjustments to reconcile net income to net cash by operating activities:				
Provision for (reversal of) allowance for doubtful accounts	175,405	229,531	(9,131)	(1,399)
Inventory write-down	440,823	347,498	554,850	85,034
Depreciation of property and equipment	770,290	830,368	970,083	148,672
Amortization of deferred income	—	(23,186)	(27,351)	(4,192)
Impairment of long-lived assets	—	537,579	47,022	7,206
Amortization of intangible assets	47,842	15,757	36,539	5,600
Amortization of land use rights	71,601	104,381	132,657	20,331
Deferred tax assets	(103,658)	(99,538)	(66,259)	(10,155)
Deferred tax liabilities	(12,047)	68,866	(37,364)	(5,726)
Loss on disposal of property and equipment and land use rights	762	14,404	7,752	1,188
Share based compensation expenses	671,210	688,083	951,048	145,754
Share of loss (income) of equity method investees	46,999	(27,182)	(30,015)	(4,600)
Impairment loss of other investments	20,073	127,589	—	—
Impairment loss of equity method investees	—	—	43,160	6,614
Goodwill impairment loss	—	278,263	—	—
Investment gain and revaluation of investments	(191,842)	(165,731)	(293,140)	(44,926)
Loss (gain) on disposal of subsidiaries	—	11,323	(48,626)	(7,452)
Gain on disposal of equity method investees	—	—	(57,629)	(8,833)
Gain on disposal of other investments	—	—	(351,863)	(53,925)
Noncash lease expense	—	325,245	403,875	61,897
Changes in operating assets and liabilities:				
Accounts receivable	(64,931)	4,165,302	988,109	151,434
Amounts due from related parties	(7,284)	12,682	(6,493)	(995)
Other receivables and prepayments	124,418	936,509	727,406	111,480
Interest receivables on short-term investments	(48,604)	(11,621)	(58,719)	(8,999)
Inventories	291,781	(2,625,892)	(527,198)	(80,797)
Dividends received from equity method investees	—	13,147	114,579	17,560
Accounts payable	(140,746)	1,681,114	1,386,900	212,551
Advances from customers	(873,914)	(282,764)	262,824	40,280
Accrued expenses and other current liabilities	1,985,677	1,148,730	1,268,114	194,346
Amounts due to related parties	258,086	282,261	(60,644)	(9,293)
Deferred income	150,335	27,904	(54,186)	(8,304)
Operating lease liabilities	—	(306,872)	(365,212)	(55,971)
Net cash generated from operating activities	5,745,748	12,290,183	11,820,444	1,811,562
Cash flows from investing activities:				
Purchases of property and equipment	(2,519,673)	(3,303,176)	(2,237,257)	(342,875)
Purchases of land use rights	(1,073,370)	(974,497)	(34,638)	(5,309)
Government subsidies received for land use rights	52,300	220,720	205,554	31,503
Proceed from disposal of property and equipment and land use rights	4,936	33,442	305,417	46,807
Purchases of other assets	(917)	—	—	—
Purchases of short-term investments	(2,691,032)	(3,271,105)	(14,349,500)	(2,199,157)
Redemption of short-term investments upon maturities	747,766	2,500,340	9,626,105	1,475,265
Investments in equity method investees and other investments	(963,699)	(605,933)	(1,601,915)	(245,504)
Proceed from disposal of investments	—	—	1,053,722	161,490

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,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
				Note 2(z)
Payment for acquisition, net of cash acquired of nil, RMB175,822 and RMB183,025 in 2018, 2019 and 2020, respectively	—	(2,749,178)	(569,425)	(87,268)
Cash paid for loan originations	(764,020)	(2,762,052)	(819,767)	(125,635)
Cash received for disposal of subsidiaries	—	—	562,791	86,251
Cash received from loan repayments	519,519	2,670,549	1,117,786	171,308
Other investing activities	(5,622)	330	46,084	7,064
Net cash used in investing activities	(6,693,812)	(8,240,560)	(6,695,043)	(1,026,060)
Cash flows from financing activities:				
Proceeds from bank and other borrowings	2,115,285	1,819,380	2,544,445	389,953
Repayment to bank and other borrowings	(1,695,885)	(2,605,503)	(2,689,972)	(412,256)
Proceeds from equity method investees	—	—	63,830	9,782
Repayment to equity method investees	—	(260,203)	(6,470)	(991)
Capital contributions from non-controlling interests shareholders	1,000	107,950	122,613	18,791
Acquisition of non-controlling interests	(18,699)	(25,375)	(41,167)	(6,309)
Dividend distribution to non-controlling interest shareholders	—	—	(12,496)	(1,915)
Redemption of convertible senior notes	—	(4,220,841)	—	—
Proceeds from issuance of securitization debt	969,000	—	—	—
Repayment of securitization debt	(760,000)	(969,000)	—	—
Proceeds from issuance of ordinary shares upon exercise of share options	3,947	297	895	137
Deferred settlement of acquisition of subsidiaries	(27,680)	—	—	—
Deferred settlement on purchase of equity method investees and other investments	—	(103,405)	—	—
Deferred settlement on acquisition of non-controlling interests	—	—	(2,517)	(386)
Net cash provided by (used in) financing activities	586,968	(6,256,700)	(20,839)	(3,194)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	177,576	(112,110)	(12,526)	(1,919)
Net (decrease) increase in cash, cash equivalents and restricted cash	(183,520)	(2,319,187)	5,092,036	780,389
Cash, cash equivalents and restricted cash at beginning of the year	10,221,992	10,038,472	7,719,285	1,183,032
Cash, cash equivalents and restricted cash at end of the year	10,038,472	7,719,285	12,811,321	1,963,421
Reconciliation in amounts on the consolidated balance sheets:				
Cash and cash equivalents	9,540,556	6,573,808	11,995,415	1,838,378
Restricted cash	497,916	1,145,477	815,906	125,043
Total cash, cash equivalents and restricted cash at end of the year	10,038,472	7,719,285	12,811,321	1,963,421

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,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$ Note 2(z)
Supplemental disclosures of cash flow information:				
Interest paid, net of amount capitalized	159,744	86,004	67,357	10,323
Income tax paid	956,291	818,153	1,136,012	174,101
Supplemental disclosure of non-cash investing and financing activities:				
Payables incurred for purchase of property and equipment	4,626	59,515	181,207	27,771
Dilution on non-controlling interests due to the Company's contribution to its subsidiary	—	97,875	—	—
Payables for acquisition of subsidiaries	—	25,000	—	—
Conversion of receivables due from the Group as additional capital contribution made by non-controlling interests shareholders (Note 21)	—	—	62,518	9,581
Reclassification of property and equipment to assets held for sale	—	—	299,319	45,873
Reclassification of land use rights to assets held for sale	—	—	109,429	16,770

In 2019, the Group acquired the Shan Shan Outlets which was accounted for as business combination. In 2020, the Group acquired two more outlets which were previously equity method investees of the Group, and the transactions were accounted for as business combinations achieved in stages. Details of non-cash activities arising from those 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”), operates 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”), are 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 Vipshop China, 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 three 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; and (iii) Vipshop China, Pin Jun Tong Enterprise Management & Consulting Co., Ltd. (“Pin Jun Tong”) and shareholders of Pin Jun Tong.

The Group has concluded that these PRC domestic companies are consolidated VIEs of the Group, of which the Group is the ultimate primary beneficiary.

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 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.

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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, 2020, 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, revoking the business licenses or operating licenses of the WFOE, Vipshop E-commerce, Vipshop Information, Pin Jun Tong shutting down the Group's servers or blocking the Group's websites, discontinuing or placing restrictions or onerous conditions on the Group's operations, requiring the Group to undergo a costly and disruptive restructuring, restricting or prohibiting the Group's use of various funding to finance its business and operations in China, and taking other regulatory or enforcement actions that could be harmful to the Group's business;
- The Group relies on the Contractual Arrangements with the VIEs and their equity holders for a majority all of its PRC operations, which may not be as effective as direct ownership in providing operational control;
- The Group may have to incur significant cost to enforce, or may not be able to effectively enforce, the Contractual Arrangements with the VIEs and their equity holders in the event of a breach or non-compliance by the VIEs or their equity holders;
- The Nominee Shareholders of the VIEs are also directors of the Group or its subsidiaries, and 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 any conflicts of interest arise, or that any conflicts of interest will be resolved in the Group's

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2. Summary of significant accounting policies (Continued)

(b) Principles of consolidation (Continued)

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 current liabilities, total liabilities, net revenues, total operating expenses, net (loss) income and cash flows after intercompany eliminations are as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Total assets	10,388,986	4,792,049
Total current liabilities	(3,957,003)	(3,335,367)
Total liabilities	(4,002,131)	(3,371,662)

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Net revenues	2,455,488	3,613,683	2,320,227
Total operating expenses	(5,826,283)	(6,095,095)	(658,336)
Net (loss) Income	(3,531,460)	(2,206,270)	1,663,675

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2. Summary of significant accounting policies (Continued)

(b) Principles of consolidation (Continued)

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Net cash (used in) provided by operating activities	(294,853)	4,807,929	1,900,300
Net cash (used in) provided by investing activities	(48,162)	(2,206,121)	1,243,614
Net cash used in financing activities	(17,698)	(13,125)	—

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 customers. 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.

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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.

Inventory write-down is estimated based on significant management estimates and assumptions used to determine the write-down percentages that are applied to different aging groups and assess the quality of the merchandizes within each category. In determining the write-down percentages on inventories, the Company takes into considerations of factors, such as the inventories' aging, historical trends, 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 balance of inventories on the financial statements.

(h) Accounts receivables, net

Accounts receivables are mainly receivables from consumer financing business, online promotional and advertising services, and warehousing services to the Group's vendors, which are stated at the historical carrying amount net of allowance for uncollectible accounts. The Group makes estimates of expected credit losses for the allowance for credit losses based upon its assessment of various factors, including historical experience, the age of the accounts receivable balances, probabilities of default and loss given default rates of different types of accounts receivables in each business, credit quality of certain accounts receivables, current economic conditions, reasonable and supportable forecasts of future economic conditions and other factors that may affect its ability to collect from the counterparties. Uncollectible accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined that is not probable for the balance to be collected.

Accounts receivables expected to be settled in 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 microcredit 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 Group makes estimates of expected credit loss for the allowance for credit losses based upon its assessment of various factors, including historical experience, the age of loan receivables, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from the counterparties. Uncollectible loan receivables are written off when the Group has exhausted all efforts and determined that it is probable the balance will not be collected.

The loan receivables expected to be settled in more than one year as of balance sheet date are classified into other long-term assets on the consolidated balance sheets.

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2. Summary of significant accounting policies (Continued)

(j) Other receivables and prepayments, net

Other receivables and prepayments mainly consisted of advances to suppliers, VAT and EIT recoverable, loans to third parties and others, which are stated at the historical carrying amounts. The Group makes estimates of expected credit loss for the allowance of other receivables upon its assessment of various factors, including probability of default and loss given default rate of different types of other receivables in each business, current economic conditions, reasonable and supportable forecasts of future economic conditions and other factors that may affect its ability to collect from the counterparties. Uncollectible other receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined that it is probable 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>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) Land use rights, net

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 agreements.

(m) 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.

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2. Summary of significant accounting policies (Continued)

(m) Intangible assets, net (Continued)

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.

Identifiable intangibles assets acquired in business combination 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 at cost less 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>Estimated economic life</u>
Customer relationships	4-14 years
Trademarks	2-5 years
Non-compete agreement	3 years
Domain names	2-5 years
Payment license	Indefinite life

(n) Investments in equity method investee and other investments

Investments accounted under the equity method

Equity investments for which the Group has significant influence but does not own a majority equity interest or otherwise control are accounted for using the equity method. The Group adjusts the carrying amount of the investments and recognizes investment income or loss for its share of the earnings or loss of the investee after the date of investment.

The Group assesses its equity method investments for impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the entities, including current earnings trends and undiscounted cash flows, and other entity-specific information. The fair value determination, particularly for investments in privately-held entities, requires judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and determination of whether any identified impairment is other-than-temporary. If the decline in the fair value is deemed to be other-than-temporary, the carrying value of the equity method investment is written down to fair value.

Equity investment without readily determinable fair value

The Group’s other investment comprise of investments in privately-held companies and do not have readily determinable fair value.

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2. Summary of significant accounting policies (Continued)

(n) Investments in equity method investee and other investments (Continued)

The Group measure these investments at cost minus impairment, if any, adjusted up or down for observable price changes in orderly transactions for the identical or similar investment of the same issuer. The Group also makes qualitative assessment at each reporting period and if the assessment indicates that the fair value of the investment is less than the carrying value, the investment in equity securities will be written down to its fair value, with the difference between the fair value of the investment and its carrying amount as an impairment loss recorded in statements of income and comprehensive income.

(o) Impairment of long-lived assets

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 evaluates intangible asset that is not subject to amortization for impairment annually and more frequently if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group conducts quantitative impairment test for indefinite-lived intangible asset and compares of the fair value of the asset with its carrying amount. The Group recognizes impairment loss on the amount by which the carrying value exceeds the fair value of the asset. After an impairment loss is recognized, the Group uses adjusted carrying amount of the long-lived assets and intangible asset as its new accounting basis.

The Group recorded an impairment of nil, RMB537,579 and RMB47,022 during the years ended December 31, 2018, 2019 and 2020, respectively, in general and administrative expenses on the consolidated statements of income and comprehensive income.

(p) 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.

Prior to January 1, 2020, the Group performed a two-step quantitative impairment test to determine the amount, if any, of goodwill impaired. 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. Starting from January 1, 2020, the Group adopted ASU 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss. The impairment test is performed as of year-end or if an event occurs or circumstances change that would more likely than not reduce the fair

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2. Summary of significant accounting policies (Continued)

(p) Goodwill (Continued)

value of a reporting unit below its carrying amount by comparing the fair value of a reporting unit with its carrying value. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

In the fourth quarter of 2019, the Group has outsourced all of its 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 in 2019. No impairment has been recorded for the year ended December 31 2018 or 2020.

(q) 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.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and recognize the resulting gain or loss, if any, in earnings.

For the Group's majority-owned subsidiaries and subsidiaries of VIEs, a non-controlling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Group. Consolidated net income on the consolidated statements of income and comprehensive income includes the net income 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.

(r) Leases

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

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2. Summary of significant accounting policies (Continued)

(r) Leases (Continued)

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 statements of income and comprehensive income on a straight-line basis over the lease term.

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

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 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 the 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.

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2. Summary of significant accounting policies (Continued)

(r) Leases (Continued)

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 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.

(s) Revenue recognition

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

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2. Summary of significant accounting policies (Continued)

(s) Revenue recognition (Continued)

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.

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 merchandizes through its online platforms, including its internet website and cellular phone application. 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 and merchandizes sold through Shan Shan Outlets, the Group recognizes product revenue at the point of time when customers pay and obtain control of the merchandizes.

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 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 handling the return of the goods 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 merchandize returns, which is calculated based on historical return patterns, and recorded as a refund liability included in accrued expenses and other current liabilities (Note 12).

Membership reward program

The Group grants Weipin Coins to customers when they purchase goods from its online platforms. Weipin Coins can be used to offset against payments when customers make their future purchases. This program was terminated as of December 31, 2019.

The Group considers Weipin Coins as a separate performance obligation and allocates the transaction price proportionally between the product sold and Weipin Coins granted on a relative standalone selling price basis in consideration of the likelihood of future redemption based on historical experience and the equivalent value per Weipin Coin when they are redeemed. The deferred income recorded for Weipin Coins is considered as a contract liability. As of December 31, 2019 and 2020, the Group recorded deferred income related to Weipin Coins of RMB138,017 and nil, respectively.

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2. Summary of significant accounting policies (Continued)

(s) Revenue recognition (Continued)

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.

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 (6) loan facilitation service income and (7) membership fee income and (8) lease income and other miscellaneous income mainly earned from the Shan Shan Outlets.

The Group charges commission fees to third-party merchants for access to 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 charges the third-party merchants commission fees.

Prior to November 2019, the Group provided logistic services to third parties. The Group also provides warehousing and distribution services to its vendors. Revenue from logistic, warehousing and distribution services are recognized at the point of time upon completion of the performance of services.

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

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

The Group cooperates with banks and third-party consumer financing companies to provide consumer loans to qualified customers, and is entitled to service channel fees calculated as a percentage of the loan amounts. Revenue is recognized when the banks or third-party consumer financing companies grant customers the loans. The Group is not responsible for any activity post loan originations nor does it provide any guarantee for the loans. The Group considers its performance obligation is completed upon the loan origination and the service fee is recognized as revenue at that point in time.

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.

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

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2. Summary of significant accounting policies (Continued)

(s) Revenue recognition (Continued)

Remaining performance obligations

Remaining performance obligations represent the transaction price allocated to unsatisfied or partially unsatisfied performance obligations. For the years ended December 31, 2019 and 2020, the Group had unfulfilled performance obligations for products to be passed to customers of RMB1,118 million and RMB1,380 million, and performance obligations related to Weipin Coins granted to customers and Super VIP membership fee of RMB382 million and RMB297 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 product 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 28 for product revenues by principal product categories. The Group disaggregates its other revenue from different types of contracts with customers by service income and lease income, as the Group believes it best depicts the nature, amount, timing and uncertainty of its revenue and cash flows. The amounts of service income and lease income were RMB3,010,972 and RMB2,701, RMB4,193,951 and RMB79,156, RMB3,963,765 and RMB445,012 for the years ended December 31, 2018, 2019 and 2020, respectively.

Contract balances

The estimated inventories in-transit relating to estimated returns are contract assets included in inventories. The balance of contract assets is RMB177,783 and RMB213,591 as of December 31, 2019 and 2020, 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, 2019 and 2020, the balances of the contract liabilities are RMB1,726 million and RMB1,949 million, included in advances from customers, deferred income and accrued expenses and other current liabilities.

All contract liabilities as of January 1, 2020 were recognized as revenue during the year ended December 31, 2020. All contract liabilities as of year ended December 31, 2020 are expected to be realized in the following year.

(t) Cost of revenues

Cost of revenues consists primarily of cost of merchandizes sold, inventory write-down, cost relating to logistics service rendered to external customers, occupancy cost for retail shops including rental cost, maintenance costs, depreciation cost and utility cost of the outlets. The amounts of inventory write-down were RMB440,823, RMB347,498 and RMB554,850 for the years ended December 31, 2018, 2019 and 2020, respectively. Cost of revenues does not include fulfillment expenses and on-line payment processing fee, therefore the Group's cost of revenues may not be comparable to other companies which include such expenses in their cost of revenues.

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2. Summary of significant accounting policies (Continued)

(t) Cost of revenues (Continued)

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 5.

(u) Fulfilment 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 the fourth quarter of 2019, the Group has ceased its own logistics delivery operations and outsourced all of its delivery activities to third party couriers. The costs paid to the third party couriers are included in fulfilment expenses.

(v) 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 consolidated statements of income and comprehensive income in the period incurred. The amounts of advertising expenses incurred were RMB1,651,996, RMB2,234,291 and RMB3,078,532 for the years ended December 31, 2018, 2019 and 2020, respectively.

(w) 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.

(x) 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, payment processing fees and other corporate overhead costs.

(y) Foreign currency transactions and translations

The functional currency of the Company, Vipshop HK and other offshores subsidiaries is the United States dollar ("US dollar"). The functional currency of all the other significant subsidiaries and the VIEs is RMB. Foreign currency denominated monetary assets and liabilities have been translated into the functional currency at the 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.

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.

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2. Summary of significant accounting policies (Continued)

(y) Foreign currency transactions and translations (Continued)

The value of 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 RMB7,565,817 and RMB12,616,284 as at December 31, 2019 and 2020, respectively.

(z) 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, 2020 are solely for the convenience of the readers and were calculated at the rate of RMB6.5250 to US\$1.00, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2020. 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, 2020.

(aa) Taxation

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. As part of the process of preparing the consolidated 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 consolidated financial statements at the end of each reporting period 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.

(ab) 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 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.

(ac) 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.

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2. Summary of significant accounting policies (Continued)

(ad) 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, net.

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 are primarily due from consumer financing services. There are no significant credit risk concentrated with any specific end customers under consumer financing, microcredit loans or suppliers under financing service arrangements. With respect to advances to product suppliers included in other receivables, the Group performs on-going credit evaluations of the financial condition of its suppliers. 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.

On January 1, 2020, the Group adopted ASU 2016-13 using the modified retrospective transition method. ASU 2016-13 replaces the existing incurred loss impairment model with a forward-looking current expected credit loss (“CECL”) methodology, which results in more timely recognition of credit losses. The Group has developed a CECL model for its financial instruments within the scope of this standard, which are primarily accounts receivable, other receivables, and loan receivables. The cumulative effect from the adoption as of January 1, 2020 was RMB90,770, which is recorded in retained earnings.

(ae) Fair value of financial instruments

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs may be used to measure fair value include:

- Level 1 Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 Applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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2. Summary of significant accounting policies (Continued)

(ae) Fair value of financial instruments (Continued)

The Group's short-term financial instruments include cash and cash equivalents, restricted cash, short-term investments, receivables and prepayments, payables, amounts due from related parties, other current liabilities, amounts due to related parties, advance from customers, and short-term loan. The carrying amounts of these short-term financial instruments approximate their fair values due to the short-term maturity of these instruments. The carrying amounts of the long-term receivables and long-term bank borrowings approximate their fair values as the interest rates are comparable to the prevailing interest rates in the market.

The Group measures its equity investment with readily determinable fair value at its quoted price in active markets.

The financial guarantee arises from the acquisition of Shan Shan Outlets and certain cash-settled share-based compensation arrangements granted by Shan Shan Outlets are recorded as Level 3 financial instruments which are revalued at each reporting period end. The fair value of the financial guarantee is determined 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. The fair value of the liability relating to the cash-settled share-based compensation arrangements was determined using the Monte Carlo Simulation through simulation of the future net profits of the Shan Shan Outlets as disclosed in Note 27(c).

The Group measures equity method investments and equity investments without readily determinable at fair value on a nonrecurring basis when they are deemed to be impaired. The equity investments without readily determinable, which is included in other investments, is recorded at cost minus impairment, and if any, adjusted by observable price changes in orderly transactions for the identical or similar investments of the same issuer. The fair values of these investments are determined based on valuation techniques using the best information available. An impairment charge to these investments is recorded when the carry amount of an investment exceeds its fair value and this condition is determined to be other-than-temporary.

(af) 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.

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2. Summary of significant accounting policies (Continued)

(af) Share-based compensation (Continued)

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.

(ag) 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.

(ah) 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.

Prior to the year ended December 31, 2019, 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 28.

(ai) Accounting standards issued but not adopted

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

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2. Summary of significant accounting policies (Continued)

(ai) Accounting standards issued but not adopted (Continued)

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 future consolidated financial statements.

In October 2020, the FASB issued Accounting Standards Update No.2020-10, Codification Improvements – Disclosures (“ASU 2020-10”) to align with the SEC’s regulations. This ASU improves consistency by amending the codification to include all disclosure guidance in the appropriate disclosure sections and clarifies application of various provisions in the Codification by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. The Group is currently assessing the impact that ASU 2020-10 will have on its future consolidated financial statements.

3. Acquisition

(a) Acquisition of Shan Shan Outlets in 2019

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. The remaining RMB25,000 has been paid as of December 31, 2020. 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.

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3. Acquisition (Continued)

(a) Acquisition of Shan Shan Outlets in 2019 (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 mainly by applying the income approach and depreciated replacement cost method as follows:

	RMB	Weighted average amortization period (in years)
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 receivables	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	51,252	
Property and equipment	461,408	14~20
Land use rights	837,160	30~40
Construction in progress	207,707	
Investments in equity method investees	2,322,375	
Total assets acquired	4,683,750	
Accounts payables	(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><u>2,950,000</u></u>	

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3. Acquisition (Continued)

(a) Acquisition of Shan Shan Outlets in 2019 (Continued)

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, were included in the Group's consolidated statement of income and comprehensive income since the acquisition date to December 31, 2019.

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.

(b) Acquisition of Shanjing Business Management (Ningbo) Co., Ltd. ("Ningbo Shanjing") and Harbin Shan Shan Chunxiaqudong Properties Co., Ltd ("Harbin Shan Shan") in 2020

In May and July of 2020, to support the Group's strategy to continue to expand into the outlet business, the Group acquired additional equity interests of 30.38% and 40% in Ningbo Shanjing and Harbin Shan Shan for cash consideration of RMB236,250 and RMB311,200, respectively. As a result of these transactions, the Group obtained control in these two entities and therefore accounted for these transactions as business combination.

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3. Acquisition (Continued)

(b) Acquisition of Shanjing Business Management (Ningbo) Co., Ltd. (“Ningbo Shanjing”) and Harbin Shan Shan Chunxiaqiudong Properties Co., Ltd (“Harbin Shan Shan”) in 2020 (Continued)

The aggregated consideration, fair value of assets acquired and liabilities assumed, as well as goodwill resulted from these acquisitions are as follows:

	RMB
Consideration:	
Cash	547,450
Fair value of the Group’s existing equity interests at the time of acquisition transferred	1,255,895
Total considerations transferred	1,803,345
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	172,455
Accounts receivables	11,906
Inventories	390
Other receivables and prepayments	21,158
Property and equipment	1,680,199
Land use rights	481,400
Deferred tax assets	22,447
Total assets acquired	2,389,955
Accounts payables	(168,982)
Advances from customers	(69,855)
Accrued expenses and other current liabilities	(128,058)
Deferred income	(93,243)
Deferred tax liabilities	(305,261)
Total liabilities assumed	(765,399)
Net assets acquired	1,624,556
Non-controlling interests	(228,162)
Goodwill	406,951

The fair value of the pre-existing interest in the equity method investment on the acquisition date is calculated by deducting the total fair value of additional equity interest acquired in these entities from the fair value of 100% equity interest in these outlets at the date of acquisition by adopting income approach, in particular, the discounted cash flow method to analyze the indicative value of all equity interests in the acquired outlets. The fair value of the outlets acquired are estimated based on significant inputs which mainly include the financial results, growth trends and discount rate. The Group’s existing equity interests were remeasured to a total aggregate fair value of RMB1,255,895, with the excess over the carrying amount of RMB52,820 recognized as gain on deemed disposal of equity method investments in the consolidated statements of income and comprehensive income. Each of the outlets acquired was insignificant individually and in aggregate.

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3. Acquisition (Continued)

(b) Acquisition of Shanjing Business Management (Ningbo) Co., Ltd. (“Ningbo Shanjing”) and Harbin Shan Shan Chunxiaqiudong Properties Co., Ltd (“Harbin Shan Shan”) in 2020 (Continued)

The results of operation of Ningbo Shanjing and Harbin Shan Shan have been consolidated by the Group from May 15, 2020 and July 21, 2020, respectively, and the results of operations of these two outlets are not material to the Group’s consolidated financial statements as a whole.

(c) Acquisition of Guiyang Shan Shan Guangda Outlets Plaza Co., Ltd. (“Guiyang Shan Shan”) in 2020

In December 2020, the Group acquired 60% of equity interest in Guiyang Shan Shan for a total cash consideration of RMB180,000. The Group has determined that substantially all of the fair value of the gross assets acquired is concentrated in land use rights held by Guiyang Shan Shan and concluded that the acquired set of activities and assets is not a business. Consequently, the Group accounted for this transaction as asset acquisition.

The fair value of the net assets acquired approximates book value of the net assets on the date of acquisition. As a result of the acquisition, the Group recognized current assets of RMB10,793, land use rights of RMB342,227, property and equipment of RMB85,746, current liabilities of RMB142,553 and non-controlling interests of RMB118,485.

4. Accounts receivables, net

Components of accounts receivables are as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Trade receivables (Note a)	1,051,707	36,341
Others (Note b)	355,837	318,149
Subtotal	1,407,544	354,490
Allowance for doubt accounts:		
Balance at beginning of the year	(117,544)	(111,778)
Adoption of Topic 326(Note 2(ad))	—	(64,794)
(Provision)/reversal	(155,242)	25,613
Write-offs	161,008	130,998
Allowance as of the end of the year	(111,778)	(19,961)
Accounts receivables, net	<u>1,295,766</u>	<u>334,529</u>

Note:

- (a) Trade receivables represent financing extended to certain customers when they select to pay for the online product purchases through instalments.
- (b) Others mainly represent receivables from the provision of online promotional and advertising services and warehousing services.

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5. Other receivables and prepayments, net

Components of other receivables and prepayments are as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Deposits	324,018	189,904
VAT and EIT recoverable	1,567,589	919,849
Interest receivable	22,578	38,372
Advances to suppliers related to financing activities	37,442	5,053
Prepayment to suppliers related to procurement activities	593,117	608,229
Prepaid expense	62,160	55,131
Loan receivables	140,545	378,752
Others	184,332	143,845
Subtotal	2,931,781	2,339,135
Allowance for doubtful account:		
Balance at beginning of the year	(39,608)	(33,888)
Adoption of Topic 326(Note 2(ad))	—	(1,011)
Provision	(10,456)	(27,563)
Write-offs	16,176	9,686
Allowance as of the end of the year	(33,888)	(52,776)
Total	2,897,893	2,286,359

6. Property and equipment, net

	As of December 31,	
	2019	2020
	RMB	RMB
Cost:		
Buildings	6,689,846	11,381,720
Furniture, fixtures and equipment	3,137,031	3,155,216
Leasehold improvements	840,895	1,296,018
Motor vehicles	382,218	33,420
Software	69,898	128,211
Construction in progress	3,712,357	1,823,883
Sub-total	14,832,245	17,818,468
Less: Accumulated depreciation	(3,092,864)	(3,766,044)
Less: Accumulated impairment	(482,571)	(467,965)
Property and equipment, net	11,256,810	13,584,459

During the year ended December 31, 2019, due to declining utilization on two of the Group's transit warehouses, the Group has decided to rent out these warehouses to third parties. Due to this change, the Group has identified an impairment indicator for its transit warehouses due to their declining utilization rate. Together with write-down of two other unusable warehouses that were under construction, the Group recognized an impairment loss of RMB420.8 million relating to buildings and construction in progress.

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6. Property and equipment, net (Continued)

During the year ended December 31, 2020, the Group reclassified warehouse at carrying amount of RMB299,319 and land use rights at carrying amount of RMB109,429 in one of its subsidiaries, Qingdao Vipshop Logistics Co., Ltd. to assets held for sale, as the management assessed that it is highly probable that they will be recovered primarily through sale rather than through continuing use and determined the disposition did not represent a strategic shift that will have a major effect on the entity's operation and financial results, therefore was not reported as discontinued operation.

7. Land use rights, net

	As of December 31,	
	2019	2020
	RMB	RMB
Land use rights	5,868,774	6,511,497
Less: accumulated amortization	(272,658)	(393,697)
Less: impairment	(55,008)	(55,008)
Land use rights, net	5,541,108	6,062,792

The expiry dates of the land use rights range from the years 2064 to 2069.

Amortization expenses charged were RMB71,601, RMB 104,381 and RMB132,657 for the years ended December 31, 2018, 2019 and 2020, respectively. The Group expects to record amortization expense of RMB135,195 for each of the year ending December 31, 2021, 2022, 2023, 2024 and 2025.

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 relating to the transit warehouses impairment discussed in Note 6. There is no impairment on land use rights recorded for the year ended December 31, 2020.

8. Intangible assets, net

	As of December 31, 2019				As of December 31, 2020			
	Cost	Accumulated amortization (Note a)	Accumulated Impairment	Net amount	Cost	Accumulated amortization (Note a)	Accumulated Impairment	Net amount
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Domain names	14,396	(14,396)	—	—	13,608	(13,608)	—	—
Customer Relationships	313,303	(313,303)	—	—	—	—	—	—
Trademarks	888,480	(886,948)	—	1,532	6,194	(5,823)	—	371
Non-compete agreement	70,127	(70,127)	—	—	—	—	—	—
Payment license (Note b)	319,660	—	—	319,660	319,660	—	—	319,660
Others	41,479	(8,454)	(16,907)	16,118	73,729	(43,831)	(16,907)	12,991
Total	1,647,445	(1,293,228)	(16,907)	337,310	413,191	(63,262)	(16,907)	333,022

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8. Intangible assets, net (Continued)

Note:

- (a) Amortization expenses for intangible assets were RMB47,842, RMB15,757 and RMB36,539 for the years ended December 31, 2018, 2019 and 2020, respectively. The Group expects to record amortization expenses of RMB13,265, RMB95, RMB2, nil and nil for the years ending December 31, 2021, 2022, 2023, 2024 and 2025, 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.

9. Investments in equity method investees

Investments in equity method investees as of December 31, 2019 and 2020 were as follows:

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
Kunshan Baowei Information Technology Limited (“Kunshan Baowei”)	294,527	307,097
Shenzhen Tencent Puhe Limited Partnership (“Tencent Puhe”)	251,915	198,744
Sequoia Fashion and Technology Industry Fund Investment Limited Partnership (“Sequoia Fashion and Technology”) ⁽ⁱ⁾	96,712	176,810
Ningbo Shanjing ⁽ⁱⁱ⁾	829,410	—
Shanxi Tianmei Shan Shan Outlets Shopping Mall Co., Ltd (“Shanxi Shan Shan”) ⁽ⁱⁱ⁾	510,223	510,117
Zhengzhou Shan Shan Outlets Shopping Mall Co., Ltd (“Zhengzhou Shan Shan”) ⁽ⁱⁱ⁾	470,934	489,034
Harbin Shan Shan ⁽ⁱⁱ⁾	440,821	—
Gansu Shan Shan Outlets Shopping Mall Co., Ltd (“Gansu Shan Shan”) ⁽ⁱⁱ⁾	123,758	166,717
Others ⁽ⁱⁱⁱ⁾	153,162	197,892
Less:		
Impairment	(58,510)	(96,624)
Total	<u>3,112,952</u>	<u>1,949,787</u>

- (i) 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, 2020, the Group’s total contribution to the fund amounted to RMB230 million and there is a remaining investment commitment of RMB1,770 million.
- (ii) In July 2019, the Group acquired equity interests of 54%, 60%, 51%, 60% and 41%, respectively in Ningbo Shanjing, Shanxi Shan Shan, Zhengzhou Shan Shan, Harbin Shan Shan and Gansu Shan Shan, as a part of the identifiable assets acquired from the business acquisitions. These five joint ventures are all incorporated in PRC and engage in outlets operating business.

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9. Investments in equity method investees (Continued)

During the year ended December 31, 2020, the Group acquired additional equity interests in Ningbo Shanjing and Harbin Shan Shan and consolidated these two outlets from the respective acquisition dates. At the acquisition date, a total gain of RMB52,820 was recognized as a result of fair value remeasurement on the existing equity method investees. Please refer to Note 3 for details.

During the year ended December 31, 2020, the Group acquired an additional 9% equity interest of Gansu Shan Shan for a cash consideration of RMB45 million. Subsequent to this transaction, the Group holds 50% equity interest of Gansu Shan Shan with no controlling interest per shareholders' agreement.

During the years ended December 31, 2018, 2019 and 2020, the Group recognized its share of (loss) income of equity method investees in the amount of RMB(46,999), RMB27,182 and RMB30,015, respectively. Nil, nil and RMB43,160 impairment have been recorded on these investments accounted for under equity method for the year ended December 31, 2018, 2019 and 2020, respectively.

- (iii) During the year ended December 31, 2020, the Group recognized gain on disposal of an equity method investee in the amount of RMB4,809. There was no disposal of investments in equity method investees for the years ended December 31, 2018 and 2019, respectively.

10. 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 as of December 31, 2019 and 2020 are as follows:

	As of December 31, 2019				
	Original cost	Unrealized gains	Accumulated impairment	Translation difference	Balance as of year end
	RMB	RMB	RMB	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>
	As of December 31, 2020				
	Original cost	Unrealized gains	Accumulated impairment	Translation difference	Balance as of year end
	RMB	RMB	RMB	RMB	
Equity investments with readily determinable fair value (Note a)	215,035	77,879	(48,634)	8,782	253,062
Available-for-sale debt securities (Note b)	112,314	—	(118,689)	6,375	—
Equity investments without readily determinable fair values (Note c)	2,941,470	4,318	(245,940)	(91,876)	2,607,972
Total	<u>3,268,819</u>	<u>82,197</u>	<u>(413,263)</u>	<u>(76,719)</u>	<u>2,861,034</u>

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10. Other investments (Continued)

Note:

(a) Equity investments with readily determinable fair value

During the years ended December 31, 2019 and 2020, equity investments with readily determinable fair value sold generated proceeds of RMB190 and RMB540,490, resulting in a gross realized gain of RMB157 and 486,227, respectively. No disposal of investments during the year ended December 31, 2018. The Group recorded mark to market adjustments of RMB105,235, RMB165,731 and RMB293,140 in investment gain and revaluation of investments in the consolidated statements of income and comprehensive income during the years ended December 31, 2018, 2019 and 2020, respectively. Dividend of RMB532, RMB2,097 and RMB389 was declared to the Group and recorded in net income during the years ended December 31, 2018, 2019 and 2020 respectively.

No impairment loss was recorded during the years ended December 31, 2018, 2019 and 2020.

(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 debt securities to equity investments with readily determinable fair values upon this listing.

For other available-for-sale debt securities, the Group recorded impairment of RMB20,073, RMB83,616 and nil during the years ended December 31, 2018, 2019 and 2020, respectively.

(c) Equity investments without readily determinable fair values

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, 2020, the Group further invested US\$191 million (approximately RMB1,324 million) to the fund. As of December 31, 2019 and 2020, the Group's total contribution to the fund amounted to RMB535 million and RMB1,747 million, respectively.

During the year ended December 31, 2020, equity investments without readily determinable fair value sold generate proceeds of RMB508,423, resulting in gross realized gain of RMB68,163 and gain on disposal of RMB351,863 recorded to net income. There was no disposal during the years ended December 31, 2018 and 2019. The Group recorded impairment loss of nil, RMB43,973 and nil for years ended December 31, 2018, 2019 and 2020 respectively for the other equity investments without readily determinable fair values. Dividend of RMB17,470, RMB10,427 and RMB229,221 was declared to the Group and recorded in net income during the years ended December 31, 2018, 2019 and 2020 respectively.

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11. Other long-term assets

	As of December 31,	
	2019	2020
	RMB	RMB
Deposit for land use rights	4,040	—
Long-term accounts receivable (Note a)	130,429	49,906
Long-term loan receivables (Note b)	415,092	17,824
Loans to employees	71,052	34,060
Subtotal	<u>620,613</u>	<u>101,790</u>
Less: allowance for doubtful accounts	<u>(12,540)</u>	<u>(1,462)</u>
Total	<u>608,073</u>	<u>100,328</u>

Note:

- (a) The Group provides consumer financing to certain customers 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 accounts receivables.
- (b) Included in long-term loan receivables are loans the Group provided to certain non-controlling interest shareholders. These loans are guaranteed and pledged by the non-controlling interest shareholders' respective equity interests. The total outstanding loan balance was RMB330 million as of December 31, 2019 with fixed interest rate of 10% per annum and maturity at December 11, 2021. The loans of RMB330 million are reclassified to other receivables as of as of December 31, 2020.

12. Accrued expenses and other current liabilities

	As of December 31,	
	2019	2020
	RMB	RMB
Accrued advertising expense	1,011,400	1,529,746
Accrued shipping and handling expenses	925,864	1,597,573
Accrued payroll and social benefits	896,365	581,769
Deposits from delivery service providers	475,497	397,018
Income tax payables	652,624	673,282
Other tax payables (Note a)	690,338	691,919
Accrued rental expenses	73,861	113,773
Accrued administrative expenses	384,427	378,536
Amounts received on behalf of third-party merchants (Note b)	946,100	1,175,618
Refund liability (Note c)	225,274	271,732
Others (Note d)	252,825	286,030
Total	<u>6,534,575</u>	<u>7,696,996</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.

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12. Accrued expenses and other current liabilities (Continued)

- (b) Amounts represent the cash collected on behalf of third-party merchants which the Group provides platform access for sales of their products and is related to the consideration for goods or services provided.
- (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.
- (d) Included in others are loan received from the non-controlling interests shareholders of Hengyang Shan Shan amounting to RMB 93,464 as of December 31, 2019. The Group has repaid RMB 30,948 during the year ended December 31, 2020 and converted the remaining loan of RMB62,518 into capital contribution as disclosed in Note 21(i).

13. 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 RMB928,826, RMB558,775 and RMB262,200 for the years ended December 31, 2018, 2019 and 2020, respectively.

14. Short-term loans

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

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
RMB denominated (Note a)	627,608	498,976
USD denominated (Note b)	466,037	535,822
EUR denominated (Note a)	—	8,628
Total	<u>1,093,645</u>	<u>1,043,426</u>

- (a) During the year ended December 31, 2019, the Group entered into various RMB denominated revolving credit facilities with multiple banks for a total credit of up to RMB2.6 billion. As of December 31, 2019, RMB627.6 million was drawn down and outstanding with interest rates ranging from 2.8% to 4.05% per annum.

During the year ended December 31, 2020, the Group increased the RMB denominated revolving credit facilities with multiple banks for a total credit of up to RMB3.3 billion, in which the outstanding balances under these facilities as of December 31, 2019 have been repaid and RMB499.0 million was drawn down and outstanding as of December 31, 2020 with interest rates range from 2.8% to 2.9% per annum.

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14. Short-term loans (Continued)

During the year ended December 31, 2019, the Group entered into a facility agreement with Bank of China for a credit of RMB80 million. Under the credit facility agreement, the Group can specify the currencies at the time of draw-down. No amount was drawn on the credit facility as of December 31, 2019. During the year ended December 31, 2020, the Group increased its credit limit with Bank of China for the facility agreement from RMB80 million to RMB200 million. EUR1.1 million (approximately RMB8.6 million) was drawn down from these facilities and outstanding as of December 31, 2020, with a fixed interest rate 1.97% per annum.

- (b) During the year ended December 31, 2019, the Group entered into various USD denominated revolving credit facility agreements with multiple banks for a total credit of up to US\$80 million (approximately RMB558.1 million), in which US\$30 million (approximately RMB209.2 million) was drawn down and outstanding as of December 31, 2019. The interest rates ranged from a fixed rate of 2.94% to floating rate based on the 12-month London Inter-Bank Offered Rate plus 0.55% per annum.

During the year ended December 31, 2019, the Group entered into facility agreements with Standard Chartered Bank (Hong Kong) Limited for a credit of US\$45 million (approximately RMB313.9 million). Under the credit facility agreement, the Group can specify the currencies at the time of draw-down. The Group drew down 36.8 million in US\$ (approximately RMB256.8 million) in 2019 and outstanding as of December 31, 2019. The amount has been fully repaid during 2020.

During the year ended December 31, 2020, the outstanding balances under these facilities as of December 31, 2019 have been repaid and US\$62.4 million (approximately RMB407.3 million) was drawn down and outstanding as of December 31, 2020 with interest rates range from 0.98% to 1.90% per annum. On March 25, 2020, the Group increased its USD denominated revolving credit facility by an additional US\$20 million (approximately RMB130.5 million) loan facility and US\$19.7 million (approximately RMB 128.5 million) was drawn down and outstanding as of December 31, 2020, with a fixed interest rate of 1.95% per annum.

Certain credit facilities, aggregating to RMB1,146 million as of December 31, 2020 (December 31, 2019: RMB952 million), are guaranteed by the Group's receivables from its subsidiaries and letter of credit. As at December 31, 2020, RMB601.7 million (December 31, 2019: RMB625.5 million) of such credit facilities had not been utilized.

15. 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 Group early repaid the entire RMB64.5 million during the year ended December 31, 2020, and further drew down RMB 197.9 million during the year ended December 31, 2020, which was early repaid as of December 31, 2020.

16. Securitization debt

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

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16. Securitization debt (Continued)

The Group offered in 2018 asset-backed notes (“ABN”) on the Shanghai Clearing House at aggregate amount of RMB520.0 million and 100% of the subordinated securities of RMB26.0 million was held by the Group.

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

17. 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”) per US\$1,000 principal amount of Notes.

The Group repaid all of the outstanding principal at US\$629,375 (approximately RMB4,220,841) and interests at US\$4,720 (approximately RMB31,685) on March 15, 2019.

18. 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,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
ROU assets	1,715,556	1,580,763
Operating lease liabilities—current	333,268	299,791
Operating lease liabilities—non-current	1,395,665	1,360,946
Weighted-average remaining lease term	4.71	7.05
Weight-average discount rate	4.86%	4.87%

The components of lease costs of these operating leases for the year ended December 31, 2019 and 2020 are as follow:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
Operating lease cost for fixed payments	388,976	484,275
Short-term lease costs	327,972	61,289
Variable lease costs	29,286	64,877
Total Lease costs	746,234	610,441

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18. Leases (Continued)

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

	Year Ended December 31,	
	2019	2020
	RMB	RMB
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	370,606	445,614
Supplemental noncash information:		
Right-of-use assets obtained	2,071,948	696,883

The following table provides the maturities of lease liabilities at December 31, 2020:

<u>Maturities of lease liabilities at December 31, 2020</u>	<u>Operating leases</u>
2021	342,173
2022	407,156
2023	355,589
2024	274,961
2025	129,972
2026 and thereafter	498,351
Total future undiscounted lease payments	2,008,202
Less: imputed interest	347,465
Total present value of lease liabilities	1,660,737

19. Distribution of profit

Pursuant to the laws applicable to entities incorporated in the PRC, the PRC subsidiaries are prohibited from distributing their statutory capital and are required to appropriate from profit after tax under accounting principles generally accepted in the PRC to other non-distributable reserve funds after offsetting accumulated losses from prior years, until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriation at 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end); the appropriation to the other fund are at the discretion of the subsidiaries.

The general reserve is used to offset future extraordinary losses. A subsidiary may, upon a resolution passed by the shareholders, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the subsidiary. The enterprise expansion reserve is for the expansion of the subsidiary's operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law, and are not distributable as cash dividends to the Company.

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 RMB121,069, RMB184,182 and RMB61,925 to the general reserve during the years ended December 31, 2018, 2019 and 2020, respectively.

The balance of restricted net assets was RMB8,077,638 as of December 31, 2020.

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20. 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. As of December 31, 2019 and 2020, 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.

Exercise of share options

During the years ended December 31, 2018, 2019 and 2020, 356,736, 85,706 and 157,429 Class A ordinary shares were issued respectively, as a result of exercise of share options by employees.

Vesting of shares awards

During the years ended December 31, 2018, 2019 and 2020, 1,322,560, 1,102,773 and 1,481,693 Class A ordinary shares were issued respectively as a result of vesting of shares awards granted to employees and consultants.

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21. Non-controlling interests

	<u>Non-controlling interests</u> RMB
Balance as of December 31, 2018	(51,022)
Net loss attributable to non-controlling interests	(30,399)
Acquisition of additional equity interests in subsidiaries	(16,400)
Dilution on non-controlling interests due to the Company's contribution to its subsidiary	97,875
Capital contribution from non-controlling interests shareholders	107,950
Non-controlling interests arising from the acquisition of Shan Shan Outlets(Note 3)	314,537
Balance as of December 31, 2019	422,541
Net income attributable to non-controlling interests	12,399
Acquisition of additional equity interests in a subsidiary	(19,853)
Dividend distribution to non-controlling interests holders	(12,496)
Disposal of a subsidiary	(2,463)
Dilution on non-controlling interests due to the Company's contribution to its subsidiary	(703)
Capital contribution from non-controlling interests shareholders ⁽ⁱ⁾	141,983
Non-controlling interests arising from the acquisition of Ningbo Shanjing and Guiyang Shan Shan (Note 3)	346,647
Balance as of December 31, 2020	888,055

- (i) During year ended December 31, 2020, a total capital contribution of RMB 122,613 are received from the non-controlling shareholders of Chongqing Weiao Commercial Management Co., Ltd ("Chongqing Weiao"), Hengyang Shan Shan and Shenyang Shan Shan Outlets Shopping Mall Co., Ltd. ("Shenyang Shan Shan").

The non-controlling interests shareholders of Hengyang Shan Shan converted it's receivables due from the Group of RMB62,518 as capital contribution. The contribution is recorded as a credit of RMB19,370 based on the book value of the non-controlling interests and the excess of RMB43,148 is recorded to additional paid-in capital.

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21. 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,		
	2018	2019	2020
	RMB	RMB	RMB
Net income attributable to Vipshop Holdings Limited's shareholders	2,128,787	4,016,832	5,906,957
Transfers from (to) the non-controlling interests:			
Decrease in the Company's additional paid-in capital in relation to the acquisition of additional equity interests in subsidiaries	(5,935)	(10,497)	(21,314)
Increase (decrease) in the Company's additional paid-in capital in relation to contribution to its subsidiary	—	(97,875)	703
Capital contributions from non-controlling interests	—	—	43,148
Net transfers from (to) non-controlling interests	(5,935)	(108,372)	22,537
Changes from net income attributable to Vipshop Holdings Limited's shareholders and transfers from (to) non-controlling interests	<u>2,122,852</u>	<u>3,908,460</u>	<u>5,929,494</u>

22. 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,		
	2018	2019	2020
	RMB	RMB	RMB
Government grants	553,153	427,832	395,042
Claims income	101,778	96,388	141,408
Others	102,131	121,193	171,405
Total other operating income	<u>757,062</u>	<u>645,413</u>	<u>707,855</u>

23. Income taxes*Cayman Islands*

Under the current laws of the Cayman Islands, Vipshop Holdings Limited is not subject to tax on its income or capital gains. In addition, upon payments of dividends by Vipshop Holdings Limited to its shareholders, no Cayman Islands withholding tax will be imposed.

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23. Income taxes (Continued)

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 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, 2019 and 2020, 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, 2019 and 2020.

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

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23. Income taxes (Continued)

associated with the tax positions. As of December 31, 2018, 2019 and 2020, the Group had no unrecognized tax benefits. The Group does not anticipate any significant increase to its liability for unrecognized tax benefit within the next 12 months. The Group will classify interest and penalties related to income tax matters, if any, in income tax expense.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 (US\$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,		
	2018 RMB	2019 RMB	2020 RMB
Income from China operations	3,770,270	5,161,228	6,284,697
(Loss) income from non-China operations	(1,023,195)	(218,423)	734,660
Total income before tax and share of (loss) income of equity method investees	<u>2,747,075</u>	<u>4,942,805</u>	<u>7,019,357</u>
	Year ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Income tax expenses			
Current tax	682,309	974,207	1,256,086
Deferred tax	(115,705)	9,347	(126,070)
Total tax expenses	<u>566,604</u>	<u>983,554</u>	<u>1,130,016</u>

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

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23. Income taxes (Continued)

determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. In addition, the SAT issued a bulletin on July 27, 2011 providing more guidance on the implementation of Circular 82 and clarifies matters such as resident status determination. Due to the present uncertainties resulting from the limited PRC tax guidance on this issue, it is unclear that the legal entities organized 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 in the PRC that are available for distribution to the Group of approximately RMB14,840.7 million and RMB19,137.9 million as of December 31, 2019 and 2020 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 RMB 742.0 million and RMB 956.9 million as of December 31, 2019 and 2020 respectively.

A reconciliation of the income tax expense to income before income tax expense and share of (loss) income 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,		
	2018 RMB	2019 RMB	2020 RMB
Income before income tax and share of (loss) income of equity method investees	2,747,075	4,942,805	7,019,357
Computed income tax expense at PRC EIT tax rate	686,769	1,235,701	1,754,839
Effect of non-deductible expenses, including:			
-Share-based compensation expenses	167,803	163,033	134,324
-Other non-deductible expenses	65,497	36,838	27,497
Effect of different tax rates of subsidiaries operating in other jurisdiction	10,454	17,834	(152,863)
Effect of tax holidays on concessionary rates granted to PRC subsidiaries	(397,437)	(562,898)	(580,608)
Effect of non-taxable income	(58,053)	(15,800)	(90,265)
Change in valuation allowance	91,571	108,846	37,092
Income tax expenses	<u>566,604</u>	<u>983,554</u>	<u>1,130,016</u>

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23. Income taxes (Continued)

The aggregate amount and per share effect of the tax holidays and tax concessions are as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
The aggregate effect	397,437	562,898	580,608
Per share effect:			
Class A and Class B ordinary share:			
—basic	3.00	4.22	4.30
—diluted	2.84	4.14	4.21

The principal components of deferred tax assets and liabilities are as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Deferred tax assets:		
Net operating loss carry forwards	322,464	300,544
Allowance for doubtful debts	46,691	11,792
Impairment of investments	32,063	27,919
Inventory write-down	171,884	268,094
Payroll payable and other accruals	14,751	5,587
Deferred income	277,658	326,610
Impairment of property and equipment	117,837	105,961
Impairment of land use rights	13,752	13,752
Others	3,939	1,771
Less: valuation allowance	(461,478)	(433,763)
Total deferred tax assets-non-current	539,561	628,267

	As of December 31,	
	2019	2020
	RMB	RMB
Deferred tax liabilities :		
Fair value adjustments of long-lived assets from business acquisition	89,217	382,434
Revaluation of other investments	36,385	7,363
Others	39,496	43,198
Total deferred tax liabilities-non-current	165,098	432,995

As of December 2019 and 2020, the amount of tax loss carried forward was RMB120,095 and nil, respectively, for the Group's subsidiary incorporated in Hong Kong, which can be carried forward indefinitely to offset future taxable income; the remaining amount of tax loss of RMB1,114,704 and RMB1,271,312, mainly arose from the Group's certain subsidiaries established in the PRC, which can be carried forward to offset future taxable income and will expire during the period from 2020 to 2024 and 2021 to 2025, respectively.

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23. Income taxes (Continued)

The Group has provided a valuation allowance for the deferred tax assets relating to the future benefit of net operating loss carry forwards and other deferred tax assets of certain subsidiaries as of December 31, 2019 and 2020, respectively, as management is not able to conclude that the future realization of some of those net operating loss carry forwards and other deferred tax assets are more likely than not.

24. Earnings per share

Basic net earnings per share is calculated based on the weighted average number of ordinary shares outstanding during each period. Diluted net earnings per share is calculated 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, 2018, 2019 and 2020, there are 839,275, 1,689,709 and 410,260 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, 2018, 2019 and 2020 as follows:

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</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>2,128,787</u>	<u>4,016,832</u>	<u>5,906,957</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>132,266,157</u>	<u>133,524,129</u>	<u>135,077,790</u>
Basic earnings per Class A and Class B ordinary shares	16.09	30.08	43.73

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24. Earnings per share (Continued)

Diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 are calculated as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	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	2,128,787	4,016,832	5,906,957
Diluted earnings per share:			
Interest expenses from Convertible Senior Notes	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>2,186,080</u>	<u>4,025,894</u>	<u>5,906,957</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	132,266,157	133,524,129	135,077,790
Dilutive employee share options and non-vested ordinary shares	1,562,347	1,289,127	2,958,220
Dilutive convertible senior notes	<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>140,083,610</u>	<u>136,081,415</u>	<u>138,036,010</u>
Diluted earnings per Class A and Class B ordinary shares	15.61	29.58	42.79

The Group granted a number of non-vested ordinary shares to certain executive officers and employees during the years ended December 31, 2018, 2019 and 2020 (refer to Note 27 (b)), these non-vested shares are not included in the computation of basic earnings per share as these non-vested shares are not entitled to any dividends or dividend equivalents.

25. Commitments and contingencies

Capital commitment

As of December 31, 2020, the Group has contracted for capital expenditures of RMB1,255,703 (2019: RMB1,981,152).

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25. Commitments and contingencies (Continued)***Other commitments***

Besides the commitment disclosed in Note 9(i) and Note 10(c), the Group has the following commitments:

The Group commits to purchase services from one of its related parties at the amounts of US\$40.0 million (approximately RMB261 million) from the year ended December 31, 2021 to 2022.

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.

26. Related party transactions

For the years ended December 31, 2018, 2019 and 2020, the Group entered into the following material related party transactions:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Purchase of goods(i)	340,356	1,451,404	1,775,600
Purchase of services(i)	317,921	462,126	780,050
Provision of services	6,300	44,420	44,259
Sales of product	—	111,510	102,249

- (i) The goods and services were purchased from companies either controlled by its shareholders or directors, significantly influenced by the Group, or affiliates of the Group.

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 (current and non-current) as of December 31, 2019 and 2020 amounted to RMB149,964 and RMB333,539, respectively, mainly includes 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 or directors.

- (b) Amounts due to related parties

The amounts due to companies controlled or significantly influenced by the Company, its shareholders and directors as of December 31, 2019 and 2020 amounted to RMB520,288 and RMB382,900, respectively, which were unsecured, interest-free, and related to purchases of goods and other services from these parties. As of December 31, 2020, the Group had borrowed an interest-free loan of RMB61,200 from Zhengzhou Shan Shan for operating use.

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27. 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 Company 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 Company, and the maximum aggregate number of shares that may be issued per calendar year is 1,500,000 from 2012 until the termination of the 2012 Plan.

In July 2014, the Group adopted the 2014 Stock Incentive Plan (the “2014 Plan”), in which the maximum aggregate number of ordinary shares may be issued under the 2014 Plan is (i) 5,366,998 Class A ordinary shares, and (ii) an automatic increase on January 1 of each year after the effective date of the 2014 Plan by that number of shares representing 1.5% of the Group’s then total issued and outstanding share capital as of December 31 of the preceding year, or such less number as determined by the board of directors.

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 Group’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.

In January 2020, the Group granted 5,363,788 share options to its senior management at an exercise price of US\$66.85 (approximately RMB453.88) per ordinary share pursuant to the Group’s 2014 Share Incentive plan.

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 22% for 2018, nil and 25% for 2019, as well as nil and 28 % for 2020, respectively.

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27. Share-based payments (Continued)

(a) Share incentive plan (Continued)

The assumptions used in determining the fair value of the share options on the grant date were as follows:

<u>Assumptions</u>	<u>2020</u>
Expected dividend yield	0%
Risk-free interest rate	2.08%
Expected volatility	59.41%
Expected life	10 years
Exercise multiples	2.80 times
Weighted average fair value of underlying ordinary shares (US\$/share)	44.77

Notes:

(1) Expected dividend yield:

The expected dividend yield was estimated by the Group based on its dividend policy over the expected life of the options.

(2) Risk-free interest rate:

Risk-free interest rate was estimated based on the US Treasury Bond as of the valuation date.

(3) Expected volatility:

The volatility of the underlying ordinary shares was estimated based on historical volatility of the Group for the period before the valuation date with length commensurate to contractual life of the options.

(4) Expected life:

The expected life was 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.

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27. Share-based payments (Continued)

(a) Share incentive plan (Continued)

Notes (Continued):

(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, 2019 and 2020, the share option movements were as follows:

	Options outstanding	Weighted average exercise price per share US\$	Weighted average remaining contractual years to expiry per share	Weighted average fair value at grant date US\$	Weighted average intrinsic value per option US\$	Aggregate intrinsic value US\$
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			
Granted	5,363,788	66.85	9.00 years			
Forfeited	(13,750)	94.65	1.00 years			
Exercised	(157,429)	0.84	0.33 years			
Outstanding as of December 31, 2020	7,488,400	56.28	6.77 years			
Non-vested as of December 31, 2020	5,377,538					
Options vested and expected to vest as of December 31, 2020	7,488,400	56.28	6.77 years	37.55	84.27	631,047,468
Exercisable as of December 31, 2020	2,110,862	50.25	1.14 years	19.31	90.30	190,610,839

For the years ended December 31, 2018, 2019 and 2020, the Group recognized share-based payment expenses of RMB65,884, RMB65,165 and RMB317,503 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, 2018, 2019 and 2020 was RMB122,864, RMB65,165 and RMB297,577, respectively.

As of December 31, 2020, there was RMB1,319,259 (2019: RMB67,474) 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 5 years on a straight-line basis schedule as of December 31, 2020.

(b) Non-vested shares

During 2018, 2019 and 2020, a total of 1,102,576, 2,418,556 and 1,628,542 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.

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27. Share-based payments (Continued)

(b) Non-vested shares

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, 2019 and 2020, the non-vested shares movement was as follows:

	Non-vested shares outstanding
Outstanding as of December 31, 2018	<u>2,923,502</u>
Granted	2,418,556
Vested	(1,102,773)
Forfeited	(839,468)
Outstanding as of December 31, 2019	<u>3,399,817</u>
Granted	1,628,542
Vested	(1,481,693)
Forfeited	(554,973)
Outstanding as of December 31, 2020	<u>2,991,693</u>

The Group recognized compensation expense over the four year service periods on a straight-line basis, and applied a forfeiture rate of nil for key management for 2018, 2019 and 2020, while the forfeiture rate is 22% , 25% and 28% for employees for the years ended December 31, 2018, 2019 and 2020, respectively. The aggregate fair value of the restricted shares at grant dates was RMB527,552, RMB693,266 and RMB956,864 during the years ended December 31, 2018, 2019 and 2020 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, 2018, 2019 and 2020, the Group recognized share-based payment expenses of RMB605,326, RMB617,192 and RMB518,026 in connection with the non-vested shares granted to employees, respectively.

As of December 31, 2020 there was RMB1,082,970 (2019: RMB998,075) unrecognized compensation cost related to non-vested shares which is expected to be recognized over a weighted average vesting period of 3.15 years. The weighted average granted fair value per share of non-vested shares granted during the years ended December 31, 2018, 2019 and 2020 was US\$65.59 (approximately RMB478.47), US\$41.43 (approximately RMB286.64) and US\$87.13 (approximately RMB587.56) 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.

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27. Share-based payments (Continued)

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

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. In August 2020, 0.1484% of the equity interest of Shan Shan Outlets were granted to key employees of Shan Shan.

The vesting period is generally 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 recognized at each period end, and the difference is recognized in the general and administrative expenses. For the year ended December 31, 2019 and 2020, the Group recognized share-based payment expenses of RMB5,726 and RMB115,519 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 and 2020.

The assumptions used in determining the fair value of the share-based awards as of December 31, 2019 and December 31, 2020 were as follows:

<u>Assumptions</u>	<u>2019</u>	<u>2020</u>
Expected dividend yield	0%	0%
Risk-free interest rate	2.53%~2.81%	2.72%~2.89%
Expected volatility	23.41%~24.02%	32.30%~33.90%
Total fair value of share-based awards	226,756	416,194

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.

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

27. Share-based payments (Continued)

(d) Share based compensation expenses

For the years ended December 31, 2018, 2019 and 2020, share based compensation expenses have been included in the following balances on the consolidated statements of income and comprehensive income:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Fulfillment expenses	(73,151)	(112,683)	(100,486)
Marketing expenses	(41,063)	(35,038)	(16,534)
Technology and content expenses	(203,594)	(180,493)	(152,234)
General and administrative expenses	(353,402)	(359,869)	(681,794)
	<u>(671,210)</u>	<u>(688,083)</u>	<u>(951,048)</u>

28. Segment information

Segment revenue and results

Before 2019, the Group has identified two major business segments, Vip.com segment and Internet finance. Due to the operational changes, the Group has determined it has four operating segments during the year ended December 31, 2019. 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 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, 2018, 2019 and 2020:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Net revenues			
Vip.com	84,159,609	91,435,282	99,324,590
Shan Shan Outlets	—	245,817	1,151,331
Others	753,752	2,638,702	2,904,182
Inter-segment revenues (Note a)	<u>(389,413)</u>	<u>(1,325,383)</u>	<u>(1,521,614)</u>
Total net revenues	84,523,948	92,994,418	101,858,489
Income (loss) from operations			
Vip.com	3,353,658	5,267,814	6,656,721
Shan Shan Outlets	—	6,255	187,499
Others	(215,459)	227,719	2,291
Unallocated expenses (Note b)	<u>(717,086)</u>	<u>(728,414)</u>	<u>(986,425)</u>
Total income from operations	2,421,113	4,773,374	5,860,086
Total other income	<u>325,962</u>	<u>169,431</u>	<u>1,159,271</u>
Income before income taxes and share of (loss) income of equity method investees	<u>2,747,075</u>	<u>4,942,805</u>	<u>7,019,357</u>

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

28. Segment information (Continued)

Segment revenue and results (Continued)

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.

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

	Year ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Total depreciation of property and equipment, net			
Vip.com	715,087	771,049	672,957
Shan Shan Outlets	—	22,551	125,254
Others	55,203	36,768	171,872
	<u>770,290</u>	<u>830,368</u>	<u>970,083</u>

Interest income and expenses (included in the measurement of segment profit or loss):

	Year ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Interest income			
Vip.com	232,494	167,550	313,183
Shan Shan Outlets	—	11,746	63,282
Others	36,946	54,765	72,552
Inter-segment interest income	<u>(26,568)</u>	<u>(17,034)</u>	<u>—</u>
	<u>242,872</u>	<u>217,027</u>	<u>449,017</u>
Interest expense			
Vip.com	(103,504)	(42,424)	(61,850)
Shan Shan Outlets	—	(8,989)	(5,507)
Others	(82,808)	(51,625)	—
Inter-segment interest income	<u>26,568</u>	<u>17,034</u>	<u>—</u>
	<u>(159,744)</u>	<u>(86,004)</u>	<u>(67,357)</u>

	Year ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Net (loss) income of investments accounted under the equity method			
Vip.com	(46,999)	(25,590)	(74,794)
Shan Shan Outlets	—	52,772	104,809
	<u>(46,999)</u>	<u>27,182</u>	<u>30,015</u>

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

28. Segment information (Continued)

Segment revenue and results (Continued)

	Year ended December 31,	
	2019	2020
	RMB	RMB
Total assets		
Vip.com	37,727,525	44,087,467
Shan Shan Outlets	5,732,260	8,766,027
Others	5,122,893	6,087,320
	<u>48,582,678</u>	<u>58,940,814</u>
Investments in equity method investees		
Vip.com	737,806	783,919
Shan Shan Outlets	2,375,146	1,165,868
	<u>3,112,952</u>	<u>1,949,787</u>
Total expenditure for additions of long-lived assets		
Vip.com	3,260,978	1,449,632
Shan Shan Outlets	641,722	597,611
Others	374,973	224,652
	<u>4,277,673</u>	<u>2,271,895</u>

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,		
	2018	2019	2020
	RMB	RMB	RMB
Product revenues			
Apparel	30,446,797	33,575,532	35,403,381
Shoes and bags	8,442,178	9,045,520	10,010,393
Cosmetics	11,700,310	14,645,878	14,879,902
Sportswear and sporting goods	5,699,740	7,333,523	10,648,291
Home goods and other lifestyle products	9,808,677	8,306,962	9,053,344
Toys, kids and baby	8,013,615	10,096,808	11,400,829
Other products	7,398,958	5,717,088	6,053,572
	<u>81,510,275</u>	<u>88,721,311</u>	<u>97,449,712</u>
Other revenues	3,013,673	4,273,107	4,408,777
Total net revenues	<u>84,523,948</u>	<u>92,994,418</u>	<u>101,858,489</u>

Geographic information

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

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

29. Subsequent events

On March 30, 2021, the Company's board of directors authorized a share repurchase program under which the Group may repurchase up to US\$500 million of its Class A ordinary shares over the 24-month period upon the establishment of share repurchase program. The share repurchase program may be made in accordance with applicable rules and requirements through open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. The Company's board of directors will review the share repurchase program periodically, and may authorize adjustment of its terms and size. The Group expects to fund the repurchases out of its existing cash balance. As of the date of this report, no shares had been repurchased.

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,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
General and administrative expenses	(694,847)	(31,240)	(12,625)	(1,935)
Other operating income	36,087	39,385	81,989	12,567
(Loss) income from operations	(658,760)	8,145	69,364	10,632
Interest expenses	(57,293)	(9,062)	—	—
Share of income (loss) of an equity method investee	1,642	(6,163)	(4,200)	(644)
Impairment loss on an equity method investee	—	—	(38,115)	(5,841)
Equity income of subsidiaries	2,843,198	4,023,912	5,879,908	901,135
Net income	2,128,787	4,016,832	5,906,957	905,282
Other comprehensive loss:				
Foreign currency translation, net of tax of nil	(7,083)	(25,773)	(2,298)	(353)
Comprehensive income attributable to Vipshop Holdings Limited's shareholders	2,121,704	3,991,059	5,904,659	904,929

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,		
	2019 RMB	2020 RMB	2020 US\$ Note 2(z)
ASSETS			
Cash and cash equivalents	44	62	10
Investment in an equity method investee	42,315	—	—
Investment in subsidiaries	16,643,391	23,358,829	3,579,897
Amount due from subsidiaries	5,146,414	5,278,056	808,897
TOTAL ASSETS	21,832,164	28,636,947	4,388,804
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued expenses and other current liabilities	5,008	108,839	16,680
Deferred income	—	30,374	4,655
Total liabilities	5,008	139,213	21,335
SHAREHOLDERS' EQUITY			
Class A ordinary shares (US\$0.0001 par value, 483,489,642 shares authorized, and 117,584,362 and 119,223,484 shares issued and outstanding as of December 31, 2019 and 2020, respectively)	76	77	12
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, 2019 and 2020, respectively)	11	11	2
Additional paid-in capital	9,959,497	10,816,185	1,657,653
Retained earnings	11,924,228	17,740,415	2,718,838
Accumulated other comprehensive loss	(56,656)	(58,954)	(9,036)
Total shareholders' equity	21,827,156	28,497,734	4,367,469
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	21,832,164	28,636,947	4,388,804

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

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$ Note 2(z)
Cash flow from operating activities:				
Net income	2,128,787	4,016,832	5,906,957	905,282
Adjustments to reconcile net income to net cash by operating activities:				
Equity income of subsidiaries and variable interest entities	(2,843,198)	(4,023,912)	(5,879,908)	(901,135)
Share of results of an equity method investee	(1,642)	6,163	4,200	644
Impairment loss on an equity method investee	—	—	38,115	5,841
Share based compensation expenses	671,210	—	—	—
Changes in operating assets and liabilities:				
Investment in subsidiaries	176,370	—	—	—
Accrued expenses and other current liabilities	(10,115)	(5,885)	107,631	16,494
Deferred income	—	—	30,374	4,655
Net cash generated from (used in) operating activities	<u>121,412</u>	<u>(6,802)</u>	<u>207,369</u>	<u>31,781</u>
Cash flows from investing activities:				
(Loan to) repayment from subsidiaries	(452,366)	4,227,181	(208,250)	(31,915)
Net cash (used in) provided by investing activities	<u>(452,366)</u>	<u>4,227,181</u>	<u>(208,250)</u>	<u>(31,915)</u>
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares upon exercise of share options	3,947	297	895	137
Redemption of convertible senior notes	—	(4,220,841)	—	—
Net cash provided by (used in) financing activities	<u>3,947</u>	<u>(4,220,544)</u>	<u>895</u>	<u>137</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(95)</u>	<u>(3)</u>	<u>4</u>	<u>1</u>
Net (decrease) increase in cash and cash equivalents	<u>(327,102)</u>	<u>(168)</u>	<u>18</u>	<u>4</u>
Cash and cash equivalents at beginning of the period	327,314	212	44	6
Cash and cash equivalents at end of the period	<u>212</u>	<u>44</u>	<u>62</u>	<u>10</u>

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, 2020, RMB8,077,638 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 Parent Company in the form of loans and advances or cash dividends.

During each of the three years in the period ended December 31, 2020, no cash dividend was declared and paid by the Parent Company.

As of December 31, 2020, there were no material contingencies, significant provisions of long-term obligations, and mandatory dividend or redemption requirements of redeemable shares or guarantees of the Parent 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.

**THE COMPANIES LAW (2013 REVISION)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES**

SECOND AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION

OF

VIPSHOP HOLDINGS LIMITED

Adopted by a Special Resolution
passed and effective on September 15, 2014

1. The name of the Company is **VIPSHOP HOLDINGS LIMITED**.
2. The registered office of the Company shall be 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 the Directors may from time to time decide.
3. The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law (2013 Revision) as the same may be revised from time to time, or any other law of the Cayman Islands.
4. The liability of each Member is limited to the amount from time to time unpaid on such Member's shares.
5. The authorized share capital of the Company is US\$50,000 divided into (i) 483,489,642 Class A Ordinary Shares of a nominal or par value of US\$0.0001 each and (ii) 16,510,358 Class B Ordinary Shares of a nominal or par value of US\$0.0001 each. The Company has the power to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (2013 Revision), as amended, and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.
6. The Company has the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
7. Capitalized terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.

**THE COMPANIES LAW (2013 REVISION)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES**

SECOND AMENDED AND RESTATED ARTICLES OF ASSOCIATION

OF

VIPSHOP HOLDINGS LIMITED

Adopted by a Special Resolution
passed and effective on September 15, 2014

INTERPRETATION

1. In these Articles, Table A in the Schedule in the Companies Law does not apply and unless otherwise defined, the defined terms shall have the meanings assigned to them as follows:

“ADS”	means an American Depositary Share representing Class A Ordinary Shares;
“Articles”	these Articles of Association of the Company as altered or added to, from time to time;
“Affiliate”	means in respect of a person or entity, any other person or entity that, directly or indirectly (including through one or more intermediaries), controls, is controlled by, or is under common control with, such person or entity, and (i) in the case of a natural person, shall include, without limitation, such person’s spouse, parents, children, siblings, mother-in-law and father-in-law and brothers and sisters-in-law, a trust solely for the benefit of any of the foregoing, a company, partnership or any natural person or entity wholly owned by one or more of the foregoing, and (ii) in the case of an entity, shall include a partnership, a corporation or any natural person or entity which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such entity. The term “control” shall mean the ownership, directly or indirectly, of securities possessing more than fifty percent (50%) of the voting power of the corporation, or the partnership or other entity (other than, in the case of corporation, securities having such power only by reason of the happening of a contingency not within the reasonable control of such partnership, corporation, natural person or entity), or having the power to control the management or elect a majority of members to the board of directors or equivalent decision-making body of such corporation, partnership or other entity;
“Board” or “Board of Directors”	the board of Directors for the time being of the Company;
“Business Day”	a day (excluding Saturdays or Sundays), on which banks in Hong Kong, Beijing and New York are open for general banking business throughout their normal business hours;
“Chairman”	the Chairman appointed pursuant to Article 81;
“Class A Ordinary Share”	an Ordinary Share of a par value of US\$0.0001 in the capital of the Company, designated as a Class A Ordinary Shares and having the rights provided for in these Articles;
“Class B Ordinary Share”	an Ordinary Share of a par value of US\$0.0001 in the capital of the Company, designated as a Class B Ordinary Share and having the rights provided for in these Articles;
“Commission”	Securities and Exchange Commission of the United States of America or any other federal agency for the time being administering the Securities Act;

“Companies Law”	the Companies Law (2013 Revision) of the Cayman Islands, as amended, and any statutory amendment or re-enactment thereof. Where any provision of the Companies Law is referred to, the reference is to that provision as amended by any law for the time being in force;
“Company”	Vipshop Holdings Limited, a Cayman Islands company limited by shares;
“Company’s Website”	the website of the Company, the address or domain name of which has been notified to Members;
“Designated Stock Exchange”	means The New York Stock Exchange in the United States or any other stock exchange that the Company’s ADSs are listed for trading;
“Directors”	the directors of the Company for the time being, or as the case may be, the Directors assembled as a Board or as a committee thereof;
“electronic”	means the meaning given to it in the Electronic Transactions Law and any amendment thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;
“electronic communication”	electronic posting to the Company’s Website, transmission to any number, address or internet website or other electronic delivery methods as otherwise decided and approved by not less than two-thirds of the vote of the Board;
“the Founder”	Mr. Eric Ya Shen;
“in writing”	includes writing, printing, lithograph, photograph, type-writing and every other mode of representing words or figures in a legible and non-transitory form and, only where used in connection with a notice served by the Company on Members or other persons entitled to receive notices hereunder, shall also include a record maintained in an electronic medium which is accessible in visible form so as to be useable for subsequent reference;
“Management Shareholders”	means the Founder, Elegant Motion Holdings Limited and any of their Affiliates;
“Member”	the meaning given to it in the Companies Law;
“Memorandum of Association”	the Memorandum of Association of the Company, as amended and re-stated from time to time;
“month”	means calendar month;
“Ordinary Resolution”	a resolution: <ul style="list-style-type: none"> (a) passed by a simple majority of votes cast by such Members as, being entitled to do so, vote in person or, in the case of any Member being an organization, by its duly authorized representative or, where proxies are allowed, by proxy at a general meeting of the Company; or (b) approved in writing by all of the Members entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Members and the effective date of the resolution so adopted shall be the date on which the instrument, or the last of such instruments if more than one, is executed;
“Ordinary Shares”	means an ordinary share of a nominal or par value of US\$0.0001 each in the capital of the Company, including the Class A Ordinary Shares and the Class B Ordinary Shares;

“paid up”	paid up as to the par value and any premium payable in respect of the issue of any shares and includes credited as paid up;
“Register of Members”	the register to be kept by the Company in accordance with the Companies Law;
“seal”	the Common Seal of the Company (if adopted) including any facsimile thereof;
“Securities Act”	the Securities Act of 1933 of the United States of America, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time;
“share”	any share in the capital of the Company and includes a fraction of a share;
“signed”	includes a signature or representation of a signature affixed by mechanical means or an electronic symbol or process attached to or logically associated with an electronic communication and executed or adopted by a person with the intent to sign the electronic communication;
“Special Resolution”	the meaning given to it in the Companies Law and includes a unanimous written resolution;
“Statutes”	the Companies Law and every other laws and regulations of the Cayman Islands for the time being in force concerning companies and affecting the Company;
“Treasury share”	means a share held in the name of the Company as a treasury share in accordance with the Companies Law;
“year”	means calendar year.

2. In these Articles, save where the context requires otherwise:

- (a) words importing the singular number shall include the plural number and vice versa;
- (b) words importing the masculine gender only shall include the feminine gender;
- (c) words importing persons only shall include companies or associations or bodies of persons, whether corporate or not;
- (d) “may” shall be construed as permissive and “shall” shall be construed as imperative;
- (e) a reference to a dollar or dollars (or \$) is a reference to dollars of the United States;
- (f) references to a statutory enactment shall include reference to any amendment or re-enactment thereof for the time being in force;
- (g) any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms; and
- (h) Section 8 of the Electronic Transactions Law (2003 Revision) shall not apply.

3. Subject to the last two preceding Articles, any words defined in the Companies Law shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.

PRELIMINARY

4. The business of the Company may be conducted as the Directors see fit.

5. The registered office of the Company shall be at such address in the Cayman Islands as the Directors shall from time to time determine. The Company may in addition establish and maintain such other offices and places of business and agencies in such places as the Directors may from time to time determine.

ISSUE OF SHARES

6. Subject to the provisions, if any, in the Memorandum of Association, these Articles and to any direction that may be given by the Company in a general meeting, the Directors may, in their absolute discretion and without approval of the existing Members, issue shares, grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing Members, at such times and on such other terms as they think proper. The Company may hold Treasury shares. The Company shall not issue shares in bearer form.
7. The Directors may provide, out of the unissued shares (other than unissued ordinary shares), for series of preferred shares in their absolute discretion and without approval of the existing Members. Before any preferred shares of any such series are issued, the Directors shall fix, by resolution or resolutions, the following provisions of the preferred shares thereof:
 - (a) the designation of such series, the number of preferred shares to constitute such series and the subscription price thereof if different from the par value thereof;
 - (b) whether the shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be general or limited;
 - (c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any shares of any other class or any other series of preferred shares;
 - (d) whether the preferred shares of such series shall be subject to redemption by the Company, and, if so, the times, prices and other conditions of such redemption;
 - (e) the amount or amounts payable upon preferred shares of such series upon, and the rights of the holders of such series in, a voluntary or involuntary liquidation, dissolution or winding up, or upon any distribution of the assets, of the Company;
 - (f) whether the preferred shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the preferred shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;
 - (g) whether the preferred shares of such series shall be convertible into, or exchangeable for, shares of any other class or any other series of preferred shares or any other securities and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;
 - (h) the limitations and restrictions, if any, to be effective while any preferred shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Company of, the existing shares or shares of any other class of shares or any other series of preferred shares;
 - (i) the conditions or restrictions, if any, upon the creation of indebtedness of the Company or upon the issue of any additional shares, including additional shares of such series or of any other class of shares or any other series of preferred shares; and
 - (j) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof.

Without limiting the foregoing and subject to Article 81, the voting powers of any series of preferred shares may include the right, in the circumstances specified in the resolution or resolutions providing for the issuance of such preferred shares, to elect one or more Directors who shall serve for such term and have such voting powers as shall be stated in the resolution or resolutions providing for the issuance of such preferred shares. The term of office and voting powers of any Director elected in the manner provided in the immediately preceding sentence of this Article 7 may be greater than or less than those of any other Director or class of Directors.

8. The powers, preferences and relative, participating, optional and other special rights of each series of preferred shares, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding. All shares of any one series of preferred shares shall be identical in all respects with all other shares of such series, except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall be cumulative.

CLASS A ORDINARY SHARES AND CLASS B ORDINARY SHARES

- 8A. Holders of Class A Ordinary Shares and Class B Ordinary Shares shall at all times vote together as one class on all resolutions submitted to a vote by the Members. Each Class A Ordinary Share shall be entitled to one (1) vote on all matters subject to vote at general meetings of the Company, and each Class B Ordinary Share shall be entitled to ten (10) votes on all matters subject to vote at general meetings of the Company.
- 8B. Each Class B Ordinary Share is convertible into one (1) Class A Ordinary Share at any time by the holder thereof. The right to convert shall be exercisable by the holder of the Class B Ordinary Share delivering a written notice to the Company that such holder elects to convert a specified number of Class B Ordinary Shares into Class A Ordinary Shares.
- 8C. The number of Class B Ordinary Shares held by a holder thereof will be automatically and immediately converted into an equal and corresponding number of Class A Ordinary Shares upon any direct or indirect sale, transfer, or disposition of such number of Class B Ordinary Shares by the holder thereof or an Affiliate of such holder or the direct or indirect transfer of the voting power attached to such number of Class B Ordinary Shares through voting proxy or otherwise to any person or entity that is not an Affiliate of such holder. For the avoidance of doubt, the creation of any pledge, charge, encumbrance or other third party right of whatever description on any of Class B Ordinary Shares to secure contractual or legal obligations shall not be deemed as a sale, transfer, assignment or disposition unless and until any such pledge, charge, encumbrance or other third-party right is enforced and results in the third party holding directly or indirectly beneficial ownership or voting power through voting proxy or otherwise to the related Class B Ordinary Shares, in which case all the related Class B Ordinary Shares shall be automatically converted into the same number of Class A Ordinary Shares.
- 8D. Any conversion of Class B Ordinary Shares into Class A Ordinary Shares pursuant to these Articles shall be effected by means of the re-designation of each relevant Class B Ordinary Share as a Class A Ordinary Share.
- 8E. All Class B Ordinary shares will be automatically converted into the same number of Class A Ordinary Shares as soon as the Management Shareholders in aggregate beneficially own less than 825,518 Class B Ordinary Shares.
- 8F. Class A Ordinary Shares are not convertible into Class B Ordinary Shares under any circumstances.
- 8G. Save and except for voting rights and conversion rights as set out in Articles 8A to 8G (inclusive), the Class A Ordinary Shares and the Class B Ordinary Shares shall rank pari passu and shall have the same rights, preferences, privileges and restrictions.

REGISTER OF MEMBERS AND SHARE CERTIFICATES

9. The Company shall maintain a Register of its Members and a Member shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. Share certificates (if any) shall specify the share or shares held by that person and the amount paid up thereon, provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all. All certificates for shares shall be delivered personally or sent through the post addressed to the Member entitled thereto at the Member's registered address as appearing in the register.
10. All share certificates shall bear legends required under the applicable laws, including the Securities Act.
11. Any two or more certificates representing shares of any one class held by any Member may at the Member's request be cancelled and a single new certificate for such shares issued in lieu on payment (if the Directors shall so require) of US\$1.00 or such smaller sum as the Directors shall determine.
12. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same shares may be issued to the relevant Member upon request subject to delivery up of the old certificate or (if alleged to have been lost, stolen or destroyed) compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Directors may think fit.
13. In the event that shares are held jointly by several persons, any request may be made by any one of the joint holders and if so made shall be binding on all of the joint holders.

TRANSFER OF SHARES

14. (a) Shares are transferable subject to the approval of the Board or the written consent of a Director authorized by the Board in writing to approve share transfers and the Board may, in its sole discretion, decline to register any transfer of any share which is not fully paid up or on which the Company has a lien.
 - (b) The Directors may also decline to register any transfer of any share unless:
 - (i) the instrument of transfer is lodged with the Company, accompanied by the certificate for the shares to which it relates and such other evidence as the Board 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 concerned are free of any lien in favor of us; or
 - (vi) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable, or such lesser sum as the Board may from time to time require, is paid to the Company in respect thereof.
 - (c) If the 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.
15. 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 the Board 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.
16. The instrument of transfer of any share shall be in writing and executed by or on behalf of the transferor (and if the Directors so require, signed by the transferee). The transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the Register of Members.
17. All instruments of transfer that shall be registered shall be retained by the Company.

REDEMPTION AND PURCHASE OF OWN SHARES

18. Subject to the provisions of the Statutes and these Articles, the Company may:
 - (a) issue shares on terms that they are to be redeemed or are liable to be redeemed at the option of the Company or the Member and the redemption of shares shall be effected on such terms and in such manner as the Board may, before the issue of such shares, determine;
 - (b) purchase its own shares (including any redeemable shares) provided that the Members shall have approved the manner of purchase by Ordinary Resolution or the manner of purchase is in accordance with the Articles 19 and 20 (this authorisation is in accordance with section 37(2) of the Companies Law or any modification or re-enactment thereof for the time being in force); and
 - (c) the Company may make a payment in respect of the redemption or purchase of its own shares in any manner permitted by the Statutes, including out of capital.
19. Purchase of shares underlying American depositary shares listed on the Designated Stock Exchange: the Company is authorised to purchase any share underlying American depositary shares listed on the Designated Stock Exchange in accordance with the following manner of purchase:
 - (a) the maximum number of shares that may be repurchased shall be equal to the number of issued and outstanding shares less one share; and

- (b) the repurchase shall be at such time; at such price and on such other terms as determined and agreed by the Board in their sole discretion provided however that:
 - (i) such repurchase transactions shall be in accordance with the relevant code, rules and regulations applicable to the listing and/or trading of the American depositary shares on the Designated Stock Exchange; and
 - (ii) at the time of the repurchase, the Company is able to pay its debts as they fall due in the ordinary course of its business.
- 20. Purchase of shares not listed on the Designated Stock Exchange: the Company is authorised to purchase any shares not listed on the Designated Stock Exchange in accordance with the following manner of purchase:
 - (a) the Company shall serve a repurchase notice in a form approved by the Board on the Member from whom the shares are to be repurchased at least two Business Days prior to the date specified in the notice as being the repurchase date;
 - (b) the price for the shares being repurchased shall be such price agreed between the Board and the applicable Member;
 - (c) the date of repurchase shall be the date specified in the repurchase notice; and
 - (d) the repurchase shall be on such other terms as specified in the repurchase notice as determined and agreed by the Board and the applicable Member in their sole discretion.
- 21.
 - (a) The redemption or purchase of any share shall not be deemed to give rise to the redemption or purchase of any other share and the Company is not obligated to purchase any other share other than as may be required pursuant to applicable law and any other contractual obligations of the Company.
 - (b) The holder of the shares being purchased shall be bound to deliver up to the Company the certificate(s) (if any) thereof for cancellation and thereupon the Company shall pay to him the purchase or redemption monies or consideration in respect thereof.
- 22. The Directors may, prior to the purchase, redemption or surrender of any share, determine that such share shall be held as a Treasury share. The Directors may determine to cancel a Treasury share or transfer a Treasury share on such terms as they think proper (including, without limitation, for nil consideration).

VARIATION OF RIGHTS ATTACHING TO SHARES

- 23. If at any time the share capital is divided into different classes or series of shares, the rights attaching to any class or series (unless otherwise provided by the terms of issue of the shares of that class or series) may, subject to these Articles, be varied or abrogated with the consent in writing of the holders of a majority of the issued shares of that class or series or with the sanction of a Special Resolution passed at a general meeting of the holders of the shares of that class or series.
- 24. The provisions of these Articles relating to general meetings shall apply to every such general meeting of the holders of one class or series of shares except the following:
 - (a) separate general meetings of the holders of a class or series of shares may be called only by (i) the Chairman of the Board, or (ii) a majority of the entire Board of Directors (unless otherwise specifically provided by the terms of issue of the shares of such class or series). Nothing in this Article 24 or Article 23 shall be deemed to give any Member or Members the right to call a class or series meeting.
 - (b) the necessary quorum shall be one or more persons holding or representing by proxy at least 10% of the issued shares of the class or series and that any holder of shares of the class or series present in person or by proxy may demand a poll.
- 25. The rights conferred upon the holders of the shares of any class or series issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class or series, be deemed to be varied by the creation or issue of further shares ranking in priority thereto or *pari passu* therewith.

COMMISSION ON SALE OF SHARES

- 26. The Company may in so far as the Statutes from time to time permit pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any shares of the Company. Such commissions may be satisfied by the payment of cash or the lodgement of fully or partly paid-up shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

NON-RECOGNITION OF TRUSTS

27. No person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future, or partial interest in any share, or any interest in any fractional part of a share, or (except only as is otherwise provided by these Articles or the Statutes) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

LIEN ON SHARES

28. The Company shall have a first and paramount lien and charge on all shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such share shall operate as a waiver of the Company's lien (if any) thereon. The Company's lien (if any) on a share shall extend to all dividends or other monies payable in respect thereof.
29. The Company may sell, in such manner as the Directors think fit, any shares on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of 14 calendar days after a notice in writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share, or the persons entitled thereto by reason of his death or bankruptcy.
30. For giving effect to any such sale the Directors may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares comprised in any such transfer and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
31. The proceeds of the sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the date of the sale.

CALLS ON SHARES

32. Subject to the terms of allotment, the Directors may from time to time make calls upon the Members in respect of any money unpaid on their shares, and each Member shall (subject to receiving at least 14 calendar days notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on his shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.
33. The joint holders of a share shall be jointly and severally liable to pay calls in respect thereof.
34. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of eight percent per annum from the day appointed for the payment thereof to the time of the actual payment, but the Directors shall be at liberty to waive payment of that interest wholly or in part.
35. The provisions of these Articles as to the liability of joint holders and as to payment of interest shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had become payable by virtue of a call duly made and notified.
36. The Directors may make arrangements on the issue of shares for a difference between the Members, or the particular shares, in the amount of calls to be paid and in the times of payment.
37. The Directors may, if they think fit, receive from any Member willing to advance the same all or any part of the monies uncalled and unpaid upon any shares held by him, and upon all or any of the monies so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding without the sanction of an Ordinary Resolution, eight percent per annum) as may be agreed upon between the Member paying the sum in advance and the Directors. No such sum paid in advance of calls shall entitle the Member paying such sum to any portion of a dividend declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable.

FORFEITURE OF SHARES

38. If a Member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of such much of the call or instalment as is unpaid, together with any interest which may have accrued.
39. The notice shall name a further day (not earlier than the expiration of 14 calendar days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.
40. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by notice has been made, be forfeited by a resolution of the Directors to that effect.
41. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the Directors think fit.
42. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, but his liability shall cease if and when the Company receives payment in full of the fully paid up amount of the shares.
43. A certificate in writing under the hand of a Director of the Company, which certifies that a share has been forfeited on a date stated in the certificate, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. The Company may receive the consideration, if any, given for the share or any sale or disposition thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of and he shall thereupon be registered as the holder of the share, and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.
44. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of a share becomes due and payable, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

REGISTRATION OF EMPOWERING INSTRUMENTS

45. The Company shall be entitled to charge a fee not exceeding one dollar (US\$1.00) on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, notice in lieu of distringas, or other instrument.

TRANSMISSION OF SHARES

46. The legal personal representative of a deceased sole holder of a share shall be the only person recognised by the Company as having any title to the share. In the case of a share registered in the name of two or more holders, the survivors or survivor, or the legal personal representatives of the deceased survivor, shall be the only person recognised by the Company as having any title to the share.
47. Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member shall upon such evidence being produced as may from time to time be properly required by the Directors, have the right either to be registered as a Member in respect of the share or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made. If the person so becoming entitled shall elect to be registered himself as holder he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.
48. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a Member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company, provided however, that the Directors may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share, and if the notice is not complied with within 90 calendar days, the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share until the requirements of the notice have been complied with.

ALTERATION OF CAPITAL

49. The Company may by Ordinary Resolution:
- (a) increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
 - (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
 - (c) 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;
 - (d) 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.
50. Subject to the provisions of the Statutes and these Articles as regards to the matters to be dealt with by Ordinary Resolution, the Company may by Special Resolution:
- (a) change its name;
 - (b) alter or add to these Articles;
 - (c) alter or add to the Memorandum of Association with respect to any objects, powers or other matters specified therein; and
 - (d) reduce its share capital and any capital redemption reserve in any manner authorized by law.
51. All new shares created hereunder shall be subject to the same provisions with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

52. For the purpose of determining those Members that are entitled to receive notice of, attend or vote at any meeting of Members or any adjournment thereof, or those Members that are entitled to receive payment of any dividend, or in order to make a determination as to who is a Member for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period but not to exceed in any case 30 calendar days. If the Register of Members shall be so closed for the purpose of determining those Members that are entitled to receive notice of, attend or vote at a meeting of Members such register shall be so closed for at least 10 calendar days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the Register of Members.
53. In lieu of or apart from closing the Register of Members, the Directors may fix in advance a date as the record date for any such determination of those Members that are entitled to receive notice of, attend or vote at a meeting of the Members and for the purpose of determining those Members that are entitled to receive payment of any dividend, the Directors may, at or within 30 calendar days prior to the date of declaration of such dividend fix a subsequent date as the record date of such determination.
54. If the Register of Members is not so closed and no record date is fixed for the determination of those Members entitled to receive notice of, attend or vote at a meeting of Members or those Members that are entitled to receive payment of a dividend, the date on which notice of the meeting is posted or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of those Members that are entitled to receive notice of, attend or vote at a meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof.

GENERAL MEETINGS

55. All general meetings of the Company other than annual general meetings shall be called extraordinary general meetings.
56. (a) The Company may hold an annual general meeting and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall determine.
- (b) At these meetings the report of the Directors (if any) shall be presented.
57. (a) The Directors may call general meetings, and they shall on a Members requisition forthwith proceed to convene an extraordinary general meeting of the Company.

- (b) A Members requisition is a requisition of Members of the Company holding at the date of deposit of the requisition not less than one-third of the share capital of the Company as at that date carries the right of voting at general meetings of the Company.
- (c) The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the principal place of business of the Company (with a copy forwarded to the registered office), and may consist of several documents in like form each signed by one or more requisitionists.
- (d) If the Directors do not within 21 calendar days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further 21 calendar days, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the second said 21 calendar days.
- (e) A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

58. At least seven calendar days' notice shall be given for any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:
- (a) in the case of an annual general meeting by all the Members (or their proxies) entitled to attend and vote thereat; and
 - (b) in the case of an extraordinary general meeting by a majority in number of the Members (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than ninety five percent in par value of the shares giving that right.
59. The accidental omission to give notice of a meeting to or the non-receipt of a notice of a meeting by any Member shall not invalidate the proceedings at any meeting.

PROCEEDINGS AT GENERAL MEETINGS

60. No business shall be transacted at any general meeting unless a quorum of Members is present at the time when the meeting proceeds to business. One or more Members holding not less than an aggregate of one-third of all voting share capital of the Company in issue present in person or by proxy and entitled to vote shall be a quorum for all purposes.
61. If provided for by the Company, a person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.
62. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved.
63. The Chairman of the Board of Directors shall preside as chairman at every general meeting of the Company.
64. If at any meeting the Chairman of the Board of Directors is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as chairman, the Directors present shall elect one of their members to be chairman of the meeting, or, if no Director is so elected and willing to be chairman of the meeting, the Members present shall choose a chairman of the meeting.
65. The Chairman may with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting) adjourn a meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for 10 calendar days or more, not less than 7 Business Days' notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

66. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by one or more Members present in person or by proxy entitled to vote and who together hold not less than 10 percent of the paid up voting share capital of the Company, and unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution.
67. If a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn.
68. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.
69. A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

VOTES OF MEMBERS

70. Subject to any rights and restrictions for the time being attached to any class or classes of shares, every Member present in person and every person representing a Member by proxy at a general meeting of the Company shall have one vote for each share registered in his name in the Register of Members.
71. In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
72. A Member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, or other person in the nature of a committee appointed by that court, and any such committee or other person, may on a poll, vote by proxy.
73. No Member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.
74. On a poll, votes may be given either personally or by proxy.
75. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized. A proxy need not be a Member of the Company.
76. An instrument appointing a proxy may be in any usual or common form or such other form as the Directors may approve. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
77. The instrument appointing a proxy shall be deposited at the registered office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company:
 - (a) not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or
 - (b) in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or
 - (c) where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded be delivered at the meeting at which the poll was demanded to the chairman or to the secretary or to any Director;

provided that the Directors may in the notice convening the meeting, or in an instrument of proxy sent out by the Company, direct that the instrument appointing a proxy may be deposited (no later than the time for holding the meeting or adjourned meeting) at the registered office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company. The Chairman may in any event at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.

78. Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

CORPORATIONS ACTING BY REPRESENTATIVES AT MEETING

79. Any corporation which is a Member or a Director may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members or of the Board of Directors or of a committee of Directors, and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member or Director.

CLEARING HOUSES

80. If a clearing house (or its nominee) is a Member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its representative or representatives at any general meeting of the Company or at any general meeting of any class of Members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person so authorized pursuant to this provision shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual Member of the Company holding the number and class of shares specified in such authorisation.

DIRECTORS

81. (a) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter by the Members at general meeting.
- (b) Each Director shall hold office until the expiration of his term and until his successor shall have been elected and qualified.
- (c) The Board of Directors shall have a Chairman (the “**Chairman**”) elected and appointed by a majority of the Directors then in office, who shall initially be the chief executive officer of the Company. The Directors may also elect a Co- Chairman or a Vice-Chairman of the Board of Directors (the “**Co-Chairman**”). The Chairman shall preside as chairman at every meeting of the Board of Directors. To the extent the Chairman is not present at a meeting of the Board of Directors, the Co-Chairman, or in his absence, the attending Directors may choose one Director to be the chairman of the meeting. The Chairman’s voting right as to the matters to be decided by the Board of Directors shall be the same as other Directors.
- (d) The Company may by Ordinary Resolution elect any person to be a Director either to fill a casual vacancy on the Board or as an addition to the existing Board.
- (e) The Directors by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, or the sole remaining Director, shall have the power from time to time and at any time to appoint any person as a Director to fill a casual vacancy on the Board or as an addition to the existing Board, subject to the Company’s compliance with director nomination procedures required under applicable corporate governance rules of Designated Stock Exchange, as long as the Company’s securities are traded on the Designated Stock Exchange.
82. Subject to Article 81, a Director may be removed from office by Ordinary Resolution at any time before the expiration of his/her term.
83. A vacancy on the Board created by the removal of a Director under the provisions of Article 82 above may be filled by the election or appointment by Ordinary Resolution at the meeting at which such Director is removed.

84. The Board may, from time to time, and except as required by applicable law or the listing rules of the Designated Stock Exchange, adopt, institute, amend, modify or revoke the corporate governance policies or initiatives, which shall be intended to set forth the policies of the Company and the Board on various corporate governance related matters as the Board shall determine by resolution from time to time.
85. A Director shall not be required to hold any shares in the Company by way of qualification. A Director who is not a Member of the Company shall nevertheless be entitled to receive notice of and to attend and speak at general meetings of the Company and all classes of shares of the Company.

DIRECTORS' FEES AND EXPENSES

86. The Directors may receive such remuneration as the Board may from time to time determine. The Directors may be entitled to be repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.
87. Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Article.

ALTERNATE DIRECTOR

88. Any Director may in writing appoint another person to be his alternate to act in his place at any meeting of the Directors at which he is unable to be present. Every such alternate shall be entitled to notice of meetings of the Directors and to attend and vote thereat as a Director when the person appointing him is not personally present and, where he is a Director, to have a separate vote on behalf of the Director he is representing in addition to his own vote. A Director may at any time in writing revoke the appointment of an alternate appointed by him. Such alternate shall be deemed for all purposes to be a Director and shall not be deemed to be the agent of the Director appointing him. An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.
89. Any Director may appoint any person, whether or not a Director, to be the proxy of that Director to attend and vote on his behalf, in accordance with instructions given by that Director, or in the absence of such instructions at the discretion of the proxy, at a meeting or meetings of the Directors which that Director is unable to attend personally. The instrument appointing the proxy shall be in writing under the hand of the appointing Director and shall be in any usual or common form or such other form as the Directors may approve, and must be lodged with the Chairman at which such proxy is to be used, or first used, prior to the commencement of the meeting.

POWERS AND DUTIES OF DIRECTORS

90. Subject to the provisions of the Companies Law, these Articles and to any resolutions made in a general meeting, the business of the Company shall be managed by the Directors, who may pay all expenses incurred in setting up and registering the Company and may exercise all powers of the Company. No resolution made by the Company in a general meeting shall invalidate any prior act of the Directors that would have been valid if that resolution had not been made.
91. Subject to these Articles, the Directors may from time to time appoint any person, whether or not a Director of the Company, to hold such office in the Company as the Directors may think necessary for the administration of the Company, including without prejudice to the foregoing generality, the office of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, one or more Vice Presidents, Manager or Controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. The Directors may also appoint one or more of their body (but not an alternate Director) to the office of Managing Director upon like terms, but any such appointment shall ipso facto determine if any Managing Director ceases from any cause to be a Director, or if the Company by Ordinary Resolution resolves that his tenure of office be terminated.
92. The Directors may delegate any of their powers to committees consisting of such Member or Members of their body as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.

93. The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretion (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to delegate all or any of the powers, authorities and discretion vested in him.
94. The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in the following paragraphs shall be without prejudice to the general powers conferred by this paragraph.
95. The Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any persons to be members of such committees or local boards and may appoint any managers or agents of the Company and may fix the remuneration of any of the aforesaid.
96. The Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members for the time being of any such local board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
97. Any such delegates as aforesaid may be authorised by the Directors to sub-delegate all or any of the powers, authorities, and discretions for the time being vested to them.
98. The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

DISQUALIFICATION OF DIRECTORS

99. Notwithstanding anything in these Articles, the office of Director shall be vacated, if the Director:
 - (a) dies, becomes bankrupt or makes any arrangement or composition with his creditors;
 - (b) is found to be or becomes of unsound mind;
 - (c) resigns his office by notice in writing to the Company; or
 - (d) shall be removed from office pursuant to Articles 81 or 82 or the Statutes.

PROCEEDINGS OF DIRECTORS

100. The Directors may meet together (whether within or outside the Cayman Islands) for the dispatch of business, adjourn, and otherwise regulate their meetings and proceedings as they think fit.
101. A Board meeting may be called by a Director by giving notice in writing to the Board specifying a date, time and agenda for such meeting. The Board shall upon receipt of such notice give a copy of such notice of such meeting to all Directors and their respective alternates (if any).
102.
 - (a) At least one (1) Business Day notice shall be given to all Directors and their respective alternates (if any) for a Board meeting, provided that such notice period may be reduced or waived with the consent of all the Directors or their respective alternates (if any).
 - (b) An agenda identifying in reasonable detail the issues to be considered by the Directors at any such meeting and copies (in printed or electronic form) of any relevant papers to be discussed at the meeting together with all relevant information shall be provided to and received by all members of the Board and their alternates (if any) at least one (1) Business Day prior to the date for such meeting. The agenda for each meeting shall include any matter submitted to the Company by any Director at least one (1) Business Day prior to the date for such meeting.
 - (c) Unless approved by all Directors (whether or not present or represented at such meeting), matters not set out in the agenda need not be considered at a Board meeting.

103. A Director or Directors may participate in any meeting of the Board of Directors, or of any committee appointed by the Board of Directors of which such Director or Directors are members, by means of conference telephone, video conference or similar communication equipment by way of which all persons participating in such meeting can hear each other and such participation shall be deemed to constitute presence in person at the meeting.
104. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority of the Directors then in office, provided that a Director and his appointed alternate Director shall be considered only one person for this purpose.
105. If a quorum is not present at a Board meeting within thirty (30) minutes following the time appointed for such Board meeting, the relevant meeting shall be adjourned for a period of at least three (3) Business Days and the presence of any three (3) Directors shall constitute a quorum at such adjourned meeting. A meeting of the Directors at which a quorum is present when the meeting proceeds to business shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.
106. Questions arising at any meeting of the Directors shall be decided by a majority of votes and each Director shall be entitled to one (1) vote in deciding matters deliberated at any meeting of the Directors.
107. In case of equality of votes, the Chairman shall have a second or casting vote.
108. A Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made. A Director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or proposed contract or arrangement shall come before the meeting for consideration.
109. A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested, be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relation thereby established. A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement.
110. Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a Director or his firm to act as auditor to the Company.
111. The Directors shall cause minutes to be made in books or loose-leaf folders provided for the purpose of recording:
 - (a) all appointments of officers made by the Directors;
 - (b) the names of the Directors present at each meeting of the Directors and of any committee of the Directors; and
 - (c) all resolutions and proceedings at all meetings of the Company, and of the Directors and of committees of Directors.
112. When the Chairman of a meeting of the Directors signs the minutes of such meeting the same shall be deemed to have been duly held notwithstanding that all the Directors have not actually come together or that there may have been a technical defect in the proceedings.
113. A resolution signed by all the Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted and when signed, a resolution may consist of several documents each signed by one or more of the Directors.
114. The continuing Directors may act, notwithstanding any vacancy in their body, but if their number is reduced below the number fixed pursuant to these Articles as the necessary quorum of Directors, then the continuing Directors may act only to increase the number or to summon a general meeting of the Company, but for no other purpose.

115. A committee appointed by the Directors may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting.
116. A committee appointed by the Directors may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the committee members present and in case of an equality of votes the chairman shall have a second or casting vote.
117. All acts done by any meeting of the Directors or of a committee of Directors, or by any person acting as a Director, shall notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

PRESUMPTION OF ASSENT

118. A Director who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the Minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the Chairman or Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

DIVIDENDS, DISTRIBUTIONS AND RESERVE

119. Subject to any rights and restrictions for the time being attached to any class or classes of shares and these Articles, the Directors may from time to time declare dividends (including interim dividends) and other distributions on shares in issue and authorise payment of the same out of the funds of the Company lawfully available therefor.
120. Subject to any rights and restrictions for the time being attached to any class or classes of shares and these Articles, the Company by Ordinary Resolution may also declare dividends, but no dividend shall exceed the amount recommended by the Directors.
121. The Directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for meeting contingencies, or for equalising dividends or for any other purpose to which those funds may be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit.
122. Any dividend may be paid by cheque or wire transfer to the registered address of the Member or person entitled thereto, or in the case of joint holders, to any one of such joint holders at his registered address or to such person and such address as the Member or person entitled, or such joint holders as the case may be, may direct. Every such cheque shall be made payable to the order of the person to whom it is sent or to the order of such other person as the Member or person entitled, or such joint holders as the case may be, may direct.
123. The Directors when paying dividends to the Members in accordance with the foregoing provisions may make such payment either in cash or in specie.
124. No dividend shall be paid otherwise than out of profits or, subject to the restrictions of the Companies Law, the share premium account.
125. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or credited as fully paid on the shares, but if and so long as nothing is paid up on any of the shares in the Company dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this Article as paid on the share.
126. If several persons are registered as joint holders of any share, any of them may give effectual receipts for any dividend or other monies payable on or in respect of the share.
127. No dividend shall bear interest against the Company.

BOOK OF ACCOUNTS

128. The books of account relating to the Company's affairs shall be kept in such manner as may be determined from time to time by the Directors.
129. The books of account shall be kept at such place or places as the Directors think fit, and shall always be open to the inspection of the Directors.
130. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors, and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by law or authorized by the Directors or by the Company by Ordinary Resolution.
131. The accounts relating to the Company's affairs shall be audited in such manner and with such financial year end as may be determined from time to time by the Company by Ordinary Resolution or failing any such determination by the Directors or failing any determination as aforesaid shall not be audited.

ANNUAL RETURNS AND FILINGS

132. The Board shall make the requisite annual returns and any other requisite filings in accordance with the Companies Law.

AUDIT

133. The Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors and may fix his or their remuneration.
134. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.
135. Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next special meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any time during their term of office, upon request of the Directors at any general meeting of the Members.

THE SEAL

136. The Seal of the Company shall not be affixed to any instrument except by the authority of a resolution of the Board of Directors provided always that such authority may be given prior to or after the affixing of the Seal and if given after may be in general form confirming a number of affixings of the Seal. The Seal shall be affixed in the presence of any one or more persons as the Directors may appoint for the purpose and every person as aforesaid shall sign every instrument to which the Seal of the Company is so affixed in their presence.
137. The Company may maintain a facsimile of its Seal in such countries or places as the Directors may appoint and such facsimile Seal shall not be affixed to any instrument except by the authority of a resolution of the Board of Directors provided always that such authority may be given prior to or after the affixing of such facsimile Seal and if given after may be in general form confirming a number of affixings of such facsimile Seal. The facsimile Seal shall be affixed in the presence of such person or persons as the Directors shall for this purpose appoint and such person or persons as aforesaid shall sign every instrument to which the facsimile Seal of the Company is so affixed in their presence.
138. Notwithstanding the foregoing, a Director shall have the authority to affix the Seal, or the facsimile Seal, to any instrument for the purposes of attesting authenticity of the matter contained therein but which does not create any obligation binding on the Company.

OFFICERS

139. Subject to Article 91, the Company may have Chief Executive Officer, Chief Operating Officer, Chief Technology Officer, Chief Financial Officer, one or more Vice Presidents, Manager or Controller, appointed by the Directors. The Directors may also from time to time appoint such other officers as they consider necessary, all for such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors from time to time subscribe.

CAPITALISATION OF PROFITS

140. Subject to the Statutes and these Articles, the Board may, with the authority of an Ordinary Resolution:
- (a) resolve to capitalise an amount standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution;
 - (b) appropriate the sum resolved to be capitalised to the Members in proportion to the nominal amount of shares (whether or not fully paid) held by them respectively and apply that sum on their behalf in or towards:
 - (i) paying up the amounts (if any) for the time being unpaid on shares held by them respectively; or
 - (ii) paying up in full unissued shares or debentures of a nominal amount equal to that sum, and allot the shares or debentures, credited as fully paid, to the Members (or as they may direct) in those proportions, or partly in one way and partly in the other, but the share premium account, the capital redemption reserve and profits which are not available for distribution may, for the purposes of this Article, only be applied in paying up unissued shares to be allotted to Members credited as fully paid;
 - (c) make any arrangements it thinks fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular, without limitation, where shares or debentures become distributable in fractions the Board may deal with the fractions as it thinks fit;
 - (d) authorise a person to enter (on behalf of all the Members concerned) an agreement with the Company providing for either:
 - (i) the allotment to the Members respectively, credited as fully paid, of shares or debentures to which they may be entitled on the capitalisation, or
 - (ii) the payment by the Company on behalf of the Members (by the application of their respective operations of the reserves resolved to be capitalised) of the amounts or part of the amounts remaining unpaid on their existing shares,an agreement made under the authority being effective and binding on all those Members; and
 - (e) generally do all acts and things required to give effect to the resolution.

NOTICES

141. Except as otherwise provided in these Articles, any notice or document may be served by the Company or by the person entitled to give notice to any Member either personally, by facsimile or by sending it through the post in a prepaid letter or via a recognised courier service, fees prepaid, addressed to the Member at his address as appearing in the Register of Members or, to the extent permitted by all applicable laws and regulations, by electronic means by transmitting it to any electronic number or address or website supplied by the Member to the Company or by placing it on the Company's Website. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register of Members in respect of the joint holding, and notice so given shall be sufficient notice to all the joint holders.
142. Notices posted to addresses outside the Cayman Islands shall be forwarded by prepaid airmail.
143. Any Member present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting and, where requisite, of the purposes for which such meeting was convened.
144. Any notice or other document, if served by:
- (a) post, shall be deemed to have been served five calendar days after the time when the letter containing the same is posted and if served by courier, shall be deemed to have been served five calendar days after the time when the letter containing the same is delivered to the courier (in proving such service it shall be sufficient to prove that the letter containing the notice or document was properly addressed and duly posted or delivered to the courier);

- (b) facsimile, shall be deemed to have been served upon confirmation of receipt;
 - (c) recognised delivery service, shall be deemed to have been served 48 hours after the time when the letter containing the same is delivered to the courier service and in proving such service it shall be sufficient to prove that the letter containing the notice or documents was properly addressed and duly posted or delivered to the courier; or
 - (d) electronic means as provided herein shall be deemed to have been served and delivered on the day following that on which it is successfully transmitted or at such later time as may be prescribed by any applicable laws or regulations.
145. Any notice or document delivered or sent to any Member in accordance with the terms of these Articles shall notwithstanding that such Member be then dead or bankrupt, and whether or not the Company has notice of his death or bankruptcy, be deemed to have been duly served in respect of any share registered in the name of such Member as sole or joint holder, unless his name shall at the time of the service of the notice or document, have been removed from the Register of Members as the holder of the share, and such service shall for all purposes be deemed a sufficient service of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.
146. Notice of every general meeting shall be given to:
- (a) all Members who have supplied to the Company an address for the giving of notices to them;
 - (b) every person entitled to a share in consequence of the death or bankruptcy of a Member, who but for his death or bankruptcy would be entitled to receive notice of the meeting; and
 - (c) each Director and Alternate Director.
- No other person shall be entitled to receive notices of general meetings.

INFORMATION

147. No Member shall be entitled to require discovery of any information in respect of any detail of the Company's trading or any information which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Board would not be in the interests of the Members of the Company to communicate to the public.
148. The Board shall be entitled to release or disclose any information in its possession, custody or control regarding the Company or its affairs to any of its members including, without limitation, information contained in the Register of Members and transfer books of the Company.

INDEMNITY

149. Every Director (including for the purposes of this Article any Alternate Director appointed pursuant to the provisions of these Articles) and officer of the Company for the time being and from time to time shall be indemnified and secured harmless out of the assets and funds of the Company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him in connection with the execution or discharge of his duties, powers, authorities or discretions as a Director or officer of the Company, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by him in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.
150. No such Director or officer of the Company shall be liable to the Company for any loss or damage unless such liability arises through the willful neglect or default of such Director or officer.

FINANCIAL YEAR

151. Unless the Directors otherwise prescribe, the financial year of the Company shall end on December 31st in each year and shall begin on January 1st in each year.

WINDING UP

152. Subject to these Articles, if the Company shall be wound up the liquidator may, with the sanction of an Ordinary Resolution of the Company, divide amongst the Members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction shall think fit, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.

AMENDMENT OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND NAME OF COMPANY

153. The Company may at any time and from time to time by Special Resolution alter or amend these Articles or the Memorandum of Association of the Company, in whole or in part, or change the name of the Company.

REGISTRATION BY WAY OF CONTINUATION

154. The Company may by Special Resolution resolve to be registered by way of continuation in a jurisdiction outside the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing. In furtherance of a resolution adopted pursuant to this Article, the Directors may cause an application to be made to the Registrar of Companies to deregister the Company in the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing and may cause all such further steps as they consider appropriate to be taken to effect the transfer by way of continuation of the Company.

**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 0.2 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 depositary, 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 Act (Revised) of the Cayman Islands (the “Companies Act”) 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 this annual report on Form 20-F.

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, 2020 is provided on the cover of the annual report for fiscal year 2020 on Form 20-F filed in April 2021 (the “2020 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 Act.

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 concerned 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 Act 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 Act, 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 the board of directors.

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 Act, 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 Act 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 Act and the current Companies Act of England. In addition, the Companies Act 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 Act 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 Act 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 66²/₃% 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. 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 Act (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 Act 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 Act 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 Act 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 Act 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 Act 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 depository, 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 depository cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

- **Shares.** The depository 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 depository 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 depository does not distribute additional ADSs, the outstanding ADSs will also represent the new ordinary shares. The depository 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 depository, 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 depository to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depository 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 depository 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 depository 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 depository 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 depository to make such rights available to you and furnish the depository with satisfactory evidence that it is legal to do so. If the depository decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depository will use reasonable efforts to sell the rights and distribute the net proceeds in the same way as it does with cash. The depository 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 depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary 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 depositary 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 depositary 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 depositary to give a discretionary proxy to a person designated by us. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary 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 depositary will only vote or attempt to vote as you instruct. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary 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 depositary for such purpose, the depositary shall deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depositary 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 depositary 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 depositary to vote the ordinary shares underlying your ADSs. 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. 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:

Change the nominal or par value of our ordinary shares

Reclassify, split up or consolidate any of the 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

Then:

The cash, shares or other securities received by the depositary will
become deposited securities.

Each ADS will automatically represent its equal share of the new
deposited securities.

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 Depository; Limits on Liability to Holders of ADSs

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

- 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 depository 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 depository agree to indemnify each other under certain circumstances.

Requirements for Depository Actions

Before the depository will issue, deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of ordinary shares, the depository 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 depository;
- 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 depository may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depository or our transfer books are closed or at any time if the depository 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 depository 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.

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 (Tianjin) E-Commerce Co., Ltd.	PRC
Guangzhou Pinwei Software Co., Ltd.	PRC
Vipshop (Zhuhai) 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, 2020.

**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 16, 2021

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, David Cui, 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 16, 2021

By: /s/ David Cui
Name: David Cui
Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Vipshop Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Ya Shen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 16, 2021

By: /s/ Eric Ya Shen
Name: Eric Ya Shen
Title: Chief Executive 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, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Cui, 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 16, 2021

By: /s/ David Cui
Name: David Cui
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, No. 333-222218, and No. 333-248504) on Form S-8 of our reports dated April 16, 2021, 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, 2020.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

April 16, 2021

9/F, Office Tower C1, Oriental Plaza, 1 East Chang An Ave., Dongcheng District
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HANKUN
汉坤律师事务所
Han Kun Law Offices

Date: April 16, 2021

VIPSHOP HOLDINGS LIMITED

128 Dingxin Road,
Haizhu District, Guangzhou 510220
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, 2020, which will be filed by Vipshop Holdings Limited on April 16, 2021 with the Securities and Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and further consent to the incorporation by reference of the summaries of our opinions that appear in the annual report on Form 20-F into the Registration Statements (No. 333-181559, No. 333-199515, and 333-222218) on Form S-8.

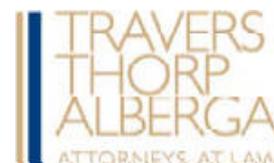
In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours Sincerely,

/s/ HAN KUN LAW OFFICES

HAN KUN LAW OFFICES

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

16 April 2021

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 2020, which will be filed with the Securities and Exchange Commission in the month of April 2021, 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, File No. 333-222218 and No. 333-248504) on Form S-8.

Yours faithfully

/s/ TRAVERS THORP ALBERGA
TRAVERS THORP ALBERGA

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