

Baozun Inc.
Form 20-F
April 12, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

form 20-f

..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE
ACT OF 1934
OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
OR

..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
Commission file number: 001-37385

Baozun Inc.

(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)

Building B, No. 1268 Wanrong Road

Shanghai 200436

The People's Republic of China

(Address of principal executive offices)

Beck Zhaoming Chen, Chief Financial Officer

Building B, No. 1268 Wanrong Road

Shanghai 200436

The People's Republic of China

Telephone: +86 21 8026-6000

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|--|--|
| American Depositary Shares, each representing three Class A Ordinary Shares, par value US\$0.0001 per share | The NASDAQ Stock Market LLC (The NASDAQ Global Select Market) |
| Class A Ordinary Shares, par value US\$0.0001 per share* | The NASDAQ Stock Market LLC (The NASDAQ Global Select Market) |

* Not for trading, but only in connection with the listing on the NASDAQ Global Select Market of the American depositary shares.

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

None

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

None

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.

As of December 31, 2016, there were 159,411,982 ordinary shares outstanding, par value \$0.0001 per share, being the sum of 146,111,244 Class A ordinary shares and 13,300,738 Class B ordinary shares.

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 and posted on its corporate Website, if any, 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

International Financial Reporting
U.S. GAAP 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 Sections 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

TABLE OF CONTENTS

| | |
|---|----|
| <u>CERTAIN DEFINED TERMS</u> | 2 |
| <u>FORWARD-LOOKING STATEMENTS</u> | 3 |
| <u>PART I</u> | 4 |
| <u>ITEM 1 . IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | 4 |
| <u>ITEM 2 . OFFER STATISTICS AND EXPECTED TIMETABLE</u> | 4 |
| <u>ITEM 3 . KEY INFORMATION</u> | 4 |
| <u>ITEM 4 . INFORMATION ON THE COMPANY</u> | 33 |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u> | 51 |
| <u>ITEM 5 . OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | 51 |
| <u>ITEM 6 . DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | 69 |
| <u>ITEM 7 . MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | 78 |
| <u>ITEM 8 . FINANCIAL INFORMATION</u> | 80 |
| <u>ITEM 9 . THE OFFER AND LISTING</u> | 80 |
| <u>ITEM 10 . ADDITIONAL INFORMATION</u> | 81 |
| <u>ITEM 11 . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 92 |
| <u>ITEM 12 . DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | 92 |
| <u>PART II</u> | 94 |
| <u>ITEM 13 . DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | 94 |
| <u>ITEM 14 . MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 94 |
| <u>ITEM 15 . CONTROLS AND PROCEDURES</u> | 94 |
| <u>ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT</u> | 95 |

| | |
|---|----|
| <u>ITEM 16B. CODE OF ETHICS</u> | 95 |
| <u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u> | 95 |
| <u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u> | 96 |
| <u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u> | 96 |
| <u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u> | 96 |
| <u>ITEM 16G. CORPORATE GOVERNANCE</u> | 96 |
| <u>ITEM 16H. MINE SAFETY DISCLOSURE</u> | 97 |
| <u>PART III</u> | 97 |
| <u>ITEM 17 . FINANCIAL STATEMENTS</u> | 97 |
| <u>ITEM 18 . FINANCIAL STATEMENTS</u> | 97 |
| <u>ITEM 19 . EXHIBITS</u> | 97 |

CERTAIN DEFINED TERMS

Unless otherwise indicated or the context otherwise requires, references in this annual report to:

- “ADRs” are to the American depository receipts, which, if issued, evidence our ADSs;
- “ADSs” are to our American depository shares, each of which represents three Class A ordinary shares;

“Baozun,” “we,” “us,” “our company,” and “our,” are to Baozun Inc., a Cayman Islands company, formerly known as Baozun Cayman Inc. and unless the context requires otherwise, includes its consolidated subsidiaries and variable interest entity;

• “brand e-commerce” are to B2C e-commerce conducted through official brand stores or official marketplace stores;

• “brand partners” are to companies for which we operate official brand stores or official marketplace stores under their brand names or have entered into agreements to do so;

• “China” and the “PRC” are to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;

- “Distribution GMV” are to the GMV under the distribution business model;

• “GMV” are to gross merchandise volume, and when used in connection with our business, include (i) the full value of all purchases transacted and settled on the stores operated by us (including our Maikefeng platform but excluding stores for the operations of which we only charge fixed fees) and (ii) the full value of purchases for which consumers have placed orders and paid deposits on such stores and which have been settled offline. Our calculation of GMV includes value added tax and excludes (i) shipping charges, (ii) surcharges and other taxes, (iii) value of the goods that are returned and (iv) deposits for purchases that have not been settled;

• “Non-distribution GMV” are to the GMV under the service fee business model and the consignment business model;

- “O2O” are to online-to-offline and offline-to-online commerce;

- “official brand stores” are to brands’ official online stores;

- “official marketplace stores” are to brands’ flagship stores and authorized stores on third-party online marketplaces;

- “RMB” and “Renminbi” are to the legal currency of China;

- “ordinary shares” are to our Class A and Class B ordinary shares, par value US\$0.0001 per share;

“transaction value” are to the value of all purchases made through stores operated by a brand e-commerce service partner, as such term is used by Shanghai iResearch Co., Ltd, China, also known as iResearch Consulting Group, or iResearch; and

- “US\$” and “U.S. dollars” are to the legal currency of the United States.

Solely for the convenience of the reader, certain RMB amounts have been translated into U.S. dollars at specified rates. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB were made at a rate of RMB6.9430 to US\$1.00, the exchange rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 30, 2016. As of April 7, 2017, the exchange rate for one U.S. dollar was RMB6.8978. We make no representation that the RMB or U.S. dollar amounts referred to herein could have been or could be converted to U.S. dollars or RMB, as the case may be, at any particular rate, or at all. See also “Item 3. Key Information—A. Selected Financial Data—Exchange Rate Information”.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual report on Form 20-F, including those statements contained under the captions “Item 4—Information on the Company” and “Item 5—Operating and Financial Review and Prospects” that are not statements of historical fact, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements can be generally identified by the use of terms such as “may,” “will,” “could,” “would,” “plans,” “intends,” “believes,” “expects,” “estimates” or “anticipates,” the negatives of such terms, or comparable terms. In addition to the statements contained in this Form 20-F, we (or our directors or executive officers authorized to speak on our behalf) from time to time may make forward-looking statements, orally or in writing, regarding Baozun (including its subsidiaries and variable interest entity) and its business, including in press releases, oral presentations, filings under the Securities Act, the Exchange Act or securities laws of other countries, and filings with NASDAQ, or other stock exchanges.

You should not rely upon forward-looking statements as predictors of future events. Such forward-looking statements represent our judgment or expectations regarding the future, and are subject to risks and uncertainties that may cause actual events and our future results to be materially different than expected by us or indicated by such statements. Such risks and uncertainties include in particular (but are not limited to) the risks and uncertainties related to the following: The online retail industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of our ADSs. In addition, the rapidly changing nature of the online retail industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. See also the information under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report for a more complete discussion of these risks, assumptions and uncertainties and for other risks and uncertainties. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. We undertake no obligation, and specifically decline any obligation, to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur.

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

The selected consolidated financial data presented below as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 have been prepared in accordance with U.S. GAAP. Our selected consolidated statements of operations data for the three years ended December 31, 2014, 2015 and 2016 and selected consolidated balance sheet data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements included elsewhere in this document. Our selected consolidated statements of operations data for the years ended December 31, 2012 and 2013, and selected consolidated balance sheet data as of December 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements not included elsewhere in this document. The historical results are not necessarily indicative of results to be expected in any future period.

| Selected Consolidated Statements of Operations Data | For the year ended December 31, | | | | | |
|--|--|-------------|-------------|-------------|-------------|---------|
| | 2012 RMB | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | US\$ |
| | (in thousands, except for per share and per ADS data and number of shares) | | | | | |
| Net revenues | | | | | | |
| Product sales | 819,422 | 1,274,746 | 1,187,162 | 1,940,649 | 2,176,447 | 313,474 |
| Services | 135,042 | 247,090 | 397,258 | 657,794 | 1,213,828 | 174,828 |
| Total net revenues | 954,464 | 1,521,836 | 1,584,420 | 2,598,443 | 3,390,275 | 488,302 |

Operating expenses⁽¹⁾

| | | | | | | |
|--|------------|--------------|--------------|--------------|--------------|------------|
| Cost of products | (808,063) | (1,245,832) | (1,086,133) | (1,735,820) | (1,921,856) | (276,805) |
| Fulfillment | (72,026) | (116,432) | (168,130) | (325,159) | (540,857) | (77,900) |
| Sales and marketing | (78,633) | (146,202) | (226,952) | (403,519) | (658,819) | (94,890) |
| Technology and content | (6,554) | (16,120) | (63,607) | (59,946) | (95,638) | (13,775) |
| General and administrative | (33,461) | (38,160) | (96,911) | (73,678) | (88,274) | (12,714) |
| Other operating income (expenses), net | (122) | (75) | 457 | 8,130 | 5,235 | 754 |
| Total operating expenses | (998,859) | (1,562,821) | (1,641,276) | (2,589,992) | (3,300,209) | (475,330) |
| Income (loss) from operations | (44,395) | (40,985) | (56,856) | 8,451 | 90,066 | 12,972 |
| Other income (expenses) | | | | | | |
| Interest income | 122 | 4,574 | 3,156 | 8,834 | 11,869 | 1,709 |
| Interest expense | (3,275) | (677) | (1,552) | — | — | — |
| Gain on disposal of investment | — | — | — | 9,674 | — | — |
| Exchange gain (loss) | 314 | (376) | (2,650) | (124) | 320 | 46 |
| Income (loss) before income tax and share of loss in equity method investment | (47,234) | (37,464) | (57,902) | 26,835 | 102,255 | 14,727 |
| Income tax benefit (expense) | — | (307) | (1,912) | 6,022 | (16,831) | (2,424) |
| Share of loss in equity method investment | — | — | — | (10,236) | — | — |
| Net income (loss) | (47,234) | (37,771) | (59,814) | 22,621 | 85,424 | 12,303 |
| Deemed dividend from issuance of convertible redeemable preferred shares | (4,683) | — | (16,666) | — | — | — |
| Change in redemption value of convertible redeemable preferred shares | (16,231) | (61,435) | (79,169) | (25,332) | — | — |
| Net loss attributable to noncontrolling interests | — | — | — | — | 1,209 | 174 |
| Net income (loss) attributable to ordinary shareholders of Baozun Inc. | (68,148) | (99,206) | (155,649) | (2,711) | 86,633 | 12,477 |
| Net income (loss) per share attributable to ordinary shareholders of Baozun Inc. | | | | | | |
| Basic | (2.27) | (3.31) | (5.31) | (0.03) | 0.58 | 0.08 |

Selected Consolidated Statements of Operations Data

For the year ended December 31,

| | 2012 | 2013 | 2014 | 2015 | 2016 | US\$ |
|--|--|------------|------------|-------------|-------------|-------------|
| | RMB | RMB | RMB | RMB | RMB | |
| | (in thousands, except for per share and per ADS data and number of shares) | | | | | |
| Diluted Net income (loss) per ADS ⁽²⁾ | (2.27) | (3.31) | (5.31) | (0.03) | 0.53 | 0.08 |
| Basic | (6.81) | (9.93) | (15.93) | (0.08) | 1.74 | 0.25 |
| Diluted | (6.81) | (9.93) | (15.93) | (0.08) | 1.59 | 0.23 |
| Weighted average shares used in calculating net income (loss) per ordinary share | | | | | | |
| Basic | 29,983,883 | 29,983,883 | 29,314,067 | 102,987,119 | 149,935,100 | 149,935,100 |
| Diluted | 29,983,883 | 29,983,883 | 29,314,067 | 102,987,119 | 163,926,674 | 163,926,674 |
| Non-GAAP Financial Measure⁽³⁾: | | | | | | |
| Non-GAAP income (loss) from operations | (39,869) | (29,479) | 28,107 | 33,646 | 124,251 | 17,896 |
| Non-GAAP net income (loss) | (42,708) | (26,265) | 25,149 | 47,816 | 119,609 | 17,227 |
| Non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. | (63,622) | (87,700) | (70,686) | 22,484 | 120,818 | 17,401 |
| Non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS: | | | | | | |
| Basic | (6.36) | (8.76) | (7.23) | 0.65 | 2.42 | 0.35 |
| Diluted | (6.36) | (8.76) | (7.23) | 0.59 | 2.21 | 0.32 |

(1) Share-based compensation expenses are allocated in operating expenses items as follows:

| | For the year ended December 31, | | | | | |
|----------------------------|---------------------------------|-----------|-----------|-----------|-----------|----------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | US\$ |
| | RMB | RMB | RMB | RMB | RMB | |
| | (in thousands) | | | | | |
| Fulfillment | (73) | (584) | (460) | (1,440) | (1,755) | (253) |
| Sales and marketing | (685) | (5,822) | (5,469) | (9,793) | (13,370) | (1,926) |
| Technology and content | (159) | (1,608) | (26,311) | (5,047) | (7,875) | (1,134) |
| General and administrative | (3,609) | (3,492) | (52,723) | (8,915) | (11,185) | (1,611) |
| | (4,526) | (11,506) | (84,963) | (25,195) | (34,185) | (4,924) |

(2) Each ADS represents three Class A ordinary shares.

(3) See “—Non-GAAP Financial Measures”.

| Selected Consolidated Balance Sheet Data | As of December 31, | | | | | |
|--|--------------------|-------------|-------------|-------------|-------------|---------|
| | 2012 RMB | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | US\$ |
| | (in thousands) | | | | | |
| Consolidated Balance Sheet Information | | | | | | |
| Cash and cash equivalents | 270,077 | 154,156 | 206,391 | 787,257 | 917,319 | 132,121 |
| Restricted cash | — | 36,000 | 37,900 | 48,144 | 50,832 | 7,321 |
| Accounts receivable, net | 57,448 | 106,468 | 229,502 | 364,782 | 624,817 | 89,993 |
| Inventories | 72,412 | 133,347 | 242,978 | 334,347 | 312,071 | 44,948 |
| Total assets | 465,179 | 531,447 | 872,514 | 1,889,173 | 2,368,265 | 341,101 |
| Accounts payable | 56,978 | 173,810 | 300,007 | 457,493 | 526,461 | 75,826 |
| Short-term borrowings | 48,774 | — | — | — | — | — |
| Total liabilities | 144,504 | 225,082 | 393,458 | 654,702 | 796,253 | 114,685 |
| Series A convertible redeemable preferred shares | 44,187 | 49,710 | 55,924 | — | — | — |
| Series B convertible redeemable preferred shares | 162,195 | 180,182 | 202,125 | — | — | — |

| Selected Consolidated Balance Sheet Data | As of December 31, | | | | | |
|---|--------------------|-------------|-------------|-------------|-------------|---------|
| | 2012 RMB | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | US\$ |
| | (in thousands) | | | | | |
| Series C-1 convertible redeemable preferred shares | 258,923 | 308,848 | 355,176 | — | — | — |
| Series C-2 convertible redeemable preferred shares | — | — | 37,630 | — | — | — |
| Series D convertible redeemable preferred shares | — | — | 150,430 | — | — | — |
| Baozun Inc. Shareholder's equity/(deficit) | (144,630) | (232,375) | (322,229) | 1,234,471 | 1,572,012 | 226,416 |
| Total liabilities, convertible redeemable preferred shares and shareholders' equity/(deficit) | 465,179 | 531,447 | 872,514 | 1,889,173 | 2,368,265 | 341,101 |

The following table sets forth the following operating data for each period indicated:

| | For the Year Ended December 31, | | | | |
|--|---------------------------------|------------------------|------------------------|------------------------|-------------------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Number of brand partners as of the period end⁽¹⁾ | 56 | 71 | 93 | 113 | 133 |
| Number of GMV brand partners as of the period end⁽²⁾ | 53 | 61 | 78 | 95 | 122 |
| Total GMV⁽³⁾ (RMB in millions) | 1,460.0 ⁽⁴⁾ | 2,620.8 ⁽⁴⁾ | 4,248.9 ⁽⁴⁾ | 6,735.3 ⁽⁴⁾ | 11,264.8 ⁽⁴⁾ |
| Distribution GMV⁽⁵⁾ | 958.7 | 1,491.2 | 1,371.5 | 2,262.7 | 2,534.1 |
| Non-distribution GMV⁽⁶⁾ | 501.3 | 1,129.6 | 2,877.4 | 4,472.6 | 8,730.7 |
| Average GMV per GMV brand partner⁽⁷⁾ (RMB in millions) | 30 | 46 | 61 | 75 | 102 |

(1) Brand partners are defined as companies for which we operate official brand stores or official marketplace stores under their brand names or have entered into agreements to do so.

(2) GMV brand partners are defined as brand partners that contributed to our GMV during the respective periods.

(3) GMV is defined as (i) the full value of all purchases transacted and settled on stores operated by us (including our Maikefeng platform but excluding stores for the operations of which we only charge fixed fees) and (ii) the full value of purchases for which consumers have placed orders and paid deposits on such stores and which have been settled offline. Our calculation of GMV includes value added tax and excludes (i) shipping charges, (ii) surcharges and other taxes, (iii) value of the goods that are returned and (iv) deposits for purchases that have not been settled.

(4) GMV of our Maikefeng platform was nil, nil, RMB33.9 million, RMB213.5 million, and RMB157.4 million (US\$22.7 million) in 2012, 2013, 2014, 2015 and 2016, respectively.

(5) Distribution GMV refers to the GMV under the distribution business model.

(6) Non-distribution GMV refers to the GMV under the service fee business model and the consignment business model.

(7) Average GMV per GMV brand partner is calculated by dividing GMV (excluding Maikefeng) by the average number of GMV brand partners as of the beginning and end of the respective periods.

Non-GAAP Financial Measures

In evaluating our business, we consider and use non-GAAP income/(loss) from operations, non-GAAP net income/(loss), non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc., and non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS, as supplemental measures to review and assess our operating performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. Non-GAAP income/(loss) from operations is income/(loss) from operations excluding share-based compensation expenses. Non-GAAP net income/(loss) is net income/(loss) excluding share-based compensation expenses. Non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. is net income (loss) attributable to ordinary shareholders of Baozun Inc. excluding share-based compensation expenses. Non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS is non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. divided by weighted average number of shares used in calculating net income per ordinary share multiplied by three, as each ADS represents three of our Class A ordinary shares.

We present the non-GAAP financial measures because they are used by our management to evaluate our operating performance and formulate business plans. Non-GAAP income/(loss) from operations, non-GAAP net income/(loss), non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. and non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS enable our management to assess our operating results without considering the impact of share-based compensation expenses. We also believe that the use of the non-GAAP measures facilitate investors' assessment of our operating performance.

The non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. The non-GAAP financial measures have limitations as analytical tools. One of the key limitations of using non-GAAP income/(loss) from operations, non-GAAP net income/(loss), non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. and non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS is that they do not reflect all items of income and expense that affect our operations. Share-based compensation expenses have been and may continue to be incurred in our business and is not reflected in the presentation of non-GAAP income/(loss) from operations, non-GAAP net income/(loss), non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. and non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS. Further, the non-GAAP measures may differ from the non-GAAP measures used by other companies, including peer companies, and therefore their comparability may be limited. In light of the foregoing limitations, the non-GAAP income/(loss) from operations, non-GAAP net income/(loss), non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. and non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS for the period should not be considered in isolation from or as an alternative to income/(loss) from operations, net income/(loss), net income (loss) attributable to ordinary shareholders of Baozun Inc., net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS, or other financial measures prepared in accordance with U.S. GAAP.

We compensate for these limitations by reconciling the non-GAAP financial measure to the nearest U.S. GAAP performance measure, which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

A reconciliation of these non-GAAP financial measures in 2012, 2013, 2014, 2015 and 2016 to the nearest U.S. GAAP performance measures is provided below:

| | For the year ended December 31, | | | | | |
|---|--|-----------|------------|----------|---------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | US\$ |
| | RMB | RMB | RMB | RMB | RMB | |
| | (in thousands, except for per share and per ADS data and number of shares) | | | | | |
| Income (loss) from operations | (44,395) | (40,985) | (56,856) | 8,451 | 90,066 | 12,972 |
| Add: Share-based compensation expenses | 4,526 | 11,506 | 84,963 | 25,195 | 34,185 | 4,924 |
| Non-GAAP income (loss) from operations | (39,869) | (29,479) | 28,107 | 33,646 | 124,251 | 17,896 |
| Net income (loss) | (47,234) | (37,771) | (59,814) | 22,621 | 85,424 | 12,303 |
| Add: Share-based compensation expenses | 4,526 | 11,506 | 84,963 | 25,195 | 34,185 | 4,924 |
| Non-GAAP net income (loss) | (42,708) | (26,265) | 25,149 | 47,816 | 119,609 | 17,227 |
| | (68,148) | (99,206) | (155,649) | (2,711) | 86,633 | 12,477 |

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Net income (loss) attributable to ordinary shareholders of Baozun Inc.

| | | | | | | |
|---|-----------|-----------|-----------|--------|---------|--------|
| Add: Share-based compensation expenses | 4,526 | 11,506 | 84,963 | 25,195 | 34,185 | 4,924 |
| Non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. | (63,622) | (87,700) | (70,686) | 22,484 | 120,818 | 17,401 |

Non-GAAP net income (loss) attributable to ordinary shareholders of Baozun Inc. per ADS:

| | | | | | | |
|---------|---------|---------|---------|------|------|------|
| Basic | (6.36) | (8.76) | (7.23) | 0.65 | 2.42 | 0.35 |
| Diluted | (6.36) | (8.76) | (7.23) | 0.59 | 2.21 | 0.32 |

Weighted average shares used in calculating net income (loss)

| | | | | | | |
|---------|------------|------------|------------|-------------|-------------|-------------|
| Basic | 29,983,883 | 29,983,883 | 29,314,067 | 102,987,119 | 149,935,100 | 149,935,100 |
| Diluted | 29,983,883 | 29,983,883 | 29,314,067 | 102,987,119 | 163,926,674 | 163,926,674 |

Exchange Rate Information

Substantially all of our operations are conducted in China and substantially all of our revenues are denominated in RMB. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.9430 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 30, 2016. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, at the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 7, 2017, the noon buying rate was RMB6.8978 to US\$1.00.

The following table sets forth, for the periods indicated, information concerning exchange rates between the RMB and the U.S. dollar based on the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board.

| Period | Period End | Average ⁽¹⁾ | High | Low |
|------------------------------------|------------|------------------------|--------|--------|
| 2012 | 6.2301 | 6.2990 | 6.2221 | 6.3879 |
| 2013 | 6.0537 | 6.1412 | 6.0537 | 6.2438 |
| 2014 | 6.2046 | 6.1704 | 6.0402 | 6.2591 |
| 2015 | 6.4778 | 6.2869 | 6.1870 | 6.4896 |
| 2016 | 6.9430 | 6.6549 | 6.4480 | 6.9580 |
| October 2016 | 6.7735 | 6.7303 | 6.6685 | 6.7819 |
| November 2016 | 6.8837 | 6.8402 | 6.7534 | 6.9195 |
| December 2016 | 6.9430 | 6.9198 | 6.8771 | 6.9580 |
| 2017 | | | | |
| January 2017 | 6.8768 | 6.8907 | 6.8360 | 6.9575 |
| February 2017 | 6.8665 | 6.8694 | 6.8517 | 6.8821 |
| March 2017 | 6.8832 | 6.8940 | 6.8687 | 6.9132 |
| April 2017 (through April 7, 2017) | 6.8978 | 6.8903 | 6.8832 | 6.8978 |

(1) Annual averages are calculated using the average of the rates on the last business day of each month during the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant month.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We wish to caution the readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the United States Securities and Exchange Commission, or the SEC, among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in

any forward-looking statements made by us or on our behalf. In particular, as we are a non-U.S. company, there are risks associated with investing in ADSs that are not typical with investments in shares of U.S. companies. If any of the following risks actually occurs, our business, financial condition and results of operations would likely suffer. In such case, the trading price of our ADSs could decline, and you could lose all or part of your investment.

Risks Related to Our Business

If the e-commerce market in China does not grow, or grows more slowly than we expect, demand for our services and solutions could be adversely affected.

Continued demand from our existing and potential brand partners to use our services and solutions depends on whether e-commerce will continue to be widely accepted. While online retail has existed in China since the 1990s, only recently have large online retail companies become profitable. The long-term viability and prospects of the online retail business in China remain relatively untested. Our future results of operations will depend on numerous factors affecting the development of the e-commerce industry in China, which may be beyond our control. These factors include:

• the growth of internet, broadband, personal computer and mobile penetration and usage in China, and the rate of any such growth;

• the trust and confidence level of online retail consumers in China, as well as changes in consumers' demographics, tastes and preferences;

• whether alternative retail channels or business models that better address the needs of consumers emerge in China; and

- the development of fulfillment, payment and other ancillary services associated with online purchases.

If consumer utilization of e-commerce channels in China does not grow or grows more slowly than we expect, demand for our services and solutions would be adversely affected, our revenues would be negatively impacted and our ability to pursue our growth strategy would be compromised.

If the complexities and challenges faced by brand partners seeking to sell online diminish, or if our brand partners increase their in-house e-commerce capabilities as an alternative to our solutions and services, demand for our solutions and services could be adversely affected.

One of the key attractions of our solutions and services to brand partners is our ability to help address the complexities and difficulties they face in the e-commerce market in China. If the level of such complexities and difficulties declines as a result of changes in the e-commerce landscape or otherwise, or if our brand partners choose to increase their in-house support capabilities as an alternative to our e-commerce solutions and services, our solutions and services may become less important or attractive to our brand partners, and demand for our solutions and services may decline.

Our success is tied to the success of our existing and future brand partners for which we operate brand e-commerce business.

Our success is substantially dependent upon the success of our brand partners. As we continue to expand and optimize our brand partner base, our future success will also be tied to the success of our future brand partners. We cannot assure you that our efforts to optimize our brand partner base will be successful or will not have any material adverse impact on our business performance or results of operation. The retail business in China is intensely competitive. If our brand partners were to experience any significant decline in their online sales due to any reason, such as newly identified quality or safety issues or decreased popularity of their products, or if they were to have any financial difficulties, suffer impairment of their brands or if the profitability of, or demand for, their products decreases for any other reason, it could adversely affect our results of operations and our ability to maintain and grow our business. Our business could also be adversely affected if our brand partners' product sales, marketing, brands or retail stores are not successful or if our brand partners reduce their marketing efforts.

If we are unable to retain our existing brand partners, our results of operations could be materially and adversely affected.

We provide brand e-commerce service to brand partners primarily pursuant to annual and tri-annual contractual arrangements. These contracts may not be renewed or, if renewed, may not be renewed on the same or more favorable terms for us. We may not be able to accurately predict future trends in brand partners renewals, and our brand partners' renewal rates may decline or fluctuate due to factors such as level of satisfaction with our services and solutions and our fees and charges, as well as factors beyond our control, such as level of competition faced by our brand partners, their level of success in e-commerce and their spending levels.

In particular, some of our existing brand partners have had years of cooperation with us and we generated a significant portion of our net revenue through (i) the sale of products in the stores of these brands operated by us and (ii) provision of our services to these brand partners, which we collectively refer to as net revenues "related to" these brand partners in order to assess our overall business relationship with them. In 2016, net revenues related to our top three brand partners comprised approximately 19.8%, 18.9% and 12.4% of our total net revenues, respectively. Some of our other brand partners also contributed significantly to our total GMV while our net revenues related to them were less significant (each less than 10% of our total net revenues in 2016) as they mainly utilized our capabilities under the service fee model or consignment model and therefore we did not generate any product sales revenue related to them. However, if such a brand partner terminates or does not renew its business relationship with us, our GMV may be materially and adversely affected. In the past, some brand partners did not renew their business relationships with us and we cannot assure you that our existing brand partners will renew their business relationships with us in the future. Net revenues related to our top 10 brand partners in the aggregate comprised approximately 73.8% of our total net revenues in 2016. If some of our existing brand partners, in particular brand partners with years of cooperation with us, terminate or do not renew their business relationships with us, renew on less favorable terms or for fewer services and solutions, and we do not acquire replacement brand partners or otherwise grow our brand partner base,

our results of operations may be materially and adversely affected.

Some of our existing brand partners do not allow us to sell products of, or provide similar services to, their competitors, which has restricted and may continue to restrict the development and expansion of our business, including without limitation, the business operation of Maikefeng, our online retail platform that we launched in 2014. We have a variety of products on Maikefeng, some of which may be manufactured or distributed by competitors of our existing brand partners. If the operation of Maikefeng is considered by such brand partners as a breach under relevant distribution and service contracts with them, they may request an early termination of such contracts and claim for damages or other liabilities against us, as a result of which our business operations and reputations may be materially and adversely affected. Further, with the expansion in our business, we may be subject to similar non-compete restrictions requested from existing and future brand partners. Compliance with such restrictions will limit our ability to expand our business. If we are found by these brand partners to be in violation of the non-compete restrictions, we may be subject to breach liabilities, as a result of which our financial condition and results of operations may be materially and adversely affected.

If we fail to maintain our relationships with e-commerce channels, or if e-commerce channels otherwise curtail or inhibit our ability to integrate our solutions with their channels, our solutions would be less appealing to existing and potential brand partners.

We generate a substantial majority of our revenues from the solutions we provide on e-commerce channels, including but not limited to marketplaces, social media and mobile channels. These e-commerce channels have no obligation to do business with us or to allow us to have access to their channels in the long term. If we fail to maintain our relationships with these channels, they may decide at any time and for any reason to significantly curtail or inhibit our ability to integrate our solutions with their channels.

Additionally, these channels may decide to make significant changes to their respective business models, policies, systems or plans, and those changes could impair or inhibit our brand partners' ability to use our solutions to sell their products on those channels, or may adversely affect GMV that our brand partners can sell on those channels or reduce the desirability of selling on those channels. Further, these channels could decide to acquire similar capabilities that we possess and compete with us. Any of these could cause our brand partners to re-evaluate the value of our solutions and services and potentially terminate their relationships with us, which would have a material adverse effect on our results of operations.

We rely on the success of certain e-commerce channels such as Tmall.

A substantial majority of our GMV is derived from merchandise sold or services rendered on Tmall. If e-commerce channels such as Tmall are not successful in attracting consumers or their reputations are adversely affected for whatever reasons, our brand partners may cease to sell their products on these channels. As our results of operations rely on the solutions we provide on these e-commerce channels, a decrease in the use of these channels would reduce demands for our services, which would adversely affect our business and results of operations.

We rely in part on a pricing model under which a variable portion of the revenues we generate from our brand partners is based upon the amount of GMV, and any change in the attractiveness of that model may adversely affect our financial results.

We have adopted a pricing model under which a portion of the revenues we generate from our brand partners is variable based on our GMV. If our GMV were to decline, or if our brand partners were to demand fixed pricing terms that do not provide for any variability based on the full value of all purchases transacted and settled on the stores operated by us, our revenues and profitability may be adversely affected.

We may not be able to compete successfully against current and future competitors.

We face intense competition in the market for brand e-commerce solutions and services, and we expect competition to continue to intensify in the future. Increased competition may result in reduced pricing for our services and solutions or a decrease in our market share, any of which could negatively affect our ability to retain existing brand partners and attract new brand partners, our future financial and operating results, and our ability to grow our business.

A number of competitive factors could cause us to lose potential sales or to sell our services and solutions at lower prices or at reduced profitability, including:

• Potential brand partners may choose to continue using or developing applications or building e-commerce teams or infrastructures in-house, rather than paying for our solutions and services;

• The e-commerce channels themselves, which typically offer, often free, software tools that allow brand partners to connect to the e-commerce channels, may decide to compete more vigorously with us;

Competitors may adopt more aggressive pricing policies and offer more attractive sales terms, adapt more quickly to new technologies and changes in brand partners' requirements, and devote greater resources to the promotion and sales of their products and services than we can;

Current and potential competitors may offer software that addresses one or more online channel management functions at a lower price point or with greater depth than our solutions and may be able to devote greater resources to those solutions than we can; and

- Software vendors could bundle channel management solutions with other solutions or offer such products at a lower price as part of a larger product sale.

In addition, competition may intensify as our competitors raise additional capital and as established companies in other market segments or geographic markets expand into our market segments or geographic markets. If we cannot compete successfully against our competitors, our business and our operating and financial results could be adversely affected.

Material disruption of e-commerce channels could prevent us from providing services to our brand partners and reduce sales in stores operated by us.

E-commerce channels could cease operations unexpectedly due to a number of events, including interruptions in telecommunication services, computer viruses and unlawful access to e-commerce channels. Any material channel downtime or disruption could prevent us from providing services to our brand partners and reduce sales in stores operated by us. Because we operate on a limited number of e-commerce channels, the adverse effects of such downtime and disruption could be significant to our operations as a whole.

The proper functioning of our technology platform is essential to our business. Any failure to maintain the satisfactory performance of our platform could materially and adversely affect our business and reputation.

The satisfactory performance, reliability and availability of our technology platform are critical to our success and our ability to attract and retain brand partners and provide quality customer services. Any system interruptions caused by telecommunications failures, errors encountered during system upgrades or system expansions, computer viruses, hacking or other attempts to harm our systems that result in the unavailability or slowdown of our technology platform, degraded order fulfillment performance, or additional shipping and handling costs may, individually or collectively, materially and adversely affect our business, reputation, financial condition and results of operations.

In addition, any system failure or interruption could cause material damage to our reputation and brand image if our systems are perceived to be insecure or unreliable. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to system interruptions, website slowdown or unavailability, delays or errors in transaction processing, loss of data or the inability to accept and fulfill consumers' orders. Security breaches, computer viruses and hacking attacks have become more prevalent in our industry. We have experienced in the past and may experience in the future such attacks and 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 materially and adversely affect our business, reputation, financial condition and results of operations.

Additionally, we must continue to upgrade and improve our technology platform to support our business growth, and failure to do so could impede our growth. 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 technology platform does 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.

We have historically incurred significant net losses. Although we have achieved profitability since 2015, we may not be able to maintain profitability.

We incurred net losses of RMB37.8 million and RMB59.8 million during the years ended December 31, 2013 and 2014, respectively. Although we recorded net income of RMB22.6 million during the year ended December 31, 2015 and net income of RMB85.4 million (US\$12.3 million) during the year ended December 31, 2016, we may not be able to continue to achieve profitability and even if we were able to continue to attain profitability on an annual basis, we may not be able to sustain profitability on a quarterly basis. We anticipate that our operating expenses will increase substantially in the foreseeable future as we increase the scale of our operations. To continue to achieve profitability, we will need to increase our revenue sufficiently to offset these higher expenses or increase sales of the products and services that have higher profitability or significantly reduce our expense level and if we are forced to reduce our expenses, our growth strategy could be compromised. If we are not able to maintain profitability, the value of our company and our ADSs could decline significantly.

In addition, our growth and profitability are affected by our revenue mix, which may vary over time because we work with our brand partners under different combinations of business models to achieve their objectives. Accordingly, our historical performance may not be indicative of future operating results.

We may not be successful in growing our Maikefeng platform.

In March 2014, we launched our online retail platform, Maikefeng, which offers authentic and high-quality products at discounted prices through our Maikefeng mobile application. In May 2015, we opened up our Maikefeng platform to third-party sellers to diversify its product offerings and improve operational efficiency. We review the performance of our Maikefeng business as a separate segment and we recorded operating loss of RMB17.1 million, RMB55.3 million, and RMB53.8 million (US\$7.7 million) from this segment in 2014, 2015 and 2016, respectively. We may not be able to increase GMV from Maikefeng segment as we have had a relatively short history in operating an online retail platform and we completed the transition of Maikefeng from a proprietary retail channel to an open marketplace only in May 2015. The operational mechanism is relatively new to us and the supplier relationships, customer acquisition dynamics and other requirements for our online marketplace may not be the same as those for our online

direct sales operations, which may create challenge to the management of our Maikefeng platform. In addition, we do not have as much control over the storage and delivery of products sold on our online marketplace as we do over the products sold directly by ourselves. If any third-party seller does not control the quality of the products that it sells on our platform, or if it does not deliver the products or delivers them late or delivers products that are materially different from its description of them, or if it sells certain products without licenses or permits as required by the relevant laws and regulations even though we have requested such licenses or permits in our standard form contract with third-party seller, the reputation of our platform and our brand may be materially and adversely affected, and we could face claims that we should be held liable for losses. If we cannot successfully address new challenges and compete effectively, we may not be able to recover costs of our investments and eventually achieve profitability, and our future results of operations and growth prospects may be materially and adversely affected.

Our expansion into new product categories may expose us to new challenges and more risks.

We currently serve brand partners in the apparel, appliances, electronics, home and furnishings, food and health products, cosmetics, fast moving consumer goods, insurance and automobile categories. In the future, we may provide services to brand partners in new product categories in which we have limited experience and operating history. This may make predicting our future results of operations more difficult than it otherwise would be. Therefore, our past results of operations should not be taken as indicative of our future performance. If we cannot successfully address new challenges and compete effectively, we may not be able to recover costs of our investments and eventually achieve profitability, and our future results of operations and growth prospects may be materially and adversely affected.

Our results of operations are subject to fluctuations due to the seasonality of our business and other events.

We have experienced and expect to continue to experience seasonal fluctuations in our revenues. These seasonal patterns have caused and will continue to cause fluctuations in our operating results. Our results of operations historically have been seasonal primarily because consumers increase their purchases during particular promotional activities, such as Singles Day (which is an online sales promotion event and falls on November 11 of each year) and the impact of seasonal buying patterns within certain categories such as apparel. In addition, we generally experience a lower level of sales activity in the first quarter due to the Chinese New Year holiday, during which consumers generally spend less time shopping online and businesses in China are generally closed.

In anticipation of increased sales activity during holiday seasons, we increase our inventory levels and incur additional expenses such as by hiring a significant number of temporary employees to supplement our permanent staff. If our revenues are below seasonal expectations during these dates, our operating results could be below the expectations of securities analysts and investors. Due to the nature of our business, it is difficult to predict the seasonal pattern of our sales and the impact of this seasonality on our business and financial results. In the future, our seasonal sales patterns may become more pronounced, may strain our personnel, customer service operations, fulfillment operations and shipment activities and may cause a shortfall in revenues compared to expenses in a given period. As a result, the trading price of our ADSs may fluctuate from time to time due to seasonality.

In addition, if too many consumers access the online stores operated by us within a short period of time due to increased promotions or other demand, we may experience system interruptions that make such online stores unavailable or prevent us from transmitting orders to our fulfillment operations, which may reduce the volume of transactions in the stores that we operate as well as the attractiveness of such online stores to consumers. In anticipation of increased sales activity during holiday seasons, we and our brand partners increase our inventory levels. If we and our brand partners do not increase inventory levels for popular products in sufficient amounts or are unable to restock popular products in a timely manner, we and our brand partners may fail to meet customer demand which could reduce the attractiveness of such online stores. Alternatively, if we overstock products, we may be required to take significant inventory markdowns or write-offs, which could reduce profits.

We have experienced rapid growth in recent years, and failure to adequately manage our expansion could impair our ability to deliver high-quality solutions to our brand partners.

Expansion has placed, and continues to place, significant strain on our management and resources. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. We will also need to continue to expand, train, manage and motivate our workforce and manage our relationships with our brand partners, suppliers, third-party merchants and other service providers. All of these endeavors involve risks and will require substantial management effort and significant additional expenditures. We cannot assure you that we will be able to manage our growth or execute our strategies effectively, and any failure to do so may have a material adverse effect on our business and prospects.

Our investments in other entities may not be successful and we may incur significant losses as a result.

We have made investments in third parties that are complementary to our business and operations. In the future, we may pursue strategic alliances or joint ventures and potential strategic acquisitions that are complementary to our business and operations, including opportunities that can help us promote our solutions to new brand partners, expand our service offerings and improve our technology infrastructure. Strategic alliances or joint ventures 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 increased 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 strategic 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, we may not be successful in achieving the strategic objective upon which any given investment or joint venture is premised, and we could lose all or part of our investment. For example, we recorded a net loss of RMB0.6 million on our investment in Automoney Inc., or Automoney, an automobile performance solution provider in the

PRC which we jointly established with an unrelated party investor, in 2015. We may be required to perform impairment assessment and recognize impairment loss on any of our other investments in the future. Any such losses may have a material adverse effect on our results of operations, and in particular, our net income or loss.

We may fail to expand effectively to international markets.

We have been expanding and will continue to expand our business internationally, which may cause our business to be susceptible to international business risks and challenges. We started offering our brand partners end-to-end solutions in Hong Kong in 2013. In October 2014, we established Taiwan Baozun Corporation, a wholly-owned subsidiary, to expand our provision of brand e-commerce service to Taiwan. In October 2015, we established Baozun (Japan) Limited, a wholly-owned subsidiary, seeking to introduce more Japanese brands to Chinese consumers. In September 2016, we established our joint venture of Shanghai Baozun-CJ E-commerce Co., Ltd., or Baozun-CJ, to introduce highly sought-after Korean brands to Chinese consumers. International operations are subject to inherent risks and challenges that could adversely affect our business, such as compliance with international legal and regulatory requirements and managing fluctuations in currency exchange rates. We cannot assure you that our various international expansion efforts can be completed as planned or achieve the intended results. Any negative impact from our international business efforts could also negatively impact our business, operating results and financial conditions as a whole. In addition, we may face additional competition from local companies. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, local customers.

If we fail to manage our accounts receivable and inventories effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Under the distribution model, we generally grant a credit period of no more than two weeks to the customers of our products. Under the service fee model, we normally charge service fees from our brand partners with a credit period of one month to four months. As of December 31, 2014, 2015, and 2016, our accounts receivables amounted to RMB229.5 million, RMB364.8 million, and RMB624.8 million (US\$90.0 million), respectively. Our accounts receivables turnover days were 39 days, 42 days, and 53 days in 2014, 2015 and 2016. The increases in the amount of our accounts receivables and the accounts receivables turnover days were due to the increase in our revenues generated from services. Our inventories was RMB243.0 million,,RMB334.3 million and RMB312.1 million (US\$44.9 million) as of December 31, 2014, 2015 and 2016, respectively.

The amount and turnover days of our accounts receivables and inventories may increase in the future, which will make it more challenging for us to manage our working capital effectively and our results of operations, financial conditions and liquidity may be materially and adversely affected.

We rely on our ability to enter into marketing and promotional arrangements with online services, search engines, directories and other websites to drive traffic to the stores we operate. If we are unable to enter into or properly maintain these marketing and promotional arrangements, our ability to generate revenue could be adversely affected.

We have entered into marketing and promotional arrangements with online services, search engines, directories and other websites to provide content, advertising banners and other links to our brand partners' e-commerce businesses. We expect to rely on these arrangements as significant sources of traffic to our brand partners' e-commerce businesses and to attract new brand partners. If we are unable to maintain these relationships or enter into new arrangements on acceptable terms, our ability to attract new brand partners could be harmed. Further, many of the parties with which we may have online advertising arrangements provide advertising services for other marketers of goods. As a result, these parties may be reluctant to enter into or maintain relationships with us. Failure to achieve sufficient traffic or generate sufficient revenue from purchases originating from third parties may limit our brand partners' and our ability to maintain market share and revenue.

We may not be able to respond to rapid changes in channel technologies or requirements.

The e-commerce market is characterized by rapid technological changes and frequent changes in rules, specifications and other requirements for our brand partners to be able to sell their merchandise on particular channels. Our ability to retain existing brand partners and attract new brand partners depends in large part on our ability to enhance and improve our existing solutions and introduce new solutions that can adapt quickly to these technological changes on the part of channels. To achieve market acceptance for our solutions, we must effectively anticipate and offer solutions that meet frequently changing channel requirements in a timely manner. If our solutions fail to do so, our ability to renew our contracts with existing brand partners and our ability to create or increase demand for our solutions will be impaired.

If we and our brand partners fail to anticipate changes in consumers' buying preferences and adjust product offering and merchandising of the stores that we operate accordingly, our results of operation may be materially and adversely impacted.

Our success depends, in part, upon our ability and our brand partners' ability to anticipate and respond to consumer trends with respect to products sold through the stores that we operate. Constantly changing consumer preferences have affected and will continue to affect the online retail industry. We must stay abreast of emerging consumer preferences and anticipate product trends that will appeal to existing and potential consumers. Our dedicated store operation teams work closely with our brand partners to manage inventory and site content of the brand stores that we operate. In order to be successful, we and our brand partners must accurately predict consumers' tastes and avoid overstocking or understocking products. If we or our brand partners fail to identify and respond to changes in

merchandising and consumer preferences, sales on our brand partners' e-commerce businesses could suffer and we or our brand partners could be required to mark down unsold inventory, which could negatively impact our financial results.

Any deficiencies in China's telecommunication infrastructure could impair our ability to provide e-commerce solutions to our brand partners and materially and adversely affect our results of operations.

Our business depends on the performance and reliability of the telecommunication infrastructure in China. The availability of our technology platform depends on telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth and server storage, among other things. Almost all access to the internet and mobile network is maintained through state-owned telecommunication carriers under administrative control, and we obtain access to end-user networks operated by such telecommunications carriers and service providers to present our internet platform to consumers. We have experienced service interruptions in the past, which were typically caused by service interruptions at the underlying external telecommunications service providers, such as the internet data centers and broadband carriers from which we lease services. Service interruptions prevent brand partners from utilizing our technology platform, and frequent interruptions could frustrate consumers and discourage them from attempting to place orders, which could cause us and our brand partners to lose consumers and adversely affect our results of operations.

Software failures or human errors could cause our solutions to oversell our brand partners' inventory or misprice their offerings, which would hurt our reputation and reduce demand for our services and solutions.

Some of our brand partners rely on our solutions to automate the allocation of their inventories simultaneously across multiple online channels, as well as to ensure that their sales comply with the policies of each channel. In many instances, our personnel operate our solutions on behalf of our brand partners. In the event that our solutions do not function properly, or if there are human errors on the part of our service staff, our brand partners might inadvertently sell more inventories than they actually have in stock or make sales that violate channel policies. Overselling their inventories could force our brand partners to cancel orders at rates that violate channel policies. Errors in our software or human error could cause transactions to be incorrectly processed that would cause GMV and, as a result, our fees to be overstated. We have experienced rare instances of such errors in the past and might experience similar occurrences in the future could reduce demand for our solutions and hurt our business reputation. Brand partners could also seek recourse against us in these cases.

Any suspension or termination of our cooperation with Cainiao may have a material and adverse effect on our business and results of operation.

In September 2016, we signed a warehousing service cooperation agreement with Zhejiang Cainiao Supply Chain Management Co., Ltd., a wholly-owned subsidiary of Cainiao Network Technology Co., Ltd., or Cainiao, a logistics data platform operator affiliated with Alibaba Group Holding Limited, or Alibaba Group, which allowed us to provide

warehousing services to a wider variety of merchants through Cainiao's logistics data platform. Operations of our warehouse and cooperation with Cainiao and any third-party seller are subject to challenges that could adversely affect our business. To guarantee our performance under the cooperation agreement with Cainiao, we are required to make a performance deposit with Cainiao and Cainiao may deduct from our deposit under certain circumstances if we fail to meet their standards. In addition, failure by us to comply with the terms of the cooperation agreement or any suspension or termination of our cooperation agreement with Cainiao could harm our reputation, reduce the utilization of our warehousing services, prevent us from enjoying the benefits provided by Cainiao's logistics data platform, and thus materially and adversely affect our business operations and financial condition.

Any interruption in our fulfillment operations for an extended period may have an adverse impact on our business.

Our ability to process and fulfill orders accurately depends on the smooth operation of our fulfillment and logistics network and our ability to accurately take orders from Cainiao's logistics data platform and fulfill the orders. Our fulfillment and logistics infrastructure may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any of our fulfillment and logistics infrastructures were rendered incapable of operations, then we may be unable to fulfill any orders. We do not carry business interruption insurance, and the occurrence of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend on third-party delivery service providers to deliver products to consumers, and if they fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.

We rely on third-party delivery service providers to deliver products to consumers, and any major interruptions to or failures in these third parties' delivery services could prevent the timely or successful delivery of products. These interruptions may be due to unforeseen events that are beyond our control or the control of these third-party delivery companies, such as inclement weather, natural disasters, transportation interruptions or labor unrest or shortage. If products are not delivered on time or are delivered in a damaged state, consumers may refuse to accept products and may claim refund from us or our brand partners, and brand partners may have less confidence in our services. As a result, we may lose brand partners, and our financial condition and reputation could suffer.

We are subject to third-party payment processing related risks.

We accept payments using a variety of methods, including online payments with credit cards and debit cards issued by major banks in China, payment through third-party online payment platforms such as Alipay and Tenpay, and payment on delivery. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profitability. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment and payment on delivery options. We are also subject to various rules, regulations and requirements, regulatory or otherwise, governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. 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 consumers, process electronic funds transfers or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

If we are unable to provide high-quality customer service, our business and results of operations may be materially and adversely affected.

We depend on our online customer service representatives in our customer service center to provide live assistance to online shoppers. If our online customer service representatives fail to satisfy the individual needs of customers, our brand partners' sales could be negatively affected, and we may lose potential or existing brand partners, which could have a material adverse effect on our business, financial condition and results of operations.

Our business generates and processes a large amount of data, and the improper use or disclosure of such data could harm our reputation as well as have a material adverse effect on our business and prospects.

Our business generates and processes a large quantity of personal, transaction, demographic and behavioral data. We face risks inherent in handling large volumes of data and in protecting the security of such data. In particular, we face a number of challenges relating to data from transactions and other activities on our platform, including:

protecting data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior 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, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

Negative publicity, including negative internet postings, about us, our Baozun brand, management, brand partners and product offerings may have a material adverse effect on our business, reputation and the trading price of our ADSs.

Negative publicity about us, our Baozun brand, management, brand partners and product offerings may arise from time to time. Negative comments about the stores operated by us, products offered in such stores, our business operation and management may appear in internet postings and other media sources from time to time and we cannot assure you that other types of negative publicity of a more serious nature will not arise in the future. For example, if our customer service representatives fail to satisfy the individual needs of our consumers, our consumers may become disgruntled and disseminate negative comments about our product offerings and services. In addition, our brand partners may also be subject to negative publicity for various reasons, such as consumers' complaints about the quality of their products and related services or other public relation incidents of such brand partners, which may adversely affect the sales of products of these brand partners in the stores operated by us and indirectly affect our reputation.

Moreover, negative publicity about other online retailers or e-commerce service providers in China may arise from time to time and cause consumers to lose confidence in the products and services we offer. Any such negative publicity, regardless of veracity, may have a material adverse effect on our business, our reputation and the trading price of our ADSs.

If counterfeit products are sold in the stores or platform we operate, our reputation and financial results could be materially and adversely affected.

We represent reputable brands, and we source goods from our brand partners directly or through third party procurement agents authorized by our brand partners. However, their measures of safeguarding against counterfeit products sold through e-commerce may not be adequate. Although we have indemnity clauses in most of our contracts with our brand partners, sales could decline and we may suffer reputational harm. We may be subject to sanctions under applicable laws and regulations if we are deemed to have participated or assisted in infringement activities associated with counterfeit goods, which may include injunctions to cease infringing activities, rectification, compensation, administrative penalties and even criminal liability, depending on the gravity of such misconduct. Furthermore, counterfeit products may be defective or inferior in quality as compared to authentic products and may pose safety risks to consumers. If consumers are injured by counterfeit products sold through the stores or platform we operate, we may be subject to lawsuits, severe administrative penalties and criminal liability. We believe our reputation is extremely important to our success and our competitive position. The discovery of counterfeit products sold through the stores or platform we operate may severely damage our reputation among brand partners, and they may refrain from using our services in the future, which would materially and adversely affect our business operations and financial results.

Any lack of requisite approvals, licenses or permits applicable to our business or failure to comply with PRC laws and regulations may have a material and adverse impact on our business, financial condition and results of operations.

Our business is subject to supervision and regulation by relevant PRC government authorities, including without limitation the Ministry of Commerce, or the MOFCOM, the Ministry of Industry and Information Technology, or the MIIT, the State Administration for Industry and Commerce, or the SAIC, and the State Food and Drug Administration. These government authorities promulgate and enforce regulations that cover many aspects of operation of online retailing and distribution of products such as food and medical devices, including entry into these industries, scope of permitted business activities, licenses and permits requisite for business operation, and restriction on foreign investments. We are required to hold a number of licenses and permits in connection with our business operation. For example, we were historically required to obtain a food distribution permit to operate the food distribution business under the Administrative Measures on Food Distribution Permits, or the Food Distribution Measures, issued by the SAIC in July 2009. With the Administrative Measures for the Permit of Food Business released by China Food and Drug Administration in August 2015 and the abolishment of the Food Distribution Measures in November 2015, the food distribution permit would be gradually replaced by the food business permit

commencing from October 2015, and we are required to apply for food business permits upon the expiration of the food distribution permits currently held by us. In addition, historically we were required to obtain the approval for the establishment of a foreign-invested enterprise, or an FIE, engaging in the sales of goods over the internet under the Administrative Measures on Foreign Investment in the Commercial Sector, or the Commercial Sector Measures, issued by the MOFCOM in 2004 and amended in 2015. With the abolishment of the Commercial Sector Measures in November 2016, the establishment of a foreign-invested commercial enterprise specializing in online sales may be subject to filing with the competent counterpart of the MOFCOM. Meanwhile, the brand partners we partner with are also obliged to hold licenses and meet regulatory requirements in order for them to sell products themselves or through our e-commerce solutions. While we currently hold all material licenses and permits required for our business operations, we cannot assure you that we will not be required to renew these licenses and permits upon their expiration or to expand the current business scope of these licenses and permits or to obtain new licenses or permits in the future as a result of our business expansion, change in our business operations or change in laws and regulations applicable to us.

As e-commerce business via internet and mobile network is still evolving in China, new laws and regulations may be adopted from time to time, and substantial uncertainties exist regarding interpretation and implementation of current and future PRC laws and regulations applicable to our business operations. We cannot assure you that our current business activities will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. For example, the MIIT released the new Classified Catalog of Telecommunications Services, or the Telecommunication Catalog, on December 29, 2015, which came into effect on March 1, 2016 and specifies that information services provided through mobile networks are recognized as internet information services, and service providers, like operators of mobile application stores, will be required to meet certain qualifications, including obtaining an ICP license covering internet information services rendered through mobile network. In addition, according to the Telecommunication Catalog and other MIIT rules, operating a marketplace platform that connects sellers and buyers is categorized as online data processing and transaction processing services, and therefore such service providers are required to obtain a value-added telecommunication license covering online data processing and transaction processing services. With the expansion of our business via mobile channels, in particular, because our Maifeng platform now primarily serves as a marketplace platform, our PRC subsidiaries and variable interest entity, or VIE, may therefore be required to obtain such ICP license or expand the current scope of our ICP license held through our VIE to cover internet information services rendered through mobile network or to cover other scopes such as online data processing and transaction processing service that may be required by the government authorities from time to time.

If we fail to adapt to any new regulatory requirement or any competent government authority considers that we operate our business operation without any requisite license, permit or approval, or otherwise fails to comply with applicable regulatory requirements, we may be subject to administrative actions and penalties against us, including fines, confiscation of our incomes, revocation of our licenses or permits, or, in severe cases, cessation of certain business. In addition, if our brand partners are found by government authorities to have operated their business through us without requisite approvals, licenses or permits or otherwise to be in violation of applicable laws and regulations, they may be ordered to take rectification actions. Any of these actions may have a material and adverse effect on our business, financial condition and results of operations.

Our leased property interests and title with respect to certain land and buildings we may acquire may be defective and our right to lease and use the properties affected by such defects may be challenged, or we may fail to extend or renew our current leases or locate desirable alternatives for our facilities on commercially acceptable terms, which could cause significant disruption to our business.

We leased 23 premises in Mainland China, Hong Kong and Taiwan for our offices, customer service center and warehouses as of December 31, 2016. Some of the lessors of these leases have not provided us with sufficient documents to prove their ownership of the premises or their rights to lease the premises to us for our intended use. We may not be able to maintain such leases if the lessors are not legal owners of the properties or do not have competent authorizations from the legal owners of the properties or have not obtained requisite governmental approvals in respect of our leases. In addition, we cannot assure you that we will be able to successfully extend or renew our leases upon expiration of the current term or locate desirable alternatives for our facilities on commercially reasonable terms or at all, and may therefore be forced to relocate our affected operations. In addition, we may acquire certain land use right and titles in the relevant buildings for business operation purposes from time to time. For example, we have entered into contracts to acquire the land use right and buildings located in Suzhou, China. See “Item 4. Information on the Company—D. Property, Plants and Equipment.” Our intended use of the land and buildings we may acquire may not be consistent with their approved usage, and some approvals, licenses and permits may be yet to be obtained for the construction and continuous use of such buildings. We cannot assure that we will be able to successfully remedy the defects or obtain all the requisite approvals, licenses or permits. These could disrupt our operations and result in significant relocation expenses, which could 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 failure in relocating our affected operations could adversely affect our business and operations.

We may be subject to product liability claims that could be costly and time-consuming.

We sell products manufactured by third parties, some of which may be defective. If any product that we sell were to cause personal injury or injury to property, the injured party or parties could bring claims against us as the retailer of

the product. These claims will not be covered by insurance as we do not maintain any product liability insurance. Similarly, we could be subject to claims that consumers of the online stores operated by us or our Maikefeng platform were harmed due to their reliance on our product information, product selection guides, advice or instructions. If a successful claim were brought against us, it could adversely affect our business. We may have the right under applicable laws, rules and regulations to recover from the relevant brand partners', manufacturers' or distributors' compensation that we are required to make to consumers or end users in connection with a product liability, personal injury or a similar claim, if such relevant party is found responsible. However, there can be no assurance that we will be able to recover all or any amounts from these parties. We have historically encountered some call back of the products sold to consumers through our online store due to defective products, which has caused adverse effect on our operations. Any future product liability claim or large scale of call back due to defective products discovered, regardless of its merit or success, could result in the expenditure of funds and management time and adverse publicity and could have a negative impact on our business and financial condition.

We depend on key management as well as experienced and capable personnel generally, and any failure to attract, motivate and retain our staff could severely hinder our ability to maintain and grow our business.

Our future success is significantly dependent upon the continued service of our key executives and other key employees. If we lose the services of any member of management or key personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth.

Competition for talent in the PRC e-commerce industry is intense, and the availability of suitable and qualified candidates in China is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. Even if we were to offer higher compensation and other benefits, there is no assurance that these individuals will choose to join or continue to work for us. Any failure to attract or retain key management and personnel could severely disrupt our business and growth.

If we are unable to recruit, train and retain qualified personnel or sufficient workforce while controlling our labor costs, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to recruit, train and retain qualified personnel, particularly technical, fulfillment, marketing and other operational personnel with experience in the e-commerce industry. Since our industry is characterized by high demand and intense competition for talent and labor, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. Particularly, our fulfillment infrastructure is labor intensive and requires a substantial number of blue-collar workers, and these positions tend to have higher than average turnover. As of December 31, 2016, we employed a total of 303 logistics personnel. We may hire additional employees in connection with the strengthening of our fulfillment capabilities. We have observed an overall tightening of the labor market and an emerging trend of shortage of labor supply. Failure to obtain stable and dedicated warehousing, delivery and other labor support may lead to underperformance of these functions and cause disruption to our business. Labor costs in China have increased with China's economic development, particularly in the large cities where we operate our

fulfillment centers and more generally in the urban areas where we maintain our delivery and pickup stations. It is also costly to employ qualified personnel who have the knowledge and experience of working with leading global brands. 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, and rapid expansion may impair our ability to maintain our corporate culture.

Increases in labor costs or restrictions in the supply of labor in China may materially and adversely affect our business, financial condition and results of operations.

We currently use workers dispatched by third-party labor service agents to provide customer service and perform fulfillment function. As of December 31, 2016, approximately 14.1% of our work force was dispatched by third-party labor service agents. Such labor arrangement does not fully comply with the Interim Provisions on Labor Dispatch, or the Labor Dispatch Provisions, issued in January 2014, which became effective on March 1, 2014, that provides the number of dispatched contract workers hired by an employer shall not exceed 10% of the total number of its work force. These Interim Provisions require us to formulate a plan to reduce the number of our dispatched contract workers to comply with such statutory requirement prior to March 1, 2016. An employer is not permitted to hire any new dispatched contract worker until the number of its dispatched contract workers has been reduced to below 10% of the total number of its employees. In addition, under the Labor Contract Law amended on December 28, 2012, labor dispatch is only allowed to apply to provisional, auxiliary or substitutive positions. As such, we may need to adjust our staffing arrangements which may result in an increase in our labor cost.

As of the date of this annual report, we have not received any warning or notice of potential negative action by relevant labor authorities regarding our labor dispatch arrangement. However, if we are found to be in violation of the rules regulating dispatched contract workers, we may be ordered to rectify the noncompliance by entering into written employment contracts with our dispatched contract workers, and if we fail to rectify within the time period specified by the labor authority, we may be subject to a penalty ranging from RMB5,000 (US\$720) to RMB10,000 (US\$1,440) per dispatched worker.

Our business generates and processes a large amount of data, and the improper use or disclosure of such data could harm our reputation as well as have a material adverse effect on our business and prospects.

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

protecting 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

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complying with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

The PRC regulatory and enforcement regime with regard to data security and data protection is evolving. On July 1, 2015, the National People's Congress Standing Committee promulgated the National Security Law, or the New National Security Law, which took effect on the same date and replaced the former National Security Law promulgated in 1993. The New National Security Law covers various types of national security including technology security and information security. According to the New National Security Law, the state shall ensure that the information system and data in important areas are secure and controllable. In addition, according to the New National Security Law, the state shall establish national security review and supervision institutions and mechanisms, and conduct national security reviews of key technologies and IT products and services that affect or may affect national security. In particular, we are obligated under the New National Security Law to safeguard national security by, for example, providing evidence related to activities endangering national security, providing convenience and assistance for national security work, and providing necessary support and assistance for national security institutions, public security institutions as well as military institutions. As such, we may have to provide data to PRC government authorities and military institutions for compliance with the New National Security Law, which may result in additional expenses to us and subject us to negative publicity which could harm our reputation with users and negatively affect the trading price of our ADSs. There are uncertainties on how the New National Security Law will be implemented in practice. PRC regulators, including the National People's Congress Standing Committee, the MIIT and the Cyberspace Administration, have been increasingly focused on regulation in the areas of data security and data protection. For example, the National People's Congress Standing Committee promulgated the Cybersecurity Law on November 7, 2016, which will become effective on June 1, 2017, and strengthens the administration on cyber security. See " — Substantial uncertainties exist with respect to the newly enacted Cybersecurity Law as well as any impact it may have on our business operations." We expect that these areas will receive greater attention and focus from regulators, as well as attract public scrutiny and attention going forward. This greater attention, scrutiny and enforcement, including more frequent inspections, 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, our reputation and results of operations could be materially and adversely affected.

As we expand our operations, we will be subject to additional laws in other jurisdictions where our brand partners, consumers and other customers are located. The laws, rules and regulations of other jurisdictions may be at a more mature stage of development, be more comprehensive and nuanced in their scope, and impose more stringent or conflicting requirements and penalties than those in China, compliance with which could require significant resources and costs. Any failure, or perceived failure, by us to comply with our privacy policies or with any regulatory requirements or privacy protection-related laws, rules and regulations could result in proceedings or actions against us by governmental entities or others. These proceedings or actions could subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

Substantial uncertainties exist with respect to the newly enacted Cybersecurity Law as well as any impact it may have on our business operations.

On November 7, 2016, China enacted its Cybersecurity Law, which will take effect on June 1, 2017, to establish more stringent requirements for network operators. Among others, network operators in the PRC are required to take necessary actions to prevent security attacks and data loss, including data classification and backup and encryption. Furthermore, the Cybersecurity Law systematically specifies requirements on user information protection applicable to network operators, who are prohibited from disclosing without permission or selling individual information with limited exceptions. When network operators become aware of any information that is prohibited by laws and administrative regulations, they are required to immediately cease transmission of such information, and take measures such as deletion of relevant information to prevent its dissemination. Operators must maintain a record of these incidents when they occur and report them to the relevant authorities, who may also request for such reports. Where any prohibited information comes from outside the territory of China, the authorities may additionally request that all relevant institutions take measures to stop the flow of such prohibited information.

We may be deemed a “network operators” and thus will be subject to the various requirements under the Cybersecurity Law. Furthermore, if we are deemed to be an operator of critical information infrastructure, we may be subject to higher standards. However, because the law is newly enacted, there remains high uncertainty in the interpretation and enforcement of the law. In particular, due to lack of details on the implementation of the Cybersecurity Law, we cannot assure you that we would be able to comply with the requirements in a timely manner. Failure to comply with the requirements may lead to fines, order of rectification, confiscation of illegal gains, revocation of the business permit or license and other government actions.

Finally, we procure equipment or software for storage, encryption and decryption from time to time. It remains unclear whether such equipment or software will fall into the category of the so-called “critical network equipment” or “dedicated network security products” due to lack of criteria or standards in the Cybersecurity Law. As such, we cannot assure that the equipment and software we have procured or may procure in the future comply with the requirements, and we may incur additional costs to comply with the requirements. For the summary of Cybersecurity Law, please see “Item 4. Information on the Company—B. Business Overview—Regulations—Regulation Relating to Cybersecurity.”

We may not be able to adequately protect our intellectual property rights.

We rely on a combination of trademark, fair trade practice, patent, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our intellectual property rights. We also enter into confidentiality agreements with our employees and any third parties who may access our proprietary information, and we rigorously control access to our proprietary technology and information.

Intellectual property protection may not be sufficient in China or other countries in which we operate. Confidentiality 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 or elsewhere. In addition, policing any unauthorized use of our intellectual property is difficult, time-consuming 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 have a material adverse effect on our business, financial condition and results of operations.

We may be accused of infringing intellectual property rights of third parties and violating content restrictions of relevant laws.

Third parties may claim that the technology or content used in our operation of online stores or our service offerings infringe upon their intellectual property rights. We have been in the past subject to non-material legal proceedings and claims relating to infringement of the intellectual property rights of others. The possibility of intellectual property claims against us increases as we continue to grow, particularly internationally. Such claims, whether or not having merit, may result in our expenditure of significant financial and management resources, injunctions against us or payment of damages. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. These risks have been amplified by the increase in the number of third parties whose sole or primary business is to assert such claims. In addition, we have registered or are in the process of registering some marks we used for our business but some of our applications have been or may be rejected by the governmental authority. As some third parties have already registered or may register the trademarks which are similar to the marks we used in our business, infringement claims may be asserted against us, and we cannot assure you that a government authority or a court will hold the view that such similarity will not cause confusion in the market. In this case, we may be required to explore the possibility of acquiring these trademarks from, or entering into exclusive licensing agreements with the third parties, which will cause us to incur additional costs.

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

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 such litigation or proceedings could cause us to pay damages, as well as legal and other costs, limit our ability to conduct business or require us to change the manner in which we operate.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Additional equity financing may dilute the interests of our shareholders, and debt financing, if available, may involve restrictive covenants and could restrict our operational flexibility and reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

We may not have sufficient insurance coverage.

We have obtained insurance to cover certain potential risks, such as property damage. However, insurance companies in China offer limited business insurance products. As a result, we may not be able to acquire any insurance for certain types of risks such as business liability or service disruption insurance for our operations in China, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. We do not maintain business interruption insurance or product liability insurance, nor do we maintain key-man life insurance. This could leave us exposed to potential claims and losses. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. We cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy 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.

The financial soundness of financial institutions with which we place our cash and cash equivalents could affect our financial conditions, business and result of operations.

We place our cash and cash equivalents with authorized financial institutions, which include (i) banks incorporated in China, which are all authorized to operate banking business by China Banking Regulatory Commission and other relevant agencies, and (ii) overseas financial institutions regulated by competent regulatory authorities in their relevant jurisdictions such as Hong Kong. On February 17, 2015, the State Council promulgated the Deposit Insurance Regulation, which requires banks registered within China to provide deposit insurance to depositors. However, pursuant to the Deposit Insurance Regulation, the insurance provided by the banks has a coverage limit of RMB500,000 (US\$72,015). Any deterioration of financial soundness of these banks or financial institutions or any failure of such deposit insurance to fully cover our bank deposits would cause credit risks to our cash and cash equivalents placed with them and thus could have a material adverse effect on our financial conditions, business and results of operations.

A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our financial condition.

The global macroeconomic environment is facing challenges, including the escalation of the European sovereign debt crisis since 2011, the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone in 2014, and the “Brexit” referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union. 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 data center services industry in China. Although the economy in China has grown significantly in the past decades, it still faces challenges. The Chinese economy has slowed down in recent years. According to the National Bureau of Statistics of China, China’s gross domestic product growth slowed to 6.7% in 2016. There have been concerns over unrest in the Middle East and Africa. There have also been concerns about the tensions in the relationship between China and other countries, including surrounding Asian countries, which may potentially lead to foreign investors closing down their business or withdrawing their investment in China and thus exiting the China market, and other economic effects. 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 prolonged slowdown in the global or Chinese economy may have a negative impact on 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.

Any occurrence of a natural disaster, widespread health epidemic or other outbreaks could have a material adverse effect on our business, financial condition and results of operations.

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of a widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, or SARS, Ebola or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of such a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in China or elsewhere in the world could materially disrupt our business and operations. Such events could also significantly impact our industry and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could be disrupted if any of our employees or employees of our business partners were suspected of having the swine flu, avian influenza, SARS or Ebola, since this could require us or our business partners to quarantine some or all of such employees or disinfect the facilities used for our operations. In addition, our revenues and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the global or PRC economy in general. Our operations could also be severely disrupted if our buyers, sellers or other participants were affected by such natural disasters, health epidemics or other outbreaks.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

We have been subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the NASDAQ Global Select Market after the completion of our initial public offering in May 2015. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Commencing with our fiscal year ended December 31, 2016, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Form 20-F filing for that year, as required by Section 404 of the Sarbanes-Oxley Act of 2002. In addition, when we cease to be an “emerging growth company” as the term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2016. In addition, our independent registered public accounting firm attested the effectiveness of our internal control over financial reporting and reported that our internal control over financial reporting was effective as of December 31, 2016. See “Item 15. Controls and Procedures.” 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. 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.

The audit report included in this annual report is prepared by auditors who are not inspected by the PCAOB and, as such, you are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in this annual report, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If additional remedial measures are imposed on the Big Four PRC-based 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.

Starting in 2011 the Chinese affiliates of the "big four" accounting firms (including our independent registered public accounting firm) were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the US 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, or the CSRC.

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 Commissioner 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 CSRC. 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 CSRC. 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.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of 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, United States-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 not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to our delisting from the NASDAQ Global Select Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our Corporate Structure

If the PRC government deems that the contractual arrangements in relation to Shanghai Zunyi do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership of certain types of internet businesses, such as internet information services, is subject to restrictions under applicable PRC laws, rules and regulations. For example, foreign investors are generally not permitted to own more than 50% of the equity interests in a value-added telecommunication service provider. Any such foreign investor must also have experience and a good track record in providing value-added telecommunications services overseas. Although according to the Notice on Lifting the Restriction to Foreign Shareholding Percentage in Online Data Processing and Transaction Processing Business (Operational E-commerce) promulgated by the MIIT on June 19, 2015, foreign investors are allowed to hold up to 100% of all equity interests in the online data processing and transaction processing business (operational e-commerce) in China, other requirements provided by the Administrative Rules for Foreign Investments in Telecommunications Enterprises (such as the track record and experience requirement for a major foreign investor) still apply. It is unclear how this notice will be implemented and there exist high uncertainties with respect to its interpretation and implementation by authorities.

We are a Cayman Islands holding company and our PRC subsidiaries are considered foreign-invested enterprises, directly or indirectly. Accordingly, none of these PRC subsidiaries is eligible to provide value-added telecommunication services in China. We do not currently provide value-added telecommunication services because sales of goods purchased by us do not constitute providing value-added telecommunication services. Our PRC consolidated VIE, Shanghai Zunyi Business Consulting Ltd., or Shanghai Zunyi, however, holds an ICP license and has developed an e-commerce platform for other trading parties. Shanghai Zunyi is 80% owned by Mr. Vincent Wenbin Qiu, our co-founder, chairman and chief executive officer, and 20% owned by Mr. Michael Qingyu Zhang, our co-founder and a shareholder. Mr. Vincent Wenbin Qiu and Mr. Michael Qingyu Zhang are both PRC citizens. We did not record any revenues from Shanghai Zunyi in 2012 and 2013, and revenues from Shanghai Zunyi contributed to 1.3%, 3.6%, and 3.0% of our total net revenues in 2014, 2015, and 2016, respectively.

We entered into a series of contractual arrangements with Shanghai Zunyi and its shareholders, which enable us to:

- exercise effective control over Shanghai Zunyi;
- receive substantially all of the economic benefits of Shanghai Zunyi; and

• have an exclusive option to purchase all or part of the equity interests and assets in Shanghai Zunyi when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of Shanghai Zunyi and hence consolidate its financial results as our VIE.

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. It is uncertain whether any new PRC laws or regulations relating to contractual arrangement structures will be adopted or if adopted, what they would provide. In particular, in January 2015, the MOFCOM published a discussion draft of the proposed Foreign Investment Law for public review and comments. Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of

“actual control” in determining whether a company is considered an FIE. Under the draft Foreign Investment Law, variable interest entities would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors, and be subject to restrictions on foreign investments. However, the draft law has not taken a position on what actions will be taken with respect to the existing companies with the “variable interest entity” structure. It is uncertain when the draft would be signed into law and whether the final version would have any substantial changes from the draft.

If we or our VIE is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of our VIE;

shutting down our website, or discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and VIE;

imposing fines, confiscating the income from our VIE, or imposing other requirements with which we or our VIE may not be able to comply; or

requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our VIE and deregistering the equity pledges of our VIE, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our VIE.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of Shanghai Zunyi in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of Shanghai Zunyi or our right to receive substantially all the economic benefits and residual returns from Shanghai Zunyi and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of Shanghai Zunyi in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have an adverse effect on our financial condition and results of operations.

We rely on contractual arrangements with our VIE and its shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.

Although a substantial majority of our revenue has historically been generated by our PRC subsidiaries, we have relied and expect to continue to rely on contractual arrangements with Shanghai Zunyi and its shareholders to operate our Maikefeng platform and hold our ICP license to enable us to develop online marketplaces. Such contractual arrangements include: (i) an exclusive technology service agreement which has an initial term of 20 years and will be automatically renewed on a yearly basis thereafter unless otherwise notified by Shanghai Baozun; (ii) an exclusive call option agreement which will remain in effect until all the equity interests and assets that are the subject of such option agreement are transferred to Shanghai Baozun or its designated entities or individuals; (iii) a proxy agreement

which has an initial term of 20 years and will be automatically renewed on a yearly basis thereafter unless otherwise notified by Shanghai Baozun; and (iv) equity interest pledge agreements which will remain in full effect until all the secured contractual obligations have been performed or all the secured debts have been discharged. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Shanghai Zunyi and its Shareholders.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIE.

If we had direct ownership of Shanghai Zunyi, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Shanghai Zunyi, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, we rely on the performance by our VIE and its shareholders of their obligations under the contracts to exercise control over our VIE. However, the shareholders of our VIE may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our VIE. We may replace the shareholders of our VIE at any time pursuant to our contractual arrangements with it and its shareholders. However, if any dispute relating to these contracts or the replacement of the shareholders remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by our VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.” Therefore, our contractual arrangements with our VIE may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by our VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

If our VIE or its shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages. We cannot assure you such remedies will be effective. For example, if the shareholders of Shanghai Zunyi were to refuse to transfer their equity interest in Shanghai Zunyi to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. See “—Risks Related to Doing Business in the People’s Republic of China—There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award enforcement proceedings, which would require additional expenses and delay.

Our VIE holds the ICP license and operates our Maikefeng platform. In the event we are unable to enforce our contractual arrangements, we may not be able to exert effective control over our VIE, and our ability to conduct the Maikefeng businesses may be negatively affected. Considering that the substantial majority of our revenues are currently generated from our subsidiaries instead of our VIE, we do not believe that any failure by us to exert effective control over our VIE would have an immediate material adverse effect on our overall business operations, financial condition or results of operations. However, the business operation of Shanghai Zunyi, our VIE, may grow in the future, and if we fail to maintain effective control over our VIE, we may not be able to consolidate our VIE’s financial results with our financial results, and such failure could in the future materially and adversely affect our business, financial condition, results of operations and prospects.

The shareholders of our VIE may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Mr. Vincent Wenbin Qiu and Mr. Michael Qingyu Zhang are the shareholders of our VIE, Shanghai Zunyi. Mr. Vincent Wenbin Qiu is our co-founder, chairman and chief executive officer, while Mr. Michael Qingyu Zhang is our co-founder and a shareholder. They may have potential conflicts of interest with us. These shareholders may breach, or cause our VIE to breach, or refuse to renew, the existing contractual arrangements we have with them and our VIE, which would have a material and adverse effect on our ability to effectively control our VIE and receive substantially all the economic benefits from it. For example, the shareholders may be able to cause our agreements with Shanghai Zunyi to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company. Mr. Vincent Wenbin Qiu is also a director of our company. We rely on Mr. Vincent Wenbin Qiu and Mr. Michael Qingyu Zhang to abide by the laws of the Cayman Islands and China, which provide that directors owe a

fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. If we cannot resolve any conflict of interest or dispute between us and the shareholders of Shanghai Zunyi, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements in relation to our VIE may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC VIE owes additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between Shanghai Baozun, our wholly-owned subsidiary in China, Shanghai Zunyi, our VIE in China, and its shareholders were not entered into on an arm's-length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust Shanghai Zunyi's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by Shanghai Zunyi for PRC tax purposes, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose punitive interest on Shanghai Zunyi for the adjusted but unpaid taxes at the rate of 5% over the basic RMB lending rate published by the People's Bank of China for a period according to the applicable regulations. Our financial position could be materially and adversely affected if our VIE's tax liabilities increase or if they are required to pay punitive interest.

Risks Related to Doing Business in the People's Republic of China

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

A substantial majority of our operations are conducted in the PRC and a substantial majority of our revenue is sourced from the PRC. Accordingly, our financial condition and results of operations are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent 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 by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating

financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. 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 PRC economy, but may also have a negative effect on us. Our financial condition and results of operation could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

A substantial majority of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries and VIE are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the non-binding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, 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 which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

We are subject to laws that are applicable to retailers, including advertising and promotion laws and consumer protection laws that could require us to modify our current business practices and incur increased costs.

As an online distributor of goods, we are subject to numerous PRC laws and regulations that regulate retailers generally or govern online retailers specifically. For example, we are subject to laws in relation to advertising and online promotion, such as the Advertising Law, Pricing Law, Anti-Unfair Competition Law, Interim Measures for the Administration of Internet Advertising, and also consumer protection laws that are applicable to retailers. In the past, we have been subject to non-material administrative proceedings and penalties due to non-compliances with such laws and regulations and may continue to be subject to allegations of non-compliance with such laws and regulations in the future. Such allegations, which may or may not have merit, may result in administrative penalties and other costs to us, and we may need to adjust some of our advertising and promotional practices as a result.

If these regulations were to change or if we are found to be in violation with them, we may need to spend additional costs to rectify non-compliance, adjust our business practices and could be subject to fines or penalties or suffer reputational harm, which could reduce demand for the products or services offered by us and hurt our business and results of operations. For example, the amended Consumer Protection Law, which became effective in March 2014, further strengthened the protection of consumers and imposed more stringent requirements and onerous obligations on businesses, especially businesses that operate on the internet.

Pursuant to the amended Consumer Protection Law, consumers are generally entitled to return goods purchased within seven days upon receipt without giving any reasons if they purchase the goods over the internet. Consumers whose interests have been damaged due to their purchase of goods online may claim damages against sellers. Moreover, if we deceive consumers or knowingly sell substandard or defective products, we would not only be required to compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services.

Operators of online marketplace platforms, such as our VIE, Shanghai Zunyi, which business includes operation of our Maikefeng platform, and Tmall and JD.com who have partnered with us, are also subject to stringent obligations under the amended Consumer Protection Law. For example, where platform operators are unable to provide the real names, addresses and valid contact details of the sellers, the consumers may also claim damages from the platform operators. Operators of online marketplace platforms that know or should have known that sellers use their platforms to infringe upon legitimate rights and interests of consumers but fail to take necessary measures will bear joint and several liabilities with the sellers. As such, we are subject to such risks as the operator of Maikefeng platform. In addition, operators of online marketplace platforms that we partner with may take measures and impose stricter requirements on us or our brand partners as a reaction to their enhanced obligations under the amended Consumer Protection Law.

Similar legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations or to satisfy compliance requests from the marketplace platforms we partnered with, which may increase our costs and

materially limit our ability to operate our business.

The regulation of the CSRC and other regulations establish more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the CSRC, and the State Administration of Foreign Exchange, or the SAFE, jointly adopted the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

While the application of the M&A Rules remains unclear, we believe, based on the advice of our PRC counsel, Fangda Partners, that the CSRC approval is not required in the context of our initial public offering because (i) when we set up our offshore holding structure, Shanghai Baozun, currently our major PRC subsidiary, was a then existing foreign-invested entity and not a PRC domestic company as defined under the M&A rules, and the acquisition by Baozun Hong Kong Holding Limited of all the equity interest in Shanghai Baozun was not subject to the M&A Rules; and (ii) there is no statutory provision that clearly classifies the contractual arrangement among our PRC subsidiary, Shanghai Baozun, and our PRC VIE, Shanghai Zunyi and its shareholders as transactions regulated by the M&A Rules. However, uncertainties still exist as to how the M&A Rules will be interpreted and implemented, and the opinion of our PRC counsel is subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. We cannot assure you that the relevant PRC government agencies, including the CSRC, would reach the same conclusion as our PRC counsel. If the CSRC or other PRC regulatory body subsequently determines that we need to obtain the CSRC's approval for our initial public offering, we may face adverse actions or sanctions by the CSRC or other PRC regulatory agencies. In any such event, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

The new regulations also established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. In addition, our

proposed formation of joint venture with, or acquisition of control of, or decisive influence over, any company with revenues within China of more than RMB400 million (US\$57.6 million) in the year prior to any proposed joint venture formation or acquisition would be subject to MOFCOM merger control review. As a result of our size, many of the transactions we have taken or may undertake could be subject to MOFCOM merger review. Complying with the requirements of the relevant regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. In addition, MOFCOM has not accepted merger control filings for any transaction involving parties that adopt a variable interest entity structure. If MOFCOM's practice remains unchanged, our ability to carry out our investment and acquisition strategy may be materially and adversely affected and there may be significant uncertainty as to whether transactions that we have taken or may undertake would subject us to fines or other administrative penalties and negative publicity and whether we will be able to complete large acquisitions in the future in a timely manner or at all.

PRC regulations relating to investments in offshore 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 or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

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 establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37 from June 1, 2015. 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.

Mr. Vincent Wenbin Qiu, Mr. Junhua Wu and Mr. Michael Qingyu Zhang have completed initial filings with the local counterpart of SAFE relating to their investments in us. However, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and cannot assure you that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

PRC regulations of loans to PRC entities and direct investment in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of our offerings to make loans or additional capital contributions to our foreign-invested enterprises.

We may transfer funds to our directly owned subsidiaries which are FIEs under PRC laws or finance such FIEs by means of shareholder loans or capital contributions upon completion of our offerings. Any such loans to our FIEs cannot exceed statutory limits, which is either the difference between the registered capital and the total investment amount of such FIE or a multiple of the FIE's net assets in the previous year, and shall be registered or filed with SAFE, or its local counterparts. Furthermore, any capital contributions we make to FIEs shall be filed with the MOFCOM or its local counterparts. We may not be able to obtain these government registrations, filing or approvals on a timely basis, if at all. If we fail to receive such registrations, filing or approvals, our ability to provide loans or capital contributions to the FIEs in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business. In addition, SAFE promulgated the Circular on the Relevant Operating Issues concerning Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or Circular 142, on August 29, 2008. SAFE promulgated Circular 45 on November 16, 2011 in order to clarify the application of Circular 142. Under Circular 142 and Circular 45, registered capital of a foreign-invested company settled in RMB converted from foreign currencies may only be used within the business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC. In addition, foreign-invested companies may not change how they use such capital without SAFE's approval, and may not in any case use such capital to repay RMB loans if proceeds of such loans have not been utilized. Violations of Circular 142 or Circular 45 may result in severe penalties. On March 30, 2015, SAFE released the Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19, which came into force and superseded SAFE Circular 142 from June 1, 2015. SAFE Circular 19 has made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, and some foreign exchange restrictions under SAFE Circular 142 are lifted. Under SAFE Circular 19, the settlement of foreign exchange by FIEs shall be governed by the policy of foreign exchange settlement at will. In June 2016, SAFE promulgated Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which removed certain restrictions previously provided under several SAFE circulars in respect of conversion by an FIE of foreign currency registered capital into RMB and use of such RMB capital. However, SAFE Circular 19 and SAFE Circular 16 also

reiterate that the settlement of foreign exchange shall only be used for purposes within the business scope of the FIEs. As a result, the applicable circulars may significantly limit our ability to transfer the net proceeds from our initial public offering and subsequent offerings or financings to our FIEs, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Any failure to comply with PRC regulations regarding our employee equity incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. We and our directors, executive officers and other employees who are PRC residents and who have been granted options are subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, or the Share Option Rules, issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC residents are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under PRC law. Shanghai Baozun Wujiang Branch has already completed the SAFE registration under the Share Option Rules.

In addition, the State Administration of Taxation has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares or restricted share units, vest, will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their share options, restricted shares or restricted share units. In addition, the sales of our ADSs or shares held by such PRC individual employees after their exercise of the options, or the vesting of the restricted shares or restricted share units, are also subject to PRC individual income tax. If the employees fail to pay, or the PRC subsidiaries fail to withhold, their income taxes according to relevant laws, rules and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements.

We are a holding company and rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries and on remittances from the VIE, for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund inter-company loans, service any debt we may incur outside of China and pay our expenses. When our principal operating subsidiaries or the VIE incur additional debt, the instruments governing the debt may restrict their ability to pay dividends or make other distributions or remittances to us. Furthermore, the laws, rules and regulations applicable to our PRC subsidiaries and certain other subsidiaries permit payments of dividends only out of their retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside at least 10% of its net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves, together with the registered equity, are not distributable as cash dividends. As a result of these laws, rules and regulations, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary. As of December 31, 2016, we had restricted net assets of RMB427.4 million (US\$61.6 million).

Limitations on the ability of the VIE to make remittance to the wholly-foreign owned enterprise and on the ability of our subsidiaries to pay dividends to us could limit our ability to access cash generated by the operations of those entities, including to make investments or acquisitions that could be beneficial to our businesses, pay dividends to our shareholders or otherwise fund and conduct our business.

We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.

Under the PRC Enterprise Income Tax Law and its implementing rules, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. “De facto management body” refers to a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise. The State Administration of Taxation 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 Circular 82, on April 22, 2009, with retroactive effect from January 1, 2008. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by foreign enterprises or individuals, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. If we were to be considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the Enterprise Income Tax Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.”

Dividends payable to our foreign investors and gains on the sale of our ADSs or ordinary shares by our foreign investors may become subject to PRC tax law.

Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares or ADSs, and any gain realized from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. It is unclear whether if we or any of our subsidiaries established outside China are considered a PRC resident enterprise, holders of our ADSs or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of our ADSs or ordinary shares by such investors are subject to PRC tax, the value of your investment in our ADSs or ordinary shares may decline significantly.

We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.

On February 3, 2015, the State Administration of Taxation issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7, which replaced or supplemented previous rules under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009. Pursuant to this Bulletin, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the shareholders, business model and organizational structure of an overseas enterprise; the income tax payable abroad due to the indirect transfer of PRC taxable assets; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payor fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. 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 Circular 698 and Bulletin 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. As a result, we may be required to expend valuable resources to comply with Circular 698 and Bulletin 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. In addition, the sales of our ADSs or shares held by our PRC individual employees after their exercise under relevant incentive plans are also subject to PRC individual income tax.

Restrictions on currency exchange may limit our ability to utilize our revenue effectively.

Substantially all of our revenue is denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or variable interest entity. Currently, Shanghai Baozun, our major PRC subsidiary which is a wholly-foreign owned enterprise, may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, without the approval of SAFE by complying with certain procedural requirements such as presenting documentary evidence of such transactions to banks. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Since a significant amount of our future revenue will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, including holders of our ADSs. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities. This could affect our ability to obtain foreign currency through debt or equity financing for our subsidiaries and the variable interest entity.

Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in the recent years the RMB has depreciated significantly against the U.S. dollar. In April 2012, the PRC government announced that it would allow RMB exchange rate to fluctuate in a wider range. On August 11, 2015, the People's Bank of China, or the PBOC, allowed the RMB to depreciate by approximately 2% against the U.S. dollar. Since October 1, 2016, the RMB has joined the International Monetary Fund's basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. Substantially all of our revenues and costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of the Renminbi may materially reduce any dividends payable on, our ADSs in U.S. dollars.

Risks Related to Our Ordinary Shares and ADSs

The trading price of our ADSs has been and is likely to continue to be volatile, which could result in substantial losses to our shareholders.

The trading price of our ADSs has been and is likely to continue to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these 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 other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting,

corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material and adverse effect on the trading price of our ADSs.

In addition to the above factors, the price and trading volume of our ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry, brand partners, suppliers or third-party sellers;

announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;

- changes in the economic performance or market valuations of other e-commerce companies;

actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;

- changes in financial estimates by securities research analysts;

- conditions in the online retail market;

announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;

- additions to or departures of our senior management;

- fluctuations of exchange rates between the RMB and the U.S. dollar;

- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs;

- sales or perceived potential sales of additional ordinary shares or ADSs; and

proceedings instituted by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm.

Any of these factors may result in large and sudden changes in the volume and trading price of our ADSs. In addition, the stock market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies and industries. These market fluctuations may significantly affect the trading price of our ADSs.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

Because we do not expect to pay dividends in the foreseeable future, holders of our ADSs must rely on price appreciation of our ADSs for return on their 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, holders of our ADSs should not rely on an investment in our ADSs as a source for any future dividend income.

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

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline significantly. As of March 31, 2017, we had 159,967,450 ordinary shares outstanding, including 146,666,712 Class A ordinary shares, among which 80,761,830 Class A ordinary shares were represented by ADS (excluding 10,400,409 Class A ordinary shares issued to our depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plans and the shares repurchased by us from the open market under our share repurchase program), and 13,300,738 Class B ordinary shares. All ADSs representing our Class A ordinary shares sold in our offerings will be freely transferable by persons other than our “affiliates” without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act. Some ordinary shares outstanding after our offerings will be available for sale, upon the expiration of the lock-up periods (if applicable to such holder), subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Any or all of these ordinary shares may be released prior to the expiration of the applicable lock-up period at the discretion of the designated representatives. To the extent a substantial amount of shares are released before the expiration of the applicable lock-up period and sold into the market, the market price of our ADSs could decline significantly.

Certain major holders of our ordinary shares have the right to cause us to register under the Securities Act the sale of their shares, subject to the applicable lock-up periods. 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 significantly.

Our dual-class voting structure limits the ability of holders of our Class A ordinary shares and ADSs 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.

Mr. Vincent Wenbin Qiu, our co-founder, chairman and chief executive officer, and Mr. Junhua Wu, our co-founder, director and chief operating officer, have considerable influence over matters requiring shareholder approval. Due to our dual-class voting structure, our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Based on our dual-class voting structure, on a poll, holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to ten votes per share. 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. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. The Class B ordinary shares beneficially owned by Mr. Vincent Wenbin Qiu and Mr. Junhua Wu represent 33.6% and 13.9% of the aggregate voting power of our company, respectively, as of March 31, 2017. The interests of Mr. Vincent Wenbin Qiu and Mr. Junhua Wu may not coincide with the interests of holders of Class A ordinary shares and ADSs, and they may make decisions with which holders of Class A ordinary shares and ADSs disagree, including decisions on important topics such as the composition of the board of directors, compensation, management succession and our business and financial strategy. To the extent that the interests of Mr. Vincent Wenbin Qiu or Mr. Junhua Wu differ from the interests of holders of Class A ordinary shares and ADSs, holders of Class A ordinary shares and ADSs may be disadvantaged by any action that they may seek to pursue. This concentrated control 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.

Holders of our ADSs, may have fewer rights than holders of our Class A ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under our current memorandum and articles of association, the minimum notice period required to convene a general meeting is 10 days. When a general meeting is convened, holders of our ADSs may not receive sufficient notice of a shareholders' meeting to permit holders of our ADSs to withdraw their Class A ordinary shares to allow holders of our ADSs to cast their votes with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of our ADSs or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of our ADSs in a timely manner, but we cannot assure them that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of

our ADSs may not be able to exercise their rights to vote and they may lack recourse if the ordinary shares underlying their ADSs are not voted as they requested. In addition, in their capacity as an ADS holder, they are not able to call a shareholders' meeting.

Right of holders of our ADSs to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs 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 depository will not make rights available to holders of our ADSs unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

Holders of our ADSs may not receive cash dividends if the depository decides it is impractical to make cash dividends available to holders of our ADSs.

The depository will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends on our Class A ordinary shares in the foreseeable future. To the extent that there is a distribution, the depository of our ADSs has agreed to pay to holders of our ADSs the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. Holders of our ADSs will receive these distributions in proportion to the number of Class A ordinary shares their ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to holders of our ADSs.

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

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

Certain judgments obtained against us by our shareholders may not be enforceable.

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, substantially all of our officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult or impossible for our shareholders to bring an action against us or against them in the United States in the event that our shareholders believe that their rights have been infringed under the U.S. federal securities laws or otherwise. Even if our shareholders are successful in bringing an action of this kind, the laws of the Cayman Islands, the PRC or other relevant jurisdiction may render our shareholders unable to enforce a judgment against our assets or the assets of our directors and officers.

Since we are a Cayman Islands company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States.

Under the laws of some jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith, and actions by controlling shareholders which are obviously unreasonable may be declared null and void. Cayman Island law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in some U.S. jurisdictions. In addition, the circumstances in which a shareholder of a Cayman Islands company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a Cayman Islands company being more limited than those of shareholders of a company organized in the United States.

Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions. The directors of a Cayman Islands company, without shareholder approval, may implement a sale of any assets, property, part of the business, or securities of the company. Our ability to create and issue new classes or series of shares without shareholder approval could have the effect of delaying, deterring or preventing a change in control without any further action by our shareholders, including a tender offer to purchase our ordinary shares at a premium over then current market prices.

Our articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including Class A ordinary shares represented by our ADSs, at a premium.

Our fourth amended and restated articles of association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Class A ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our Class A ordinary shares and ADSs may be materially and adversely affected.

As a foreign private issuer, we are permitted to, and we may, rely on exemptions from certain NASDAQ corporate governance standards applicable to domestic U.S. issuers. This may afford less protection to holders of our ordinary shares and the ADSs.

We are exempted from certain corporate governance requirements of the NASDAQ Stock Market Rules by virtue of being a foreign private issuer. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate governance practices required to be followed by domestic U.S. companies listed on the NASDAQ Global Select Market. The standards applicable to us are considerably different than the standards applied to domestic U.S. issuers. For instance, we are not required to:

- have a majority of the board be independent;
- have a nominating and corporate governance committee consisting entirely of independent directors;

solicit proxy and hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end;

- have regularly scheduled executive sessions with only independent/non-management directors; or

- have executive sessions of solely independent directors each year.

In addition, in July 2016, our board of directors approved an amendment to our 2015 Share Incentive Plan, or the 2015 Plan, to increase the number of Class A ordinary shares reserved for issuance under our 2015 Plan, and we followed our home country practice that does not require shareholder approval for such amendment.

We have relied on and intend to continue to rely on some of these exemptions. As a result, our shareholders may not be provided with the benefits of certain corporate governance requirements of the NASDAQ Stock Market Rules.

As a foreign private issuer, we are exempt from certain disclosure requirements under the Exchange Act, which may afford less protection to our shareholders than they would enjoy if we were a domestic U.S. company.

As a foreign private issuer, we are exempt from, among other things, the rules prescribing the furnishing and content of proxy statements under the Exchange Act. In addition, our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit and recovery provisions contained in Section 16 of the Exchange Act. We are also not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act. As a result, our shareholders may be afforded less protection than they would under the Exchange Act rules applicable to domestic U.S. companies.

We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to “opt out” of this provision and, as a result, we comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We incur increased costs as a result of being a public company, particularly when we cease to qualify as an “emerging growth company.”

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the NASDAQ Global Select Market, imposes various requirements on the corporate governance practices of public companies. We qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to “opt out” of this provision and, as a result, we comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs and has made and will continue to make some corporate activities more time-consuming and costly. When we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. In addition, we have incurred additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We expect these rules and regulations to increase our legal and financial compliance costs, but we cannot predict or estimate the additional costs we may incur or the timing of such costs.

Shareholders of a public company often bring 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, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

We may become a passive foreign investment company, which could result in adverse United States federal income tax consequences to United States investors.

We believe we were not a passive foreign investment company, or PFIC, for the taxable year ended December 31, 2016, and we do not expect to become a PFIC in the foreseeable future. No assurance can be given as to our PFIC status, however, since the PFIC rules are uncertain in several respects and the determination of whether we are a PFIC for any taxable year can only be made after the end of the year and depends on the market price of our ADSs, which may fluctuate significantly, as well as the composition of our income and assets during the year. See “Item 10. Additional Information—E. Taxation—Material U.S. Federal Income Tax Consequences—Passive Foreign Investment Company.”

If we were treated as a PFIC, such characterization could result in adverse United States federal income tax consequences to a United States investor. For example, if we were treated as a PFIC, our United States investors could become subject to increased tax liabilities under United States federal income tax laws and regulations and would become subject to burdensome reporting requirements. See “Item 10. Additional Information—E. Taxation—Material U.S. Federal Income Tax Consequences—Passive Foreign Investment Company.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We, Baozun Inc., are an exempted company incorporated under the laws of the Cayman Islands on December 17, 2013. We changed our holding company's name from Baozun Cayman Inc. to Baozun Inc. in March 2015.

We are a holding company and operate our business through our wholly-owned subsidiaries and a PRC consolidated VIE. We commenced operations to provide brand e-commerce solutions in China in August 2007 through Shanghai Baozun, a PRC limited liability company founded by our CEO Mr. Vincent Wenbin Qiu, our COO Mr. Junhua Wu, Mr. Michael Qingyu Zhang and several other individual investors, or collectively, the Founding Shareholders. Shanghai Baozun, our wholly-owned subsidiary, provides integrated brand-e-commerce solutions to our brand partners, including IT services, store operations, digital marketing, customer services, warehousing and fulfillment.

In March 2010, we incorporated our wholly-owned subsidiaries, Shanghai Bodao E-Commerce Limited, or Shanghai Bodao, and Shanghai Yingsai Advertisement Limited, or Shanghai Yingsai, in China. In December 2011, to further develop our e-commerce solutions business, we incorporated our wholly-owned subsidiary, Shanghai Fengbo E-Commerce Limited, or Shanghai Fengbo, in China. Shanghai Fengbo and Shanghai Bodao provide brand e-commerce solutions to our brand partners, and Shanghai Yingsai provides marketing services to our brand partners. As we began to expand our business outside of mainland China, we established Baozun Hongkong Limited in September 2013, which serves as our operation center in Hong Kong. In December 2013, we incorporated our holding company, Baozun Cayman Inc., under the laws of the Cayman Islands. We incorporated Baozun Hong Kong Holding Limited in January 2014 to develop our e-commerce solutions business in Hong Kong and internationally.

The operation of value-added telecommunications businesses in China requires an ICP license, and foreign ownership of value-added telecommunications business is subject to restrictions under current PRC laws, rules and regulations. We hold an ICP license through our PRC consolidated VIE, Shanghai Zunyi, which is the operator of our Maikefeng platform, to operate our value-added telecommunications services in compliance with PRC laws and regulations. In April and July 2014, through Shanghai Baozun, we entered into certain contractual arrangements with Shanghai Zunyi and its shareholders under which we gained effective control over the operations of Shanghai Zunyi. Shanghai Zunyi was a dormant company before July 2014 and began serving consumers through our Maikefeng platform, including our Maikefeng mobile application and mkf.com website, in March 2014.

In October 2014, we established Taiwan Baozun Corporation, a wholly-owned subsidiary, to expand our provision of brand e-commerce solutions to the Taiwan market.

In October 2015, we established Baozun (Japan) Limited, a wholly-owned subsidiary, seeking to introduce more Japanese brands to Chinese consumers.

In September 2016, we established our joint venture, Baozun-CJ, with CJ O Shopping, a division of CJ Group, a Korean culture and lifestyle conglomerate, to introduce highly sought-after Korean brands to Chinese consumers.

In July 2016, we established a wholly-owned subsidiary, Baotong E-Logistics Supply Chain (Suzhou) Co., Ltd., or Baotong E-Logistics, to provide warehousing and logistics solutions. In March 2017, we established another wholly-owned subsidiary, Baotong E-Logistics Technology (Suzhou) Limited to substitute Baotong E-Logistics in providing warehousing and logistics solutions.

On May 21, 2015, our ADSs commenced trading on NASDAQ under the symbol “BZUN.”

In December 2016, we completed a follow-on public offering of our ADSs, in which we issued and sold an aggregate of 9,000,000 Class A ordinary shares represented by 3,000,000 ADSs at US\$12.25 per ADS and the selling shareholders sold an aggregate of 3,000,000 ADSs. The aggregate price of the offering amount registered and sold by us was approximately US\$36.8 million, of which we received net proceeds of approximately US\$33.1 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

As a holding company, our ability to pay dividends depends upon dividends and other distributions on equity paid to us by our principal operating subsidiaries. Pursuant to PRC laws and regulations, our wholly-owned subsidiaries may pay dividends only out of their retained earnings, and are required to set aside a portion of their net income each year to fund certain statutory reserves. These reserves, together with the registered equity, are not distributable as cash dividends.

Our principal executive offices are located at Building B, No. 1268 Wanrong Road, Shanghai 200436, the People’s Republic of China. Our telephone number at this address is +86 21 8026-6000. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, NY 10017. Our Internet address is *www.baozun.com*. The information on our website is not a part of this document.

B.

Business Overview

We are the leading brand e-commerce service partner in China, with a market share of approximately 22% as measured by transaction value in 2015, according to iResearch. We help brands execute their e-commerce strategies in China by selling their goods directly to consumers online or by providing services to assist with their e-commerce operations. Our integrated end-to-end brand e-commerce capabilities encompass all aspects of the e-commerce value chain covering IT solutions, store operations, digital marketing, customer services, warehousing and fulfillment. We deliver omni-channel solutions to create seamless shopping experience across various touch points online and offline, enabling optimal and consistent branding and generating sales results that reflect our brand partners' unique e-commerce proposition.

With e-commerce in China growing rapidly in scale, more global brands view e-commerce as a critical part of their China expansion strategy. However, as the industry also grows in complexity, brands rely on us as their trusted partner to provide local knowledge and industry expertise in executing and integrating e-commerce strategies. This helps our brand partners avoid significant investment and risk associated with establishing and maintaining their own local infrastructure and developing their own capabilities.

The number of our brand partners grew from 93 as of December 31, 2014 to 113 as of December 31, 2015 and to 133 as of December 31, 2016. These brands encompass diverse categories, including apparel, appliances, electronics, home and furnishings, food and health products, cosmetics, fast moving consumer goods, insurance and automobiles. Many of our brand partners, such as Philips, Nike and Microsoft, are leaders in their respective industries.

We believe our brand partners value us for our integrated e-commerce capabilities, dependable services, deep category expertise, market insight and ability to innovate and adapt to the fast-changing e-commerce market. Our end-to-end brand e-commerce capabilities allow us to leverage brand partners' unique resources and seamlessly integrate with their back-end systems to enable data tracking and analytics for the entire transaction value chain, making our services a valuable part of our brand partners' e-commerce functions. We help our brand partners establish market presence and launch products quickly on official brand stores and major online marketplaces in China, such as Tmall and JD.com, as well as on social media platforms such as WeChat and Weibo. In May 2016 and January 2017, we were consecutively recognized by Tmall as its six-star e-commerce service partner based on a suite of performance measures, including operational capabilities, brand development capabilities and service ratings. This was the highest ranking awarded to any Tmall e-commerce service partner. We also help our brand partners devise and execute O2O strategies to integrate their online and offline retail networks.

Our store operation capabilities, logistics network and warehousing resources are crucial to our success. We provide our brand partners with customized solutions and dedicated personnel with relevant industry expertise and brand-specific training in operating e-commerce stores. We partner with leading nationwide and local logistics service providers to ensure reliable and timely delivery. We are recognized by SF Express, one of the largest Chinese express delivery companies, as one of its top five customers in China. We are able to achieve next-day delivery in over 100 cities across China. As of December 31, 2016, we operate seven warehouses with an aggregate gross floor area of 174,943 square meters and a capacity of 600,000 inbound pieces and 1,100,000 outbound pieces per day. Our warehouse management system can be customized to accommodate differences in product specifications and handle requirements specific to categories ranging from apparel and consumer electronics to beauty and health products. In September 2016, our wholly-owned warehousing and logistics solutions subsidiary, Baotong E-Logistics, became a partner of Cainiao, a leading logistics data platform operator affiliated with Alibaba Group, which enabled us to provide best-in-class services to a wider variety of merchants through Cainiao's logistics data platform.

Technology is key to our success and rapid expansion. By leveraging our proprietary and scalable technology infrastructure and systems, we are able to provide integrated e-commerce solutions that synchronize marketing campaigns, centralize inventory management, order fulfillment and customer service, and collect and analyze real-time consumer behavior and transaction data across internet, mobile and offline channels. For example, our "NEBULA+" platform enables us to efficiently set up and operate our brand partners' official brand stores and WeChat stores and achieve centralized store management. Our ShopDog O2O merchant tool allows brand partners to tightly integrate their inventories across offline and online channels, and to sell inventory in offline stores through online stores. The scalability of our systems, built on modular implementation and deep vertical knowledge across the e-commerce value chain, allows us to provide customized solutions efficiently across categories and channels, and support a growing array of transactions as we add new brands, integrate new channels and accommodate peaks and surges in consumer demand. In addition, we appreciate the importance of information security and have built a solid information security management system as evidenced by the ISO27001 certification awarded to us in December 2015.

We continue to win brands' loyalty with our track record of converting their sales and marketing plans into structured solutions that consistently deliver measurable sales results. We collect valuable consumer behavior data through CRM, our proprietary customer relationship management system. We have also developed our Business Intelligence software, which enables real-time analysis of transaction data across online and mobile channels to make more targeted and insightful marketing recommendations to our brand partners. We believe that our relationships with brand partners will be further strengthened as we increase our solution offerings on more channels, launch more marketing initiatives and campaigns and increase the sales of our brand partners.

Depending on each brand partner's specific needs and characteristics of its product category, we provide solutions to our brand partners under one or a combination of our three business models: distribution model, consignment model and service fee model. Under the distribution model, we select and purchase goods from our brand partners and/or their authorized distributors and sell goods directly to consumers through official brand stores or official marketplace stores operated by us. Under the consignment model and the service fee model, we provide a variety of e-commerce services, such as IT solutions, online store operation, digital marketing and customer service to our brand partners and

other customers. Under the consignment model, in addition to these services, we also provide warehousing and fulfillment services. We have been shifting from the distribution model to the consignment model and the service fee model since 2015, which have enabled us to reduce inventory exposures and enhance our profitability. In 2014, 2015, and 2016, GMV from distribution model, or distribution GMV, contributed 32.3%, 33.6%, and 22.5% of our total GMV, respectively.

We generate revenues from two revenue streams: (i) product sales and (ii) services. We derive product sales revenues primarily through selling products on behalf of brand partners to consumers under the distribution model, and derive services revenues primarily through charging brand partners and other customers fees under the consignment model and the service fee model. For services provided under the consignment model and service fee model, we charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled.

Beginning in the third quarter of 2015, we have had two reportable operating segments: (i) the brand e-commerce segment that provides a variety of e-commerce services to our brand partners and other customers, and (ii) the Maifefeng segment that operates our online retail platform.

Our GMV was RMB4,248.9 million, RMB6,735.3 million and RMB11,264.8 million (US\$1,622.5 million) in 2014, 2015 and 2016, respectively. In 2014, 2015 and 2016, our total net revenues were RMB1,584.4 million, RMB2,598.4 million, and RMB3,390.3 million (US\$488.3 million), respectively. For the same periods, net revenues from product sales accounted for 74.9%, 74.7%, and 64.2%, respectively, of our total net revenues. We incurred net loss of RMB59.8 million in 2014, and recorded net income of RMB22.6 million and RMB85.4 million (US\$12.3 million) in 2015 and 2016, respectively. We had non-GAAP net income of RMB25.1 million, RMB47.8 million, and RMB119.6 million (US\$17.2 million) in 2014, 2015 and 2016, respectively. See “Item 3. Key Information—A. Selected Financial Data—Non-GAAP Financial Measures.”

Our Business Models and Solutions

Through our integrated brand e-commerce capabilities, we provide end-to-end brand e-commerce solutions that are tailored to meet our brand partners’ unique needs. Our e-commerce capabilities encompass every aspect of the e-commerce value chain, including:

- IT solutions;
- online store operation;
- digital marketing;

- customer service; and/or
- warehousing and fulfillment.

Depending on each brand partner's specific needs and characteristics of its industry category, our brand partners utilize one or a combination of our solutions under one of or a combination of our business models:

- distribution model;
- consignment model; and
- service fee model.

We derive revenues under our business models as follows:

Product sales revenues. We derive product sales revenues when we sell products to consumers under the distribution model.

- ***Services revenues.*** We derive services revenues under the service fee model and consignment model.

In 2014, 2015 and 2016, net revenues from product sales accounted for 74.9%, 74.7% and 64.2%, respectively, of our net revenues. Over time, we work with our brand partners under different combinations of business models to meet their evolving needs and sales objectives. Accordingly, our revenue mix may vary over time.

Business Models

We believe our brand partners value us for our integrated e-commerce capabilities, dependable services, deep category expertise, market insight and ability to innovate and adapt to the fast-changing e-commerce market. Depending on each brand partner's specific needs and characteristics of its product category, we provide solutions to our brand partners under one or a combination of our three business models: distribution model, consignment model and service fee model.

Distribution Model

Under the distribution model, we select and purchase goods from our brand partners and/or their authorized distributors and sell goods directly to consumers through official brand stores or official marketplace stores operated by us. In order to generate product sales, we utilize every aspect of our e-commerce capabilities. Specifically, we utilize our IT and store operation capabilities to set up and operate online stores, including brand stores and marketplace stores. We utilize our warehousing and fulfillment capabilities to store and deliver goods to our consumers. We utilize our customer service capability to facilitate sales and ensure our consumers are satisfied. In order to increase our product sales, we utilize our digital marketing capabilities to boost site traffic and transaction volume. When we operate stores under the distribution model, the sites will typically indicate that Baozun is the seller of the products and, when we deliver goods to our consumers, the invoices and tax receipts will typically bear our name instead of those of our brand partners.

Service Fee Model

Under the service fee model, we provide one or more of the following services in exchange for service fees:

- IT solutions;
- online store operation;
- digital marketing; and/or
- customer service.

Consignment Model

Under the consignment model, in addition to the above services we may offer under the service fee model, we also provide warehousing and fulfillment services, whereby our brand partners stock goods in our warehouses for future sales and we are responsible for delivering goods to customers. In contrast with the distribution model, however, we do not take title to the products, do not have any latitude in establishing prices and selecting merchandise, have no discretion in selecting suppliers and generally are not involved in determining product specifications. We may also facilitate our brand partners' online sales of goods as an agent and charge our brand partners commission fees based on a pre-determined formula.

Brand E-commerce and Maikefeng

End-to-end Brand E-commerce Capabilities for Brand Partners

Our integrated brand e-commerce capabilities enable us to provide end-to-end solutions that encompass every aspect of the e-commerce value chain, including IT infrastructure setup and integration, online store design and setup, store operations, visual merchandizing and marketing campaigns, customer services, warehousing and order fulfillment. We utilize our capabilities and tailor our solutions to fulfill the specific needs of each brand partner. For each brand partner, we first hold consultations to determine its e-commerce needs and development plans. Each brand partner may then elect to use our full e-commerce capabilities or select specific elements of our capabilities that best fit their needs. Depending on these specific arrangements with brand partners, we generate revenues under different business models.

The flowchart below illustrates our capabilities and the solutions we offer for each aspect of our brand e-commerce operations:

IT Solutions

With our expertise in technology infrastructure and system, web design and our intimate understanding of Chinese consumers' online shopping habits, we help our brand partners set up effective e-commerce sites that both enhance their brands and cater specifically to local consumers. We provide proprietary e-commerce technology which can be customized to and integrated with our brand partners' existing operation back-end systems in a convenient and cost-effective manner.

Where necessary, we also help our brand partners set up or improve the suitability of their own IT infrastructure for e-commerce operations. Our proprietary e-commerce IT platform supports a wide range of localized features, including payment and live chat, as well as mobile and new consumer touch points. Our IT services enable our brand partners to quickly adapt to the local e-commerce market and effectively service online shoppers in China without the costs associated with establishing and maintaining local infrastructure and capabilities on their own. For more information about our technology infrastructure and capabilities, please see “—Technology Infrastructure and Capabilities.”

In addition to establishing the infrastructure for system integration, our web designers help our brand partners design online stores that enhance their brand image and online presence. Our web developers also incorporate features and functions familiar to Chinese consumers to facilitate conversion of site visitors into paying consumers.

We also offer brand partners with the official brand WeChat store platform service, which enables brand partner to quickly expand their presence on WeChat without the heavy costs associated with creating a new online store. Our new official brand WeChat store platform includes a number of customizable options to make it easier for customers to interact directly with the brands and accommodate promotional campaigns.

Store Operations

We believe efficient store operations are crucial to our brand partners' e-commerce business. We staff dedicated operations teams for stores operated by us. Our operations teams closely monitor and are responsible for all activities and the daily upkeep of online stores. The functions of the operations teams broadly fall into two categories: merchandising and site content management.

Merchandising: Each operations team has merchandising staff in charge of maintaining an appropriate level of inventory for online stores by procuring products to be sold on our brand partners' online stores and forecasting quantities to purchase based on expected demand.

Our operations teams also assist our brand partners in processing sales orders in online stores. We manage sales orders through our proprietary order management system that integrates with our other technology platforms to ensure smooth online transactions.

Our merchandising staff monitors store sales through periodic sales reports.

Site Content Management: In addition to providing design services during the initial store setup, we also periodically update the content on stores operated by us in order to maintain the appeal of the stores. We have a design services team that helps ensure that brands' online stores are artfully presented, and refreshed in keeping up-to-date with our brand partners' latest advertising campaigns. Our design services team regularly works with our brand partners in producing the most updated digital content, including product photography, site banners and other promotional content. For more information about our design services team, see “—Digital Marketing—Creative Contents.”

Digital Marketing

We believe performance digital marketing is key in boosting visitor traffic to stores operated by us and increasing conversion and overall transaction volume.

Our digital marketing capabilities cover both official marketplace stores and official brand stores. In particular, we have developed an expertise in digital marketing on Tmall. Our digital marketing capabilities include (i) media services; (ii) word-of-mouth marketing; (iii) creative content; and (iv) consumer data.

Media Services: We plan advertising media for our brand partners. In planning our brand partners' online advertising media, we first determine with our brand partners their most likely and desired customers. Based on that determination, we then identify with our brand partners which media platforms our brand partners' intended audience is most likely to visit, and we design advertising campaigns crafted to have the most impact on the targeted audience. Our media planning capabilities enable our brand partners to strategically target the reach of their online advertising campaigns and minimize wastage and hence increase their return on investment, or ROI.

We engage in search engine optimization and marketing for our brand partners. In particular, we aim for stores operated by us to rank earlier or higher on the search results pages of a search engine so that they will receive more visitors from search engine's users. Based on our understanding of the methodologies and mechanisms adopted by search engines, we customize the content of the stores operated by us to achieve high rankings. Where appropriate, we also help our brand partners negotiate arrangements with search engines to favorably list the stores operated by us on search results pages.

Word-of-Mouth Marketing: Based on our experience, Chinese e-commerce consumers are heavily influenced by word-of-mouth, or WOM, which is information from non-commercial communicators about products, services or brands. We believe we are able to provide tremendous value to our brand partners by helping them formulate WOM strategies and campaigns that encourage consumers' engagement with their brands and drive consumers' desire to purchase their products.

One of the most important WOM channels is social media platforms. We identify the preferred social media platforms of our brand partners' target consumers, which are generally WeChat and Weibo. We then open and operate accounts on these platforms for our brand partners. We create and publish contents on our brand partners' accounts, and we engage in dialogues with consumers who post on our brand partners' accounts. We track visitors' activities and analyze the impact of our WOM outreach.

In addition, we monitor and respond to online comments about our brand partners on internet forums and product review websites. We help identify key opinion leaders on these platforms and work with them in responding to comments about our brand partners. We believe that providing meaningful feedback addressing potential customers' concerns greatly facilitate their purchase decisions.

Creative Contents: We provide our brand partners with the infrastructure and expertise for producing digital content to be used on their online stores. We operate an in-house, professional photography studio in Shanghai to create digital

product images for product features, promotions and advertising campaigns. Our production services range from pre-production work such as casting, art direction and styling to post-production editing and retouching.

We also employ a team of copywriting staff who produces product descriptions and related content, such as buyers' guides, sizing charts, product tours and comparison shopping tools.

Consumer Data: We use data we collect from our data warehouse and reporting system to understand consumers' online shopping habits and apply these insights to create impactful marketing campaign for our brand partners. For more information about our data warehouse and reporting system, please see “—Technology Infrastructure and Capabilities—Data Warehouse and Reporting System.”

Customer Service

Providing satisfactory pre-sale and post-sale customer services is one of our top priorities. We believe in the importance of real-time customer assistance. Customers can contact us through real-time online chat, phone calls or emails. Pre-sale questions relating to product details comprise most of the questions we receive from customers, and we believe that a great pre-sale customer service experience could encourage customers' purchases. Customers can access our online representatives and service hotlines 9 a.m. to 10 p.m. daily (except three days per year during the Chinese New Year holiday).

We assign our brand partners dedicated brand customer service teams who have undergone full basic customer service training, initial and periodic examinations and targeted coaching sessions.

Warehousing and Fulfillment

We have established along the e-commerce value chain a robust logistics network and warehousing capacity to help ensure a smooth and positive shopping experience for consumers of online stores. We adopt a flexible logistics model supported by our robust and advanced warehouse management system. We partner with leading nationwide and quality logistics services providers to ensure reliable and timely delivery to over 500 cities across China through their network. The following flowchart illustrates our warehousing and fulfillment process:

As of December 31, 2016, we operate seven warehouses with an aggregate gross floor area of approximately 174,943 square meters in Guangzhou, Suzhou, and Hong Kong. Our warehouses cater to different product categories. We provide value-added services to our brand partners, such as anti-counterfeit code protection and tailor-made packaging. In addition, we also store goods in three other warehouses operated by third parties. With our proprietary warehouse management systems, we are able to closely monitor each step of the fulfillment process from the time a purchase order is confirmed and the product stocked in our warehouses, up to when the product is packaged and picked up by a logistics services provider for delivery to a customer. Shipments from suppliers first arrive at our warehouses. At each warehouse, inventory is bar-coded and tracked through our warehouse management system, allowing real-time monitoring of inventory levels across our network. Our warehouse management system is specifically designed to support a large volume of inventory turnover. Our warehouses fulfilled approximately 5.0 million, 10.7 million and 17.8 million orders in 2014, 2015 and 2016, respectively. As of December 31, 2016, our warehouse management processing system was capable of processing 600,000 inbound pieces and 1,100,000 outbound orders per day. During the Singles Day promotion in 2016, our warehouse management processing system processed approximately 4.6 million orders, showcasing our ability to support an enormous flow of transaction and order traffic. We closely monitor the speed and service quality of the logistics services providers through consumer surveys and feedbacks from consumers to ensure their satisfaction.

Maikefeng

To extend our product and service offerings to cover the entire product cycle, we began operation of Maikefeng, our retail online platform, in March 2014, which has grown significantly since then. We offer authentic, quality products at steeply discounted prices to consumers on our Maikefeng mobile application.

Our strong merchandizing expertise enables us to select the brand composition and product mix of our sales on Maikefeng that appeal to our consumers. We carefully select prospective brands for our Maikefeng platform, and target to work with those that are well-known and offer high quality or premium products that are popular among consumers in China, and those are willing to provide competitive prices and favorable payment credit and product return terms. We believe that our Maikefeng platform helps our brand partners sell out-of-season inventory, generate more sales and acquire additional traffic, which will help us attract new brands and build stronger ties with our existing brand partners. In addition, our warehousing services help attract brands to our Maikefeng platform as they allow existing users of these services to adopt our Maikefeng platform and solve excess inventory issues without the need to physically move inventory.

Major product categories on Maikefeng include sports, clothing and footwear, beauty and cosmetics. We have adopted stringent quality assurance and control procedures for products sold on the Maikefeng platform and delivered through our logistics network. We source our products on Maikefeng directly from brands or through procurement agents. We

carefully inspect all products delivered to our warehouses, 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 the consumers. We believe that our strict brand selection process and quality control procedures enable us to ensure the high quality level of products sold on our Maikefeng mobile application and increase customer satisfaction. We price products on Maikefeng at significant discounts, typically 70% off the original retail price. Our attractive pricing is made possible by lower purchase price, in particular for off-season or slower-moving inventory or slightly damaged goods, and the absence of physical retail space and related overhead costs.

We opened up our Maikefeng platform to third-party sellers to diversify its product offerings and improve operational efficiency in May 2015. Third-party sellers sell products to the consumers through our mobile applications and these sellers may also use our other value-added services, and we charge such third-party sellers service fees for our other value-added services we provide upon their request. Upon successful sales at Maikefeng, we charge commissions from such third-party sellers at a fixed fee rate based on the sales volume. We monitor third-party sellers' performance and activities on our Maikefeng platform closely to ensure that they meet our requirements for authentic products and high-quality customer service. In this business model, since Maikefeng is operated as an intermediary platform that facilitates transactions between merchants and consumers, we generally are not the primary obligor, do not bear the inventory risk, do not have the ability to establish the price or control the related shipping services utilized by third-party sellers.

Brand Partners & Brand Partner Development and Services

Brand Partners

As of December 31, 2016, we were providing e-commerce solutions to 133 brand partners primarily under annual or tri-annual service contracts. Our brand partners cover diverse product categories, including apparel, appliances, electronics, home and furnishings, food and health products, cosmetics, fast moving consumer goods, insurance and automobile.

In response to our brand partners' needs to leverage our expertise to help them expand their e-commerce business in the Greater China region, we have extended our service and operational capabilities beyond mainland China. We can now provide brand partners such as Microsoft and Nike end-to-end e-commerce solutions in Hong Kong. We also got approval from the Investment Commission of Taiwan's Ministry of Economic Affairs in October 2015 and started to provide brand partners end-to-end e-commerce solutions in Taiwan in April 2016. We provide IT service, customer service and warehousing and logistics services through local staff on the ground and online store operations and digital marketing through the home team in mainland China. Some of our existing brand partners have had years of cooperation with us and we generated a significant portion of our net revenue through (i) the sale of products in the stores of these brands operated by us and (ii) provision of our services to these brand partners. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we are unable to retain our existing brand partners, our results of operations could be materially and adversely affected."

Brand Partner Development and Services

Brand Partner Screening and Acquisition

We have implemented a strict and methodical brand selection process. Based on our screening guidelines, we carefully select prospective brand partners, choosing to work only with those that are established in profitable industries and with long-term potential. In addition, we screen potential brand partners based on criteria such as projected annual GMV and service fees, projected profitability and proposed duration of cooperation. We also conduct due diligence reviews on our prospective brand partners' qualifications, including whether they hold the proper business operation licenses and safety, sanitary and quality certifications, and trademark registration certificates and license agreements in relation to the branded products.

We intend to grow our business by adding new brand partners into our brand partner portfolio. We seek to attract new brand partners by providing solutions that enable them to grow their e-commerce business more rapidly and cost-effectively than they could on their own. We have been able to use the capabilities we have developed for our existing brand partners to attract new brand partners.

Brand Partner Services Team

We typically assign each brand partner a dedicated brand partner service team to offer individually tailored services and solutions. All stores across a brand partner's different channels share the same service team to ensure seamless services to our brand partners.

We aim to continue to work closely with the brand on reaching its future goals in China by improving its e-commerce services and expanding its e-commerce presence to other markets.

Channels

We currently work with major marketplaces such as Tmall and JD.com and major social media platform such as WeChat and Weibo, in China. We also operate official brand stores. We also provide services to our brand partners through O2O strategies. We leverage all of these platforms to deliver omni-channel solutions that combine the strengths of diverse platforms to achieve optimal branding effect and sales results responsive to brands' individual e-commerce objectives.

Official Marketplace Stores

We maintain close working relationships with the major marketplaces in China, such as Tmall and JD.com. Our brand e-commerce solutions benefit third-party marketplaces by helping them attract new brand retailers. As such, marketplaces are often motivated to work closely with us to facilitate our ability to connect our brand partners to their systems.

We enter into annual platform service agreements with online marketplaces to set up and maintain online stores on these channels. Pursuant to these agreements, we typically pay online marketplaces based on a pre-determined percentage of GMV for transactions settled that varies by product category, and typically ranges from 0.5% to 5.0%. We also pay an annual upfront service fees to marketplaces, up to 100% of which may be refunded depending on our sales volume. We also pay security deposit for potential disputes under these agreements.

Official Brand Stores

We also offer to work with our brand partners in setting up and operating their official brand stores. Based on our experience, consumers expect a total brand immersion on an official brand store that is different from the presentation of the brand's stores in online marketplaces, which blend the brand's image with the particular marketplace's interface. We utilize our in-house design team in crafting online and mobile sites for official brand stores and mobile sites that deliver impactful online presence for our brand partners. As of December 31, 2014, 2015 and 2016, we operated 16, 19 and 26 official brand stores, respectively. As of December 31, 2016, we operated mobile sites for 21 of our brand partners.

Social Media Platforms

We work with our brand partners to enhance awareness of their brands on social media platforms and within the broader online community. We helped our brand partners set up accounts and design their homepage on social media platforms, such as WeChat and Weibo, and regularly update their accounts with stories relating to their products, activities and brands. We also monitor comments on our brand partners accounts and work with our brand partners in responding to these comments. In addition, we help brand partners directly integrates WeChat public account with their back-end systems across all marketplace platforms to enable flash sale or routine sale of branded products on social media platforms.

O2O Solutions

We also help our brand partners devise and execute O2O strategies by integrating and utilizing their online/offline retail space and customer data to optimize sales opportunities and encourage a more connected consumer experience. Our omni-channel capabilities help our brand partners achieve optimal branding effect and sales results that are responsive to our brand partners' individual e-commerce objectives. Examples of our O2O capabilities include:

• allowing consumers to place purchase orders and make payments online, pick up or return and exchange goods offline;

- aligning consumers' online and offline loyalty programs;

- syncing online and offline QR codes; and

providing brand partners with an effective channel to interact with offline consumers and providing offline consumers with a convenient and reliable channel to online shopping via interactive screens equipped in offline retail stores.

Payment Service Providers

Third-party marketplaces, our brand partners' official brand stores and our Maifefeng platform provide customers with the flexibility to choose from a number of payment options. These payment options include online payments with credit cards and debit cards issued by major banks in China, and payment through third-party online payment platforms, such as Alipay and Tenpay.

In addition, official brand stores typically offer the "payment on delivery" payment option. Our logistics partners deliver products to customers' designated addresses and collect payment on site. In addition to accepting cash, delivery personnel carry mobile POS machines for processing debit cards and credit cards.

Logistics Partners

We deliver orders placed on stores operated by us to all areas in China through reputable third-party couriers with nationwide coverage, such as SF Express, STO Express, YTO Express and EMS as well as other quality logistics services providers. We are a partner of Cainiao, a leading logistics data platform operator affiliated with Alibaba Group, which enabled us to provide best-in-class services to a wider variety of merchants through Cainiao's logistics data platform.

We leverage our large-scale operations and reputation to obtain favorable contractual terms from third-party couriers. We typically negotiate and enter into annual logistics agreements with our logistics partners, under which we agree to pay delivery fees based on the amount and the weight of the goods to be delivered, as well as the destination of the delivery.

Technology Infrastructure and Capabilities

We have made significant investments and will continue to invest in developing our proprietary technology platform to deliver solutions that aim to address e-commerce needs for our brand partners. Our technology systems cover the whole e-commerce value chain, ranging from online store platforms to warehouse management and to data collection and reporting.

The principal components of our proprietary technology infrastructure cover both official brand store systems and back-end operations systems, including:

Order Management System: We process sales orders on online stores through our order management systems, or OMS. OMS controls the whole order cycle, including order data fetching and transfer and fulfillment. OMS connects with both internal and external warehousing systems and is capable of tracking order statuses. OMS also manages all post-sales services such as order canceling, product returns and refunds. OMS is the central node of our e-commerce platform and currently supports all channels including marketplaces and official brand stores.

Warehouse Management System: Our warehouse management system, or WMS, assists us and our brand partners in inventory management, cross-docking, pick-and-pack, packaging, labeling and sorting functions to efficiently manage warehouse workflow.

Baozun platform "NEBULA 5.0": We set up and operate our brand partners' official brand stores through our "NEBULA 5.0" platform. With this platform we can quickly set up and customize official brand stores to provide rich features that enhance consumers' online shopping experience. These features encompass all major aspects of online shopping, such as in-site search, checkout and rating, and provide flexibility for data, content and promotion/campaign management. NEBULA 5.0 supports multiple languages and is easily customized and deployed. Our "NEBULA+" platform enables us to efficiently set up and operate our brand partners' official brand stores and WeChat stores and achieve centralized store management.

Mobile Store System: Our mobile store system is an online web store system for mobile devices based on HTML5 technology. It shares the same back-end system with NEBULA 5.0. Our mobile store system is capable of identifying the type of device from which visitors are accessing the store and can make adjustments for optimized display accordingly.

Data Warehouse and Reporting System: Our data warehouse collects and organizes all kinds of data, such as product information, transaction information, consumers' geographic location and purchase history. From data we collect, our data reporting system generates reports that are useful for both our brand partners and us, such as daily sales reports and inventory reports.

Logistics Management System: Our logistics management system coordinates the flow of goods between our warehouses and the final address for each package in each order. Our logistics management system is deeply integrated with the system of third-party couriers to provide multiple levels of services, such as same-day delivery and real-time tracking.

Data Exchange Platform: Our data exchange platform manages all data integration requirements from external parties. It supports flexible synchronization of information with any system. It also acts as a buffer to help avoid overloading of our core systems, such as OMS & WMS.

ShopDog O2O Merchant Tool: Our ShopDog O2O merchant tool allows brand partners to tightly integrate their inventories across offline and online channels, and to sell inventory in offline stores through online stores.

Intellectual Property

We use our brand partners' names, URLs, logos and other marks in connection with the operation and promotion of their e-commerce businesses. Our agreements with our brand partners generally provide us with licenses to use their intellectual property in connection with the operation of their e-commerce businesses. These licenses are typically coterminous with the respective agreements.

We also rely on technologies that we license from third parties. These licenses may not continue to be available to us on commercially reasonable terms in the future. As a result, we may be required to obtain substitute technology.

We regard our trademarks, software copyrights, service marks, domain names, trade secrets, proprietary technologies and similar intellectual property as critical to our success. To protect our proprietary rights in services and technology, we rely on trademark, copyright and trade secret protection laws in the PRC. As of March 31, 2017, we owned 48 registered trademarks, copyrights to 21 software programs developed by us relating to various aspects of our

operations, and 18 registered domain names.

In addition, we rely on contractual restrictions, such as confidentiality and non-disclosure agreements with our brand partners and employees.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our inventory and fixed assets such as equipment, furniture and office facilities. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. Additionally, we provide supplementary medical insurance for substantially all of our employees. We do not maintain business interruption insurance, nor do we maintain product liability insurance or key-man life insurance.

Legal Proceedings

From time to time, we may be involved in legal proceedings in the ordinary course of our business. We are currently not a party to any material legal or administrative proceedings.

Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or our shareholders' rights to receive dividends and other distributions from us.

Regulations Regarding Foreign Investment

We provide end-to-end brand e-commerce solutions in China. The principal regulations governing foreign investment in our business in China include:

the Guidance Catalog of Industries for Foreign Investment, issued by the National Development and Reform Commission and the MOFCOM in 2015, or the Catalog;

the Notice on the Relevant Issues concerning the Examination, Approval and Administration of Foreign Investment in Internet and Vending Machine Sales, issued by the MOFCOM in 2010; and

the Regulations for Administration of Foreign-invested Telecommunications Enterprises, issued by the State Council in 2001 and amended in 2008 and 2016, respectively.

Industry Catalog Relating to Foreign Investment. Investment activities in the PRC by foreign investors are principally governed by the Catalog, which was promulgated and is amended from time to time by the MOFCOM and the National Development and Reform Commission. The Catalog divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalog are generally deemed as constituting a fourth “permitted” category and open to foreign investment unless specifically restricted by other PRC regulations.

Depending on each brand partner’s specific needs and the characteristics of its industry, we generally operate our brand e-commerce business based on one of three models:

- the service fee model;
- the consignment model; and
- the distribution model.

Under the service fee model, we provide IT, online store operations, marketing, design and other technical services to our brand partners in exchange for service fees. Pursuant to the latest Catalog that was amended in March 2015 and became effective in April 2015, provision of technical services and consultations falls into the encouraged or permitted category. Our PRC subsidiaries have obtained all material approvals requisite for providing such services.

Under the consignment model and the distribution model, we sell goods directly to consumers through e-commerce platforms either on behalf of our brand partners or under our own name. Such online sale of commodities which was once in the restricted category and the establishment of foreign-invested enterprises in the industry (including wholly foreign-owned enterprises) was subject to approvals by the MOFCOM or its provincial counterparts. However, the latest Catalog that was amended in March 2015 and became effective in April 2015 has removed online sale of commodities from the restricted category and it now falls into the permitted category.

Foreign Investment in the Commercial Sector. Historically, a foreign investor was permitted to engage in the commercial sector, which was defined to include wholesale, retail, commission agency and franchising, by setting up commercial enterprises in accordance with the procedures and guidelines provided in the Commercial Sector Measures, and the provincial counterparts of the MOFCOM had the authority to approve applications for setting up foreign-invested enterprises to engage in sale of goods through the internet, among others.

Furthermore, according to the Notice on the Relevant Issues concerning the Examination, Approval and Administration of Foreign Investment in Internet and Vending Machine Sales issued by the MOFCOM in August

2010, online sales is deemed as the extension of companies' sales operations, and a duly incorporated foreign-invested entity in the commercial sector is allowed to operate online sales business directly. The establishment of a foreign-invested commercial enterprise specializing in online sales was historically subject to approval by, and is currently subject to filing with the competent provincial counterpart of the MOFCOM.

Currently, our wholly-owned subsidiary in the PRC, Shanghai Baozun, together with its subsidiaries, engages in online sales under the consignment model and the distribution model, and a significant portion of our revenues is generated through such online sales. Shanghai Baozun has received the approval from the local provincial counterpart of the MOFCOM for engaging in online sales.

Foreign Investment in Value-Added Telecommunications Businesses. Pursuant to the Catalog amended in March 2015, the provision of value-added telecommunications services generally falls in the restricted category.

Foreign investment in telecommunications businesses is further governed by the Regulations for Administration of Foreign-invested Telecommunications Enterprises, issued by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, under which a foreign investor's beneficial equity ownership in an entity providing value-added telecommunications services in China is not permitted to exceed 50%. In addition, for a foreign investor to acquire any equity interest in a business providing value-added telecommunications services in China, it must demonstrate a positive track record and experience in providing such services. However, according to the Notice on Lifting the Restriction on Foreign Shareholding Percentage in Online Data Processing and Transaction Processing Business (Operational E-commerce) promulgated by the MIIT on June 19, 2015, foreign investors are allowed to hold up to 100% of all equity interest in the online data processing and transaction processing business (operational e-commerce) in China, while other requirements provided by the Regulations for Administration of Foreign-invested Telecommunications Enterprises shall still apply. It is still unclear how this notice will be implemented and there exist high uncertainties with respect to its interpretation and implementation by authorities. The MIIT's Notice Regarding Strengthening Administration of Foreign Investment in Operating Value-Added Telecommunication Businesses, or the MIIT Notice, was issued on July 13, 2006, pursuant to which a domestic PRC company that holds an operating license for value-added telecommunications business, which we refer to as an ICP license, is prohibited from leasing, transferring or selling its licenses in any form, or providing any resource, sites or facilities, to any foreign investors intending to conduct such businesses in China.

To comply with such foreign ownership restrictions, we currently hold an ICP license through our PRC consolidated VIE, Shanghai Zunyi. Shanghai Zunyi, as the operator of our Maikefeng platform, currently both directly sells commodities selected and purchased by itself via Internet under the distribution model and operates the platform as an online marketplace for other trading parties, which requires Shanghai Zunyi to hold an ICP License. Shanghai Zunyi has applied for and obtained the ICP License.

Regulation Relating to Distribution of Specific Types of Goods

Our online sales business covers diverse categories of brand products, including apparel, appliances, electronics, home and furnishings, food and health products, cosmetics, fast moving consumer goods, insurance and automobile. Because distribution of certain special types of goods is subject to government approvals or legal requirements, we are required to either hold a variety of licenses and permits or meet certain requirements in connection with various aspects of our business.

For example, according to the Decision on the Adjustment of Administrative Examination and Approval Items issued by the State Council in October 2014, an enterprise is required to obtain a Food Distribution Permit to start the food distribution business. Our PRC subsidiaries, Shanghai Baozun, Shanghai Fengbo, and our consolidated VIE, Shanghai Zunyi, have all obtained Food Distribution Permits. Pursuant to the Administrative Measures for the Permit of Food Business issued by China Food and Drug Administration in August 2015, the Food Distribution Permit will be gradually replaced by the Food Business Permit commencing from October 2015. In addition, Shanghai Baozun has obtained an Alcoholic Goods Wholesale Permit for wholesale of alcoholic goods pursuant to the Administrative Measures for Alcohol Circulation issued by MOFCOM in November 2005, which was abolished in November 2016.

Except for licenses and permits, we are also subject to various legal obligations as distributors of certain products. For example, under relevant PRC laws, we, as distributors of cosmetics, are obliged to check whether the cosmetics we sold online have been issued the requisite permits, certificates or filings in relation to the production or import of such products and whether such products have passed the quality inspection before they are sold.

Regulation Relating to Product Quality, Advertising and Consumer Protection

The PRC Product Quality Law 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 way, 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. Severe violations may subject the responsible individual or enterprise to criminal liabilities. Where a defective product causes personal injury or damage to another person's property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

The principal regulations governing promotion and advertising activities in China include the PRC Anti-Unfair Competition Law promulgated in 1993, the PRC Pricing Law promulgated in 1997, and the PRC Advertising Law. Under the PRC Advertising Law promulgated in 1994, advertising operators and advertising distributors are all required to ensure that the content of advertisements they produce or disseminate are true and in full compliance with applicable law and regulations, and are prohibited from conveying misleading, false or inaccurate information through advertising. The PRC Advertising Law was amended in April 2015, and the amendments became effective in September 2015, pursuant to which advertising operators and advertising distributors will be subject to more stringent requirements and obligations. For example, entities or individuals shall not send advertisements to customers' telephones, mobile or email accounts without the customers' consents or requests, and any advertisement containing any kind of misleading, false or inaccurate information with respect to product quality, constituents, functionality, price, sales performance or other features will be deemed as deceptive advertising and will subject the advertising operators and distributors to penalties more severe than those under the original law. In addition, the PRC Anti-Unfair Competition Law further imposes stringent requirements on various promotional activities, such as prize-giving sales and bundling sales. For example, under prize-giving sales, the value of prize should be no more than RMB5,000 (US\$720). Violation of these requirements may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements, and orders to publish a correction to the misleading information.

The Consumer Protection Law 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. Failure to comply with the Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, replacement of commodities, repairing, ceasing damages, compensation, and restoring reputation, and even subject the business operators or the responsible individuals to criminal penalties when personal damages are involved or if the circumstances are severe. 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. For example, the consumers are entitled to return the goods (except for certain specific goods) within seven days upon receipt without any reasons when they purchase the goods from business operators on the internet. The consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace stores may claim damages from sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services.

We are subject to the above laws and regulations as an online distributor of commodities and believe that we are currently in compliance with these regulations in all material aspects.

Regulation Relating to Cybersecurity

The Standing Committee of the National People's Congress of the PRC promulgated the Cybersecurity Law of the PRC on November 7, 2016, which will take effect from June 1, 2017. Construction, operation, maintenance and use of networks within the territory of the PRC will be subject to the law. Network operators in the PRC are required to perform the following obligations to ensure cyber security under a graded system of cyber security protection:

• formulating internal security management systems and operation manual, to specify the person in charge of cyber security and to define responsibilities in cyber security protection;

• taking technical measures to prevent computer virus, network attacks, network intrusions and other activities that endanger cyber security;

• taking technical measures to monitor and record network operation and cyber security status, and maintaining relevant logs for no less than six months as required;

- taking measures such as data classification, and backup and encryption of important data, etc.; and
- performing other obligations required by relevant laws and administrative regulations.

In addition, the Cybersecurity Law specifies that network products and services shall satisfy the mandatory requirements set forth in applicable national standards. Any provider of network products or services shall not install malwares. In case of identifying any cyber security risk such as security defect or bug, relevant product/service provider is required to take immediate remedial actions, timely inform users of the risk, and report the event to the competent authority.

Furthermore, the Cybersecurity Law systematically specifies requirements on user information protection applicable to network operator, and requires that a network operator should establish and improve its user information protection system. Network operators shall collect, store, and use individual information with consent from such individuals by lawful and proper means on a necessary basis. Network operators cannot collect individual user information that is not relevant to the services it provides, or distort or destroy individual information collected by it. Network operators are prohibited from disclosing without permission or selling individual information unless individual specifics are unidentifiable or retrievable. In addition, a network operator shall strengthen its management of information released by its users. If it finds any information that is prohibited by laws and administrative regulations from release or transmission, it shall immediately cease transmission of such information, and take measures such as deletion of relevant information to prevent dissemination of the same, and shall keep relevant record, and report the event to

competent authorities. Also, a network operator is required to establish network information security complaint and reporting mechanisms, and to release the complaint and reporting channels to promptly accept and settle complaints and reports concerning network information security.

The Cybersecurity Law also introduces the concept of “Critical Information Infrastructure (CII)”, and imposes a higher level of cyber security protection obligations on the CII operators. For example a CII operator is generally required to store in the PRC personal information and important business data collected and generated during its business operations within the PRC. Failure to comply with this requirement may lead to the confiscation of illegal gains, fines, revocation of the business permit or even the business license. In addition, pursuant to the Cybersecurity Law, critical network equipment and dedicated network security products may not be made available in China market until they pass the security tests or verification by accredited evaluation agencies.

Regulation Relating to Online Transaction

In January 26, 2014, the SAIC released the Administrative Measures for Online Transactions, or the Online Transaction Measures, which took effect in March 2014. Under the Online Transaction Measures, online business operators, online service providers and operators of third-party transaction platforms are required to register with the SAIC or its local branches and obtain a business license, except where such business operator is an individual who does not have business license but has completed the registration of his or her true name through certain third-party transaction platforms. When selling products to, or providing services for, consumers, online business operators and service providers are required to disclose to consumers their business address and contact details, quantities, quality, and prices or fees of the goods or services, duration and manner of performance, methods of payment, product return and replacement policy, safety precautions and risk warnings, after-sales services, civil liabilities and other information according to the Online Transaction Measures. 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. Our PRC subsidiaries and consolidated VIE, as online business operators and service providers, are subject to the Online Transaction Measures.

Regulation Relating to Mobile Applications

E-commerce business via mobile network is at an early stage of development in China. We design and develop mobile applications to create an integrated consumer shopping experience across both online and mobile channels, and are therefore subject to various laws and regulations issued and implemented by the PRC regulatory authorities.

The Notice on Strengthening the Network Access Management of Mobile Intelligent Terminals, issued by the Ministry of Industry and Information Technology, or MIIT, on April 11, 2013 and effective as of November 1, 2013, applies to the manufacture and installment of mobile applications in China, and imposes stringent requirements on contents and functions of mobile applications. Installment of any mobile application that adversely affects the normal functions of mobile intelligent terminals, or contains contents prohibited from publication or dissemination, or

perform unauthorized collection or modification of users' personal information without expressly informing the users and obtaining their consent is prohibited.

We, as the manufacturer of mobile applications either for our brand partners or for ourselves, are subject to the aforesaid requirements and restrictions. In addition, with the expansion of our business via mobile channels, we may be required to obtain additional licenses or approvals for such business operation in the future. For example, the MIIT released the new Classified Catalog of Telecommunications Services in 2015, which specifies that information services provided through mobile networks are recognized as internet information services, and service providers, like operators of mobile application stores, will be required to meet certain qualifications, including obtaining an ICP license covering internet information services rendered through mobile network.

Regulation on Intellectual Property Rights

Patent. Patents in the PRC are principally protected under the Patent Law of the PRC. The duration of a patent right is either 10 years or 20 years from the date of application, depending on the type of patent right.

Copyright. Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law of the PRC and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years.

Trademark. Registered trademarks are protected under the Trademark Law of the PRC and related rules and regulations. Trademarks are registered with the Trademark Office of the SAIC. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of such trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain Names. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

Regulations on Tax

Enterprise Income Tax

The PRC enterprise income tax, or EIT, is calculated based on the taxable income determined under the applicable EIT Law and its implementation rules, which became effective on January 1, 2008 and was amended on February 24, 2017. The EIT Law imposes a uniform enterprise income tax rate of 25% on all resident enterprises in China, including FIEs.

Value-Added Tax and Business Tax

Pursuant to the PRC Provisional Regulations on Value-Added Tax and its implementation regulations, unless otherwise specified by relevant laws and regulations, any entity or individual engaged in the sales of goods, provision of processing, repairs and replacement services and importation of goods into China is generally required to pay a value-added tax, or VAT, for revenues generated from sales of products, while qualified input VAT paid on taxable purchase can be offset against such output VAT.

Prior to January 1, 2012, pursuant to the PRC Provisional Regulations on Business Tax and its implementing rules, taxpayers providing taxable services falling under the category of service industry in China were required to pay a business tax at a tax rate of 5% of their revenues with certain exceptions. Since January 1, 2012, the PRC Ministry of Finance and the State Administration of Taxation have been implementing the VAT pilot program, which imposes VAT in lieu of business tax for certain industries in Shanghai, and since September 1, 2012, such pilot program has been expanded to eight other provinces or municipalities in the PRC. Since August 2013, this tax pilot program has been expanded to other areas on a nationwide basis in the PRC. Under the pilot plan, a VAT rate of 6% applies to some modern service industries. On December 12, 2013, the PRC Ministry of Finance and the State Administration of Taxation released a new circular to further expand the scope of taxable services for the value-added tax. From May 1, 2016, the scope of the tax reform will be further expanded to include all industries according to the Circular on Implementation of the Pilot Program of Value Added Tax Reform in All Industries, which was released by the PRC Ministry of Finance and the State Administration of Taxation on March 23, 2016.

Regulations Relating to Foreign Exchange and Dividend Distribution Foreign Exchange Regulation

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations. Under the PRC foreign exchange 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 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.

In August 2008, SAFE issued 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 of foreign currency registered capital into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under these regulations, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise 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 the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used.

Since SAFE Circular 142 has been in place for more than five years, SAFE decided to further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of FIEs, and issued the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas, or SAFE Circular 36, on August 4, 2014. This circular suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas with a business scope covering “investment” to use the RMB capital converted from foreign currency registered capital for equity investments within the PRC. On April 9, 2015, SAFE released the Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19, which came into force and superseded SAFE Circular 142 and SAFE Circular 36 from June 1, 2015. SAFE Circular 19 has made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, and some foreign exchange restrictions under SAFE Circular 142 are lifted. Under SAFE Circular 19, the settlement of foreign exchange by FIEs shall be governed by the policy of foreign exchange settlement at will. In June 2016, SAFE promulgated SAFE Circular 16, which removed certain restrictions previously provided under several SAFE circulars in respect of conversion by an FIE of foreign currency registered capital into RMB and use of such RMB capital. However, SAFE Circular 19 and SAFE Circular 16 also reiterate that the settlement of foreign exchange shall only be used for purposes within the business scope of the FIEs.

Considering that SAFE Circular 19 is relatively new, it is unclear how it will be implemented and there exist high uncertainties with respect to its interpretation and implementation by authorities.

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. SAFE Circular 59 substantially amends and simplifies the current foreign exchange procedure. 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 the PRC, 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 and the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment in February 2015, or SAFE Circular 13, which specify that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

SAFE Circular 37

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 establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. On February 13, 2015, SAFE released the SAFE Circular 13, which became effective from June 1, 2015. According to this notice, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37. However, there still exist high uncertainties with respect to its interpretation and implementation by governmental authorities and banks. 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.

Mr. Vincent Wenbin Qiu, Mr. Junhua Wu and Mr. Michael Qingyu Zhang have completed initial filings with the local counterpart of SAFE relating to their investments in us. However, we may not be aware of the identities of all our beneficial owners who are PRC residents. In addition, we do not have control over our beneficial owners and cannot assure you that all of our PRC resident beneficial owners will comply with SAFE Circular 37. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or amend the registration may also limit our ability to contribute additional capital to our PRC subsidiaries or receive dividends or other distributions from our PRC subsidiaries or other proceeds from disposal of our PRC subsidiaries, or we may be penalized by SAFE.

Share Option Rules

Under the Administration Measures on Individual Foreign Exchange Control issued by the PBOC on December 25, 2006, 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. In addition, under the Share Option Rules, PRC residents who are granted shares or share options by companies listed on overseas stock exchanges under share incentive plans are required to (i) register with SAFE or its local branches, (ii) retain a qualified PRC agent, which may be a PRC subsidiary of the overseas listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plans on behalf of the participants, and (iii) retain an overseas institution to handle matters in connection with their exercise of share options, purchase and sale of shares or interests and funds transfers. Shanghai Baozun Wujiang Branch has completed the SAFE registration under the Share Option Rules on behalf of the participants to our share incentive plans.

Regulation of Dividend Distribution

The principal laws, rules and regulations governing dividend distribution by wholly foreign-invested enterprises in the PRC are the Company Law of the PRC, as amended, the Wholly Foreign-owned Enterprise Law and its implementation regulations.

Under these laws, rules and regulations, wholly foreign-invested enterprises may pay dividends only out of their accumulated profit, if any, as determined in accordance with their articles of association and PRC accounting standards and regulations. Both PRC domestic companies and wholly-foreign owned PRC enterprises are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of such reserves reaches 50% of their registered capital. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

M&A Rules and Overseas Listing

The M&A Rules, issued by six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, on August 8, 2006 and amended on June 22, 2009, require that an offshore special purpose vehicle, or a SPV formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of

the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

The application of the M&A Rules remains unclear. Based on the understanding on the current PRC laws and regulations and the M&A Rules of our PRC counsel, Fangda Partners, prior approval from the CSRC is not required under the M&A Rules for our initial public offering because:

When we set up our offshore holding structure, Shanghai Baozun, currently our major PRC subsidiary, was a then existing foreign-invested entity and not a PRC domestic company as defined under the M&A rules, and the acquisition by Baozun Hong Kong Holding Limited of all the equity interest in Shanghai Baozun was not subject to the M&A Rules;

There is no statutory provision that clearly classifies the contractual arrangement among our PRC subsidiary, Shanghai Baozun, and our PRC variable interest entity, Shanghai Zunyi and its shareholders as transactions regulated by the M&A Rules.

However, as there has been no official interpretation or clarification of the M&A Rules, there is uncertainty as to how these rules will be implemented in practice. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in the People's Republic of China—The regulation of the CSRC and other regulations establish more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions." The regulation also establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions."

Regulations Relating to Employment

Pursuant to the PRC Labor Law and the PRC Labor Contract Law in effect, a written labor contract is required when an employment relationship is established between an employer and an employee. 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, prevent accidents at work and reduce occupational hazards.

Under the PRC Labor Contract Law, 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 employer also has to pay compensation to the employee if the employer terminates a labor contract with an indefinite term.

On December 28, 2012, the PRC Labor Contract Law was amended to impose more stringent requirements on labor dispatch which became effective on July 1, 2013. Pursuant to the amended PRC Labor Contract Law, the dispatched contract workers shall be entitled to equal pay for equal work as a fulltime employee of an employer, and they shall only be engaged to perform temporary, ancillary or substitute works, and an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees. According to the Labor Dispatch Provisions, promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, (i) the number of dispatched contract workers hired by an employer should not exceed 10% of the total number of its total employees (including both directly hired employees and dispatched contract workers); and (ii) in the case that the number of dispatched contract workers exceeds 10% of the total number of its employees at the time when the Labor Dispatch Provisions became effective (i.e., March 1, 2014), the employer shall formulate a plan to reduce the number of its dispatched contract workers to below the statutory cap prior to March 1, 2016.

Seasonality

Our results of operations are subject to seasonal fluctuations. For example, our revenues are relatively lower during the holidays in China, particularly during the Chinese New Year period which occurs in the first quarter of the year, when consumers tend to do less shopping, both online and offline. Furthermore, sales in the retail industry are typically significantly higher in the fourth quarter of the year than in the preceding three quarters.

C. Organizational Structure

The following diagram illustrates our corporate structure and the place of incorporation of each of our significant subsidiaries and VIE as of the date of this annual report.

Shanghai Zunyi is our VIE in China and is 80% owned by Mr. Vincent Wenbin Qiu, our co-founder, chairman and (1) chief executive officer, and 20% owned by Mr. Michael Qingyu Zhang, our co-founder and a shareholder. Its business includes operation of our Maikefeng platform.

We have entered into contractual arrangements with Shanghai Zunyi and its shareholders, through which we exercise effective control over operations of Shanghai Zunyi and receive substantially all economic benefits generated from it. As a result of these contractual arrangements, under U.S. GAAP, we are considered the primary beneficiary of Shanghai Zunyi and thus consolidate its results in our consolidated financial statements. However, these contractual arrangements may not be as effective in providing us with control over the VIE as direct ownership of its equity interests. In addition, the VIE or its shareholders may breach the contractual arrangements with us. In such cases, we would have to rely on legal remedies under PRC law, which may not always be effective, particularly in light of uncertainties in the PRC legal system. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our VIE and its shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.”

Contractual Arrangements with Shanghai Zunyi and its Shareholders

Our relationships with Shanghai Zunyi and its shareholders are governed by a series of contractual arrangements. The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Shanghai Baozun, our VIE, Shanghai Zunyi, and the shareholders of Shanghai Zunyi.

Exclusive Technology Service Agreement. On April 1, 2014, Shanghai Zunyi and Shanghai Baozun entered into an exclusive technology service agreement. Pursuant to the exclusive technology service agreement, Shanghai Baozun has the exclusive right to provide specified technology services to Shanghai Zunyi. Without the prior written consent of Shanghai Baozun, Shanghai Zunyi may not accept the same or similar technology services provided by any third party during the term of the agreement. Shanghai Zunyi agrees to pay to Shanghai Baozun a service fee at 95% of the net revenues of Shanghai Zunyi and extra service fee for additional services provided by Shanghai Baozun as requested by Shanghai Zunyi within three months after each calendar year for the services provided in the preceding year. The agreement has an initial term of 20 years and will be automatically renewed on a yearly basis thereafter unless otherwise notified by Shanghai Baozun, and shall be terminated when the operating term of Shanghai Baozun or Shanghai Zunyi expires. To the extent permitted by law, Shanghai Zunyi is not contractually entitled to terminate the exclusive technology service agreement with Shanghai Baozun.

Exclusive Call Option Agreement. On April 1, 2014, Shanghai Zunyi, each of its shareholder and Shanghai Baozun entered into an exclusive call option agreement. Each of Shanghai Zunyi’s shareholders have granted Shanghai Baozun an exclusive call option to purchase their equity interests in Shanghai Zunyi at an exercise price equal to the higher of (i) the registered capital in Shanghai Zunyi; and (ii) the minimum price as permitted by applicable PRC laws. Shanghai Zunyi has further granted Shanghai Baozun an exclusive call option to purchase its assets at an exercise price equal to the book value of the assets or the minimum price as permitted by applicable PRC law, whichever is higher. Shanghai Baozun may nominate another entity or individual to purchase the equity interests or assets, if applicable, under the call options. Each call option is exercisable subject to the condition that applicable PRC laws, rules and regulations do not prohibit completion of the transfer of the equity interests or assets pursuant to the call option. Shanghai Baozun is entitled to all dividends and other distributions declared by Shanghai Zunyi, and each of

the shareholders of Shanghai Zunyi has agreed to give up their rights to receive any distributions or proceeds from the disposal of their equity interests in Shanghai Zunyi and to pay any such distributions or premium to Shanghai Baozun with deduction of applicable taxes. The exclusive call option agreement remains in effect until the equity interest and assets that are the subject of such agreements are transferred to Shanghai Baozun or its designated entities or individuals. To the extent permitted by law, Shanghai Zunyi and its shareholders are not contractually entitled to terminate the exclusive call option agreement with Shanghai Baozun.

Proxy Agreement. On July 28, 2014, Shanghai Zunyi, each of its shareholder and Shanghai Baozun entered into a voting right proxy agreement, or the Proxy Agreement. Each shareholder of Shanghai Zunyi granted an irrevocable power of attorney to Shanghai Baozun that authorizes any person designated by Shanghai Baozun to exercise his rights as an equity holder of Shanghai Zunyi, including the right to attend and vote at equity holders' meetings and appoint directors. The proxy agreement has an initial term of 20 years and will be automatically renewed on a yearly basis thereafter unless otherwise notified by Shanghai Baozun. If (i) the operating term of Shanghai Baozun or Shanghai Zunyi expires; or (ii) the parties thereto mutually agree on an early termination, the proxy agreement may be terminated. To the extent permitted by law, Shanghai Zunyi and its shareholders are not contractually entitled to terminate the proxy agreement with Shanghai Baozun.

Equity Interest Pledge Agreements. On July 28, 2014, Shanghai Zunyi and its shareholders entered into equity interest pledge agreements with Shanghai Baozun. The shareholders of Shanghai Zunyi pledged all of their equity interests in Shanghai Zunyi to Shanghai Baozun to secure their and Shanghai Zunyi's obligations under certain agreements above and other agreed obligations and as collateral for all of the amounts payable by Shanghai Zunyi to Shanghai Baozun under those agreements. If any event of default as defined under this agreement occurs, Shanghai Baozun, as the pledgee, will be entitled to dispose of the pledged equity interests. In addition, any increase in the registered capital of Shanghai Zunyi will be further pledged in favor of Shanghai Baozun. The equity interest pledge agreements will remain in full effect until all the secured contractual obligations have been performed or all the secured debts have been discharged. Under PRC laws, the equity pledge is required to be registered with the SAIC or its competent branches for perfection. The equity pledge of Shanghai Zunyi has already been registered with the relevant branch of the SAIC.

As a result of these contractual arrangements, we have the power to direct the activities of Shanghai Zunyi, and through the service fee paid to us under the exclusive technology service agreement, we can receive substantially all of the economic benefits of Shanghai Zunyi even though we do not receive all of the revenues generated by Shanghai Zunyi.

In the opinion of Fangda Partners, our PRC legal counsel, (i) the ownership structures of Shanghai Baozun and Shanghai Zunyi do not violate any applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangements between Shanghai Baozun, Shanghai Zunyi and its shareholders governed by PRC law are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect, and do not violate any PRC laws or regulations currently in effect.

However, our PRC legal counsel has also advised us 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 take a view that is contrary to the opinion of our PRC legal counsel. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to Shanghai Zunyi do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by our VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.”

D. Property, Plants and Equipment

Properties and Facilities

We are headquartered in Shanghai and leased an aggregate of approximately 19,151 square meters of offices and operation centers as of December 31, 2016. In addition, as of December 31, 2016, we leased seven warehouses with an aggregate gross floor area of approximately 174,943 square meters in Guangzhou, Suzhou, and Hong Kong. Our premises are leased under operating lease agreements from unrelated third parties.

In April 2017, we entered into contracts with an unrelated third party, pursuant to which we would acquire the land use right for an area of 133,542.40 square meters, building with a gross floor area of 118,201.97 square meters, and equipment in the buildings, which are located in Suzhou, China, for a consideration of RMB254.0 million (US\$36.6 million) in cash. We plan to use the facility as our warehouse.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations is based upon and should be read in conjunction with our audited consolidated combined financial statements and unaudited consolidated

combined financial information included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. See “—G. Safe Harbor.” Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

A. Operating Results

Overview

We are the leading brand e-commerce service partner in China. The number of our brand partners grew from 93 as of December 31, 2014 to 113 as of December 31, 2015 and to 133 as of December 31, 2016. These brands encompass diverse categories, including apparel, appliances, electronics, home and furnishings, food and health products, cosmetics, fast moving consumer goods, insurance and automobiles. Many of our brand partners, such as Philips, Nike and Microsoft, are leaders in their respective industries.

We believe our brand partners value us for our integrated e-commerce capabilities, dependable services, deep category expertise, market insight and ability to innovate and adapt to the fast-changing e-commerce market. Our end-to-end brand e-commerce capabilities allow us to leverage brand partners’ unique resources and seamlessly integrate with their back-end systems to enable data tracking and analytics for the entire transaction value chain, making our services a valuable part of our brand partners’ e-commerce functions. We help our brand partners establish market presence and launch products quickly on official brand stores and major online marketplaces in China, such as Tmall and JD.com, as well as on social media platforms, such as WeChat and Weibo. In May 2016 and January 2017, we were consecutively recognized by Tmall as its six-star e-commerce service partner based on a suite of performance measures, including operational capabilities, brand development capabilities and service ratings. This was the highest ranking awarded to any Tmall e-commerce service partner. We also help our brand partners devise and execute O2O strategies to integrate their online and offline retail networks.

We generate revenues from two revenue streams: (i) product sales and (ii) services. We derive product sales revenues primarily through selling products on behalf of brand partners to consumers under the distribution model, and derive services revenues primarily through charging brand partners and other customers fees under the consignment model and the service fee model. For services provided under the consignment model and service fee model, we charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled. Beginning in the third quarter of 2015, we have had two reportable operating segments consisting of the brand e-commerce segment and Maikefeng segment.

Our GMV was RMB4,248.9 million, RMB6,735.3 million and RMB11,264.8 million (US\$1,622.5 million) in 2014, 2015 and 2016, respectively. In 2014, 2015 and 2016, our total net revenues were RMB1,584.4 million, RMB2,598.4 million, and RMB3,390.3 million (US\$488.3 million), respectively. For the same periods, net revenues from product sales accounted for 74.9%, 74.7%, and 64.2%, respectively, of our total net revenues. We incurred net loss of RMB59.8 million in 2014, and recorded net income of RMB22.6 million, and RMB85.4 million (US\$12.3 million) in

2015 and 2016, respectively. We had non-GAAP net income of RMB25.1 million, RMB47.8 million, and RMB119.6 million (US\$17.2 million) in 2014, 2015 and 2016, respectively. See “Item 3. Key Information—A. Selected Financial Data—Non-GAAP Financial Measures.”

We currently operate our Maikefeng platform through our PRC consolidated VIE, Shanghai Zunyi. The revenues from Shanghai Zunyi contributed 1.3%, 3.6% and 3.0% of our total net revenues in 2014, 2015 and 2016, respectively.

Factors Affecting Our Results of Operations

Our results of operations and financial condition are affected by the general factors driving the retail industry and online retail, including:

Levels of per capita disposable income and consumer spending in China and our target markets. Consumer spending power has been rising in China and in our other target markets in Asia, including Hong Kong and Taiwan. The growth of the e-commerce market in these markets depends on continued increase in consumption.

Development and popularity of e-commerce in China and in our target markets. Driven by the growth of the internet, broadband, personal computer and mobile penetration and the development of fulfillment, payment and other ancillary services associated with online purchases, e-commerce is expected to rapidly rise in significance in China and in our other target markets in Asia. The growing number of online shoppers has made online marketplaces and other e-commerce channels into popular retail platforms for brands. The growth of our business depends on the development and popularity of e-commerce, and the value of e-commerce as part of brands' expansion strategies.

While our business is influenced by general factors affecting our industry, our operating results are more directly affected by company specific factors, including the following major factors:

Our ability to retain and attract brand partners. The number of our brand partners directly affects our total revenues. We would need to continue to maintain and expand our brand partner base to maintain and grow our revenues.

Our ability to increase GMV. We generate the majority of our revenues through product sales. Increases in GMV and revenues depend on our ability to attract higher traffic to the online stores, convert more store visitors into consumers, increase consumers' order values, grow repeat customer base, provide superior experience to consumers and expand product offerings.

Our ability to enhance cooperation with marketplaces. We generate the majority of our revenues primarily through product sales on official marketplace stores that we operate on Tmall. Our future growth depends on our ability to enhance cooperation with Tmall and expand working relationships with other major online marketplaces, such as JD.com and WeChat.

Our ability to innovate. Our ability to innovate and continue to strategize new value-added brand e-commerce service through improved technologies, especially data analytics and marketing know-how, is key to better serving our brand partners and helping them enhance their e-commerce success. This will in turn contribute to our ability to retain and attract brand partners, sell more solutions and generate more revenues.

Our ability to manage our business model mix. We generally operate e-commerce businesses for our brand partners based on one of the three business models: distribution model, consignment model and service fee model, or, in some circumstances, a combination of these business models. We derive product sales revenues when we sell products to consumers under the distribution model. We derive services revenues under the consignment model and the service fee model. For services provided under the consignment model and the service fee model, we charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled. Our operating margin tends to be higher for the consignment model and the service fee model compared with that of the distribution model. Our net revenues as a percentage of our GMV and our profitability could vary depending on the mix of our product sales revenues and services revenues. In general, our net revenues as a percentage of our GMV are lower but our profitability is higher when services revenues contribute to a larger share of our revenues.

Our ability to manage our product mix. Our product mix affects our revenue mix and profitability. Depending on the product category, we may derive more revenues from product sales than service fees, or vice versa, which may further impact our profitability.

Our ability to effectively invest in our technology platform and fulfillment infrastructure. Our results of operations depend in part on our ability to invest in our technology platform and fulfillment infrastructure cost-effectively.

Our ability to manage growth, control costs and manage working capital. Our expansion will result in substantial demands on our management, operational, technological, financial and other resources. Our ability to control cost and manage working capital is key to our success. Our continued success depends on our ability to leverage our scale to obtain more favorable terms, including better credit terms and larger credit lines, from our brand partners, marketplaces, advertising partners, lessors of warehouses and logistics service providers. Our ability to gain better insight in inventory turnover and sales patterns, which allows us to better optimize our working capital, may also affect our operations.

Financial Operations Overview

The following describes key components of our statements of operations:

Revenues

We generate revenues from two revenue streams: (i) product sales and (ii) services. We generally operate e-commerce businesses based on one of the three business models: distribution model, consignment model, and service fee model, or, in some circumstances, a combination of the business models.

We derive product sales revenues when we sell products to consumers under the distribution model. We select and purchase goods from our brand partners and/or their authorized distributors and sell branded goods directly to consumers through our online stores. Revenues generated from product sales include fees charged to consumers for shipping and handling expenses. We record product sales revenue, net of return allowances, value added tax and related surcharges, when the products are delivered and accepted by consumers. We offer consumers an unconditional right of return for a typical period of seven days upon receipt of products. Return allowances, which reduce net revenues, are estimated based on our analysis of returns by categories of products based on historical data we have maintained, and subject to adjustments to the extent that actual returns differ or are expected to differ.

We derive services revenues under the consignment model and service fee model. Under the consignment model and service fee model, we provide a variety of e-commerce services, such as IT solutions, online store operation, digital marketing, and customer service to our brand partners and other customers. Under the consignment model, in addition to these services, we also provide warehousing and fulfillment services. We may also facilitate our brand partners' online sales of goods as an agent under the consignment model and charge our brand partners commission fees calculated based on a formula pre-agreed with our brand partners. We do not take title to the products, do not have any latitude in establishing prices and selecting merchandise, have no discretion in selecting suppliers and generally are not involved in determining product specifications under the consignment model or service fee model. Based on these characteristics, we record the commission fees as services revenue.

For services provided under the consignment model or service fee model, we charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled. In particular, variable fees based on GMV is calculated using a predetermined ratio that we have negotiated with our brand partners, which may vary depending on factors such as the type and extent of the services we render. Revenues generated from services relating to online store design and setup and marketing and promotion services for brand partners are recognized when the services are rendered. Revenue generated from services relating to online store operations, customer services, and

warehouse and fulfillment services consisted of both fixed fees and variable fees based on the value of merchandise sold or other variable factors such as number of orders fulfilled. Fixed fees are recognized as revenues ratably over the service period. Variable fees are recognized as revenues when they become determinable based on the GMV and confirmed by our brand partners.

The following table sets forth our revenues by source for each period indicated.

| | For the Year Ended December 31, | | | | | | |
|--------------------|---------------------------------|-------|-----------|-------|-----------|---------|-------|
| | 2014 | | 2015 | | 2016 | | |
| | RMB | % | RMB | % | RMB | US\$ | % |
| Net revenues | | | | | | | |
| Product sales | 1,187,162 | 74.9 | 1,940,649 | 74.7 | 2,176,447 | 313,474 | 64.2 |
| Services | 397,258 | 25.1 | 657,794 | 25.3 | 1,213,828 | 174,828 | 35.8 |
| Total net revenues | 1,584,420 | 100.0 | 2,598,443 | 100.0 | 3,390,275 | 488,302 | 100.0 |

The following table sets forth the following operating data for each period indicated.

| | For the Year Ended December 31, | | |
|--|---------------------------------|------------------------|-------------------------|
| | 2014 | 2015 | 2016 |
| Number of brand partners as of the period end ⁽¹⁾ | 93 | 113 | 133 |
| Number of GMV brand partners as of the period end ⁽²⁾ | 78 | 95 | 122 |
| Total GMV ⁽³⁾ (RMB in millions) | 4,248.9 ⁽⁴⁾ | 6,735.3 ⁽⁴⁾ | 11,264.8 ⁽⁴⁾ |
| Distribution GMV ⁽⁵⁾ | 1,371.5 | 2,262.7 | 2,534.1 |
| Non-distribution GMV ⁽⁶⁾ | 2,877.4 | 4,472.6 | 8,730.7 |
| Average GMV per GMV brand partner ⁽⁷⁾ (RMB in millions) | 61 | 75 | 102 |

(1) Brand partners are defined as companies for which we operate official brand stores or official marketplace stores under their brand names or have entered into agreements to do so.

(2) GMV brand partners are defined as brand partners that contributed to our GMV during the respective periods.

(3) GMV is defined as (i) the full value of all purchases transacted and settled on stores operated by us (including our Maikefeng platform but excluding stores for the operations of which we only charge fixed fees) and (ii) the full value of purchases for which consumers have placed orders and paid deposits on such stores and which have been settled offline. Our calculation of GMV includes value added tax and excludes (i) shipping charges, (ii) surcharges and other taxes, (iii) value of the goods that are returned and (iv) deposits for purchases that have not been settled.

(4) GMV of our Maikefeng platform was RMB33.9 million, RMB213.5 million, and RMB157.4 million (US\$22.7 million) in 2014, 2015 and 2016, respectively.

(5) Distribution GMV refers to the GMV under the distribution business model.

(6) Non-distribution GMV refers to the GMV under the service fee business model and the consignment business model.

(7) Average GMV per GMV brand partner is calculated by dividing GMV (excluding Maikefeng) by the average number of GMV brand partners as of the beginning and end of the respective periods.

Our net revenues as a percentage of our GMV slightly increased from 37.3% in 2014 to 38.6% in 2015, and decreased to 30.1% in 2016. Our net revenues as a percentage of our GMV in 2016 decreased due to increase in the proportion of revenues generated from services. The trend of our net revenues as a percentage of our GMV in the future depends on the relative proportion of services revenues and product sales revenue.

Operating expenses

Our operating expenses consist primarily of cost of products, fulfillment expenses, sales and marketing expenses, technology and content expenses, and general and administrative expenses. The following table breaks down our total operating expenses by these categories, by amounts and as percentages of total net revenues for each of the periods presented.

| | For the Year Ended December 31, | | | | | | |
|-------------------------------|------------------------------------|---------|-------------|---------|-------------|-----------|---------|
| | 2014 | | 2015 | | 2016 | | |
| | RMB | % | RMB | % | RMB | US\$ | % |
| | (in thousands, except percentages) | | | | | | |
| Net revenues | 1,584,420 | 100.0 | 2,598,443 | 100.0 | 3,390,275 | 488,302 | 100.0 |
| Operating expenses | | | | | | | |
| Cost of products | (1,086,133) | (68.6) | (1,735,820) | (66.8) | (1,921,856) | (276,805) | (56.7) |
| Fulfillment | (168,130) | (10.6) | (325,159) | (12.5) | (540,857) | (77,900) | (16.0) |
| Sales and marketing | (226,952) | (14.3) | (403,519) | (15.5) | (658,819) | (94,890) | (19.4) |
| Technology and content | (63,607) | (4.0) | (59,946) | (2.3) | (95,638) | (13,775) | (2.8) |
| General and administrative | (96,911) | (6.1) | (73,678) | (2.8) | (88,274) | (12,714) | (2.6) |
| Other operating expenses, net | 457 | 0.0 | 8,130 | 0.3 | 5,235 | 754 | 0.2 |
| Total operating expenses | (1,641,276) | (103.6) | (2,589,992) | (99.6) | (3,300,209) | (475,330) | (97.3) |

Cost of products is incurred under the distribution model. Cost of products consists of the purchase price of products and inbound shipping charges, as well as inventory write-downs. Inbound shipping charges to receive products from the suppliers are included in the inventories, and recognized as cost of products upon sale of the products to the consumers. Our cost of products does not include other direct costs related to cost of product sales such as shipping and handling expenses, payroll and benefits of staff, logistic centers rental expenses and depreciation expenses. Therefore our cost of products may not be comparable to other companies which include such expenses in their cost of products.

Our fulfillment expenses primarily consist of (i) expenses charged by third-party couriers for dispatching and delivering products to consumers, (ii) expenses incurred in operating our fulfillment and customer service center, including personnel cost and expenses attributable to buying, receiving, inspecting and warehousing inventories, retrieval, packaging and preparing customer orders for shipment, and store operations, (iii) rental expenses of leased warehouses, and (iv) packaging material costs. We expect our fulfillment expenses to increase as we will hire additional fulfillment personnel and lease more warehouses to meet the demand driven by the increase in GMV and the expansion of our fulfillment services. We plan to make our fulfillment operations more efficient by setting up automated warehouse facilities to make full use of the available space and improve the workflow efficiency.

Our sales and marketing expenses primarily consist of payroll, bonus and benefits of sales and marketing staff, advertising costs, service fees paid to marketplaces, agency fees and costs for promotional materials. Our sales and marketing expenses have increased in recent years primarily due to the growth of our sales and marketing team and an expansion of our marketing efforts. We expect that our sales and marketing expenses will continue to increase due to our increased sales volume contributed by our existing and new brand partners and as we devote further efforts to expand digital marketing services for our brand partners and engage in additional advertising activities to increase the GMV of stores operated by us.

Our technology and content expenses consist primarily of technology infrastructure expenses and payroll and related expenses for employees in our technology and system department, and editorial content expenses. We expect spending in technology and content to increase over time as we add more experienced IT professionals and continue to invest in our technology platform to provide comprehensive services to brand partners.

Our general and administrative expenses consist primarily of payroll and related expenses for our management and other employees involved in general corporate functions, office rentals, depreciation and amortization expenses relating to property and equipment used in general and administrative functions, professional service and consulting fees and other expenses incurred in connection with general corporate purposes. We expect our general and administrative expenses to increase as we incur additional expenses in connection with the expansion of our business and our operations, which include adding more staff to our general and administrative team.

Taxation

Cayman Islands

We are not subject to income or capital gains tax under the current laws of the Cayman Islands. The Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 16.5% on its taxable income generated from operations in Hong Kong. Hong Kong does not impose a withholding tax on dividends.

China

Generally, our subsidiaries and consolidated VIE in China are subject to enterprise income tax on their taxable income in China at a rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

We are subject to VAT at a rate of 17% on product sales and 6% on our services, in each case less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital entered into on August 21, 2006 and receives approval from the relevant tax authority. If the relevant Hong Kong entity satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong entity would be subject to withholding tax at the standard rate of 5%.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.”

Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences 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. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

We provide brand e-commerce solutions to our brand partners and have two revenue streams: (i) product sales and (ii) services. Consistent with the criteria of ASC 605, Revenue Recognition, we recognize revenues when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

We generate revenues from selling branded products directly to consumers under the distribution model or facilitate our brand partners’ sales of products as an agent under the consignment model.

We evaluate whether it is appropriate to record proceeds from product sales as revenues at the gross amount or the net amount as commission fees earned in accordance with ASC 605-45-45.

Product Sales

Under the distribution model, we select and purchase goods from our brand partners and/or their authorized distributors and sell goods directly to consumers through online stores operated by us or on our Maifefeng platform. Revenue under the distribution model is recognized on a gross basis and presented as product sales in the consolidated statements of operations, because (i) we, rather than the brand partner, are the primary obligor and are responsible to the consumers for the key aspects of the fulfillment of the transaction including pre-sales and after-sales services; (ii) we bear the physical and general inventory risk once the products are delivered to our warehouse; (iii) we have latitude in establishing prices; and (iv) we have credit risk. The majority of revenues generated from selling branded products are under the distribution model and recognized on a gross basis.

Product sales, net of return allowances, value added tax and related surcharges, are recognized when consumers accept the products upon delivery. We offer online consumers an unconditional right of return for a period of seven days upon receipt of products. Return allowances, which reduce revenue, are estimated based on historical data we have maintained and our analysis of returns by categories of products, and subject to adjustments to the extent that actual returns differ or expected to differ.

A majority of our consumers make online payments through third-party payment platforms when they place orders on our online stores. The funds will not be released to us by these third-party payment platforms until the consumers accept the delivery of the products at which point we recognize sales of products.

A portion of our consumers pay upon the receipt of our products. Our delivery service providers collect the payments from our consumers for us. We record a receivable on the balance sheet with respect to cash held by third-party couriers.

Shipping and handling charges are included in net revenues. We typically do not charge shipping fees on orders exceeding a certain sale amount. Shipping revenue has not been material for the periods presented. Our shipping costs are presented as part of our operating expenses.

Services

In some instances, we facilitate the brand partners' online sales of their respective branded products as an agent. We do not take title to the products, do not have any latitude in establishing prices and selecting merchandise, have no discretion in supplier selection, and generally are not involved in the determination of products specification. Based on these indicators, we have determined that revenue from our sales of products where we act as an agent are service fees in nature. Therefore, we record commission fees from our brand partners based on a pre-determined formula as services revenue in the consolidated statements of operations.

We also provide IT, online store operations, marketing and promotion, customer service, warehousing and fulfillment, and other services to our brand partners. Brand partners may elect to use our comprehensive end-to-end e-commerce solutions or select specific elements of our e-commerce supporting infrastructure and service that best fit their needs. We charge our brand partners a combination of fix fees and/or variable fees based on the value of merchandise sold or other variable factors such as number of orders fulfilled. Revenue generated from these service arrangements is recognized on a gross basis and presented as services revenue in the consolidated statements of operations. All the costs that we incur in the provision of the above services are classified as operating expenses on the consolidated statements of operations.

Revenue generated from services relating to IT service, and marketing and promotion services for brand partners are recognized when the services are rendered. Revenue generated from services relating to online store operations, customer services, and warehouse and fulfillment services consisted of both fixed fees and variable fees based on the value of merchandise sold. Fixed fee is recognized as revenue ratably over the service period. Variable fees are recognized as revenue when they become determinable based on the value of merchandise sold and confirmed by the brand partners.

Some of our service contracts are considered multiple element arrangements as they include provision of a combination of various services based on the brand partner's requirements. These contracts may include one-time online store design and setup services, marketing and promotion services during certain holidays, and continuous online store operation services, warehouse and fulfillment services over a period of time to the same brand partner.

We allocate arrangement consideration in multiple-deliverable revenue arrangements at the inception of an arrangement to all services revenues based on the relative selling price in accordance with the selling price hierarchy, which includes (i) vendor-specific objective evidence, or VSOE, if available; (ii) third-party evidence or TPE, if VSOE is not available, and (iii) best estimate of selling price, or BESP, if neither VSOE nor TPE is available.

VSOE. We determine VSOE based on our historical pricing and discounting practices for the specific service when sold separately. In determining VSOE, we require that a substantial majority of the selling prices for these services fall within a reasonably narrow pricing range. We have historical pricing for online store operation and customer services and warehousing and fulfillment services on a standalone basis. As a result, we have used VSOE to allocate the selling price for these services when they are elements of a multiple element arrangement. We have not historically priced one-time online store design and set up services on a standalone basis, and therefore, we consider TPE and BESP as discussed below.

TPE. When VSOE cannot be established for deliverables in multiple element arrangements, we apply judgment with respect to whether we can establish a selling price based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our business strategy differs from that of our peers, and its offerings contain a significant level of differentiation such that the comparable pricing of services with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor services' selling prices are on a stand-alone basis. As a result, for the periods presented in the consolidated financial statements, we have not been able to establish selling price based on TPE for any of our service offering.

BESP. When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the service were sold on a stand-alone basis. We determine BESP for deliverables by considering multiple factors including, but not limited to, prices we charge for similar offerings and the cost of services we provide. We have used BESP to allocate the selling price of one-time online store design and set up services and marketing and promotion services under these multiple element arrangements. The process for determining BESP involves management judgment. Our process of considering multiple factors may vary depending upon the unique facts and circumstances related to each deliverable. If facts and circumstances underlying the factors we consider change, or should subsequent facts and circumstances lead us to consider additional factors, our BESP could change in future periods. We regularly review the evidence of selling prices for our services and maintain internal controls over the establishment and updates of these estimates. There were no material changes in BESP for our services during the years ended December 31, 2014, 2015 and 2016, nor do we expect a material change in BESP in the foreseeable future.

Inventories

Inventories, consisting of products available for sale, are valued at the lower of cost or market. Cost of inventories is determined using the weighted average cost method. This valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales to individual consumers or liquidations in limited instances due to closure of online stores, and expected recoverable values of each disposition category.

We adopt different strategies to deal with non-seasonal and seasonal demands. In addition, we actively track the sales data and make timely adjustments to our procurement plan in order to minimize the chance of excess unsold inventory. As a result, our obsolete inventory has not been significant. Our inventory provision is made for valuation of inventory at the lower of cost or market value. In addition, we generally reserve for inventories on hand aging over certain period of time. Inventory provisions charged to cost of products were RMB12.5 million, RMB21.1 million and RMB38.8 million (US\$5.6 million) for 2014, 2015 and 2016, respectively.

Share-Based Compensation

Our share-based payment transactions with our directors, employees and consultants are measured based on the grant date fair value of the equity instrument we issued and recognized as compensation expense over the requisite service period based on the straight-line method, with a corresponding impact reflected in additional paid-in capital.

Management is responsible for determining the fair value of options granted to our directors, employees and consultants and considered a number of factors including valuations.

In 2014 and prior to our initial public offering, in determining the fair value of our share options, the binomial option pricing model was applied. The key assumptions used to determine the fair value of the options at the relevant grant dates were as follows. Changes in these assumptions could significantly affect the fair value of stock options and hence the amount of compensation expenses we recognize in our consolidated financial statements.

Our share-based compensation expenses are measured at the fair value of the awards as calculated under the binomial option-pricing model. Assumptions used in the binomial model are presented below:

| | For the Year Ended December 31, | |
|--|---------------------------------|-----------------|
| | 2014 | 2015 |
| Risk-free interest rate (per annum) ⁽¹⁾ | 2.99% | 2.61% ~ 2.833% |
| Contract life (in years) | 10 | 10 |
| Expected volatility range ⁽²⁾ | 50.48% | 48.78% ~ 48.96% |
| Expected dividend yield ⁽³⁾ | 0.00% | 0.00% |
| Fair value of the underlying shares on the date of option grants | RMB13.32 | RMB16.23~22.63 |

(1) We estimate risk-free interest rate based on the yield to maturity of U.S. treasury bonds denominated in US\$ and adjusted for country risk premium of PRC with a maturity similar to the expected expiry of the term.

(2) We estimate the volatility is based on the historical volatility of the comparable companies in the period equal to average time to expiration to the valuation date.

(3) We have never declared or paid any cash dividends on our capital stock, and we do not anticipate any dividend payments on our ordinary shares in the foreseeable future.

The assumptions used in share-based compensation expenses recognition represent our best estimates, but these estimates involve inherent uncertainties and the application of our judgment. If factors change or different assumptions are used, our share-based compensation expenses could be materially different for any period.

Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive share-based awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us for accounting purposes.

For modification of share compensation awards, we record the incremental fair value of the modified award as share-based compensation on the date of modification for vested awards or over the remaining vesting period for unvested awards. The incremental compensation is the excess of the fair value of the modified award on the date of modification over the fair value of the original award immediately before the modification.

The following table sets forth information regarding restricted share units granted to eligible employees and directors:

| Grant Date | Type of equity | Number of Shares Granted | Fair Value per Share | |
|-------------------|-----------------------|-----------------------------|----------------------|------|
| | | | RMB | US\$ |
| August 14, 2015 | Restricted share unit | 385,543 | 16.23 | 2.34 |
| November 23, 2015 | Restricted share unit | 1,773,425 | 17.14 | 2.47 |
| December 31, 2015 | Restricted share unit | 1,817,343 | 17.65 | 2.54 |
| January 18, 2016 | Restricted share unit | 60,000 | 14.32 | 2.06 |
| March 4, 2016 | Restricted share unit | 612,806 | 11.70 | 1.69 |
| May 19, 2016 | Restricted share unit | 1,182,547 | 12.17 | 1.75 |
| July 29, 2016 | Restricted share unit | 204,000 | 15.67 | 2.26 |
| December 29, 2016 | Restricted share unit | 1,604,221 | 25.88 | 3.73 |

In determining the fair value of the restricted share units granted, the closing market price of the underlying shares on the grant date is applied. We apply ASC 718, *Compensation—Stock Compensation*, or ASC 718, to account for our employee share-based payments.

ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. Forfeiture rates are estimated based on historical and future expectations of employee turnover rates and are adjusted to reflect future changes in circumstances and facts, if any. Share-based compensation expenses are recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest. To the extent we revise these estimates in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods.

Fair Value of Our Ordinary Shares

Prior to our initial public offering, we were a private company with no quoted market prices for our ordinary shares. We therefore needed to make estimates of the fair value of our ordinary shares at various dates for the following purposes:

- determining the fair value of our ordinary shares at the date of issuance of convertible instruments as one of the inputs in determining the intrinsic value of the beneficial conversion feature, if any; and

- determining the fair value of our ordinary shares at the date of the grant of a share-based compensation award to our employees as one of the inputs in determining the grant date fair value of the award.

In determining the fair value of our ordinary shares, we applied the income approach/ discounted cash flow, or DCF, analysis based on our projected cash flow using management's best estimate as of the valuation date. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of ordinary shares include:

Discount Rates. The discount rates listed out in the table above were based on the weighted average cost of capital, which was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systemic risk factors.

Comparable Companies. In deriving the weighted average cost of capital used as the discount rates under the income approach, seven publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) they operate in the e-commerce industry and (ii) their shares are publicly traded in developed capital markets, including the United States, South Korea, Japan, Taiwan and the UK.

Discount for Lack of Marketability, or DLOM. DLOM was quantified by the Black-Scholes option pricing model. Under this option-pricing method, the cost of the put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the DLOM. This option pricing method is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of a liquidity event, such as an initial public offering, and estimated volatility of our shares. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. The lower DLOM is used for the valuation, the higher is the determined fair value of the ordinary shares.

The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. Our revenues and earnings growth rates, as well as major milestones that we have achieved, contributed to the increase in the fair value of our ordinary shares from 2012 to the first quarter of 2015.

However, these fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: (i) no material changes in the existing political, legal and economic conditions in China; (ii) our ability to retain competent management, key personnel and staff to support our ongoing operations; and (iii) no material deviation in market conditions from economic forecasts. These assumptions are inherently uncertain.

The option-pricing method was used to allocate enterprise value to preferred and ordinary shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation". The method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock.

The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of our company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board of directors and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimated the volatility of our shares to range from 40.5% to 45.9% based on the historical volatilities of comparable publicly traded companies engaged in similar lines of business. Had we used different estimates of volatility, the allocations between preferred and ordinary shares would have been different.

After our initial public offering, in determining the fair value of our ordinary shares, the closing market price of the underlying shares on the grant dates is applied.

Income Taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. We follow the liability method of accounting for income taxes.

Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on 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. The effect on deferred taxes of a change in tax rate is recognized in our consolidated financial statements in the period of change.

In accordance with the provisions of ASC 740, we recognize in our financial statements the benefit of a tax position if the tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. We estimate our liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process.

We consider positive and negative evidence when determining whether some portion or all of our deferred tax assets will not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods, our historical results of operations, and our tax planning strategies. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the level of our historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will not realize the deferred tax assets resulted from the tax loss carried forward in the future periods.

The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our financial statements in the period in which the audit is concluded. Additionally, in future periods, changes in facts, circumstances and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. As of December 31, 2014, 2015 and 2016, we did not have any significant unrecognized uncertain tax positions.

Adoption of New Accounting Pronouncement

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740)". This update provides accounting guidance related to income taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. We adopted this ASU and have already considered its impact on our consolidated financial statements and related disclosures as of December 31, 2016 and the effect is not material.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" which amended the existing accounting standards for revenue recognition. The core principle of the new guidance is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new guidance also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. We must adopt ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the "new revenue standards").

The new revenue standards may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (the modified retrospective method). The new revenue standards become effective for us on January 1, 2018. We currently anticipates adopting the new revenue standards using the full retrospective method. We are in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10)" to improve the recognition and measurement of financial instruments. The new guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. The guidance also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities and the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This update requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about the entity's leasing arrangements. ASU 2016-02 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018, with early application permitted. A modified retrospective approach is required. We are in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In March, 2016, the FASB issued ASU2016-09, "Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting". This guidance is intended to simplify the employee share-based payment accounting regarding several aspects, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Credit Losses, Measurement of Credit Losses on Financial Instruments. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's incurred loss approach with an expected loss model for instruments measured at amortized cost. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. We are in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments". This amendment provides guidance on eight targeted areas and how they are presented and classified in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, and will require adoption on a retrospective basis. We are in the process of assessing the impact of the adoption of this standard on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows, Restricted Cash", which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. ASU 2016-18 becomes effective for us on January 1, 2018. The adoption of this accounting pronouncement will impact the presentation of restricted cash in our consolidated statements of cash flows. The new guidance permits early adoption. We are in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

Reportable Segments

Our chief operating decision maker has been identified as the chief executive officer, who reviews consolidated results when making decision about allocating resources and assessing performance of the group prior to the third quarter of 2015. Following the further expansion of our online retail platform business, we operated and reviewed our performance in two segments: (i) the brand e-commerce segment, which provides e-commerce solutions to brand partners, including IT services, store operations, digital marketing, customer services, warehousing and fulfillment, and (ii) the Maikefeng segment, which operates the online retail platform. Therefore, the segment information has been restated for all periods presented to reflect the new segment reporting. Furthermore, our chief operating decision maker is not provided with asset information by segment. As such, no asset information by segment is presented. The following tables summarize our revenue and total operating income (loss) generated by its segments.

| | For Year Ended December 31, | | | US\$ |
|--|-----------------------------|-----------|-----------|----------|
| | 2014 | 2015 | 2016 | |
| | RMB | RMB | RMB | |
| | (in thousands) | | | |
| Net Revenues | | | | |
| Brand e-commerce | 1,555,404 | 2,528,969 | 3,365,572 | 484,743 |
| Maikefeng | 29,016 | 69,474 | 24,703 | 3,559 |
| Total consolidated net revenues | 1,584,420 | 2,598,443 | 3,390,275 | 488,302 |
| Operating (loss) income | | | | |
| Brand e-commerce | (39,762) | 63,734 | 143,815 | 20,714 |
| Maikefeng | (17,094) | (55,283) | (53,749) | (7,742) |
| Total Operating (loss) income | (56,856) | 8,451 | 90,066 | 12,972 |
| Other Income | (1,046) | 18,384 | 12,189 | 1,755 |
| Income before income tax and share of loss in equity method investment | (57,902) | 26,835 | 102,255 | 14,727 |

Brand e-commerce segment

Net revenues in our brand e-commerce segment increased by 33.1% from RMB2,529.0 million in 2015 to RMB3,365.6 million (US\$484.7 million) in 2016. Net revenues in our brand e-commerce segment increased primarily because service revenue increased from RMB656.2 million in 2015 to RMB1,205.1 million (US\$173.5 million) in 2016, primarily resulting from growth in sales of apparel products sold by existing brand partners as they expanded their online presence and the addition of new brand partners in the same category. This increase was also due to an increase in product sales in our brand e-commerce segment from RMB1,872.8 million in 2015 to RMB2,160.5 million (US\$311.2 million) in 2016.

Net revenues in our brand e-commerce segment increased by 62.6% from RMB1,555.4 million in 2014 to RMB2,529.0 million in 2015. This increase was primarily due to an increase in product sales in our brand e-commerce segment from RMB1,158.1 million in 2014 to RMB1,872.8 million in 2015, resulting from the increased popularity of brand partners' products, increasingly effective promotional and marketing activities and the competitive pricing offered to consumers. Net revenues in our brand e-commerce segment increased also because service revenue increased from RMB397.3 million in 2014 to RMB656.2 million in 2015, resulting from growth in sales of apparel products sold by existing brand partners as they expanded their online presence and the addition of new brand partners in the same category.

Maikefeng segment

Net revenues in our Maikefeng segment decreased by 64.4% from RMB69.5 million in 2015 to RMB24.7 million (US\$3.6 million) in 2016. The decrease was due to Maikefeng's transition from a proprietary retail channel to an open marketplace.

Net revenues in our Maikefeng segment increased by 139.4% from RMB29.0 million in 2014 to RMB69.5 million in 2015. This increase was primarily due to an increase in product sales in our Maikefeng segment from RMB29.0 million in 2014 to RMB67.9 million in 2015, resulting from growth in sales volume. As Maikefeng is in transition from a proprietary retail channel to an open marketplace, revenue derived from product sales may not continue to increase in the future.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated both in absolute amount and as a percentage of our total net revenues. Our historical results of operations are not necessarily indicative of the results for any future period.

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| | For the year ended December 31, | | | | | | |
|--|--|---------|--------------|---------|--------------|------------|---------|
| | 2014 | | 2015 | | 2016 | | |
| | RMB | % | RMB | % | RMB | US\$ | % |
| | (in thousands, except for per share and per ADS data and number of shares) | | | | | | |
| Net revenues | | | | | | | |
| Product sales | 1,187,162 | 74.9 | 1,940,649 | 74.7 | 2,176,447 | 313,474 | 64.2 |
| Services | 397,258 | 25.1 | 657,794 | 25.3 | 1,213,828 | 174,828 | 35.8 |
| Total net revenues | 1,584,420 | 100.0 | 2,598,443 | 100.0 | 3,390,275 | 488,302 | 100.0 |
| Operating expenses⁽¹⁾ | | | | | | | |
| Cost of products | (1,086,133) | (68.6) | (1,735,820) | (66.8) | (1,921,856) | (276,805) | (56.7) |
| Fulfillment | (168,130) | (10.6) | (325,159) | (12.5) | (540,857) | (77,900) | (16.0) |
| Sales and marketing | (226,952) | (14.3) | (403,519) | (15.5) | (658,819) | (94,890) | (19.4) |
| Technology and content | (63,607) | (4.0) | (59,946) | (2.3) | (95,638) | (13,775) | (2.8) |
| General and administrative | (96,911) | (6.1) | (73,678) | (2.8) | (88,274) | (12,714) | (2.6) |
| Other operating income, net | 457 | 0.0 | 8,130 | 0.3 | 5,235 | 754 | 0.2 |
| Total operating expenses | (1,641,276) | (103.6) | (2,589,992) | (99.6) | (3,300,209) | (475,330) | (97.3) |
| Income (loss) from operations | (56,856) | (3.6) | 8,451 | 0.3 | 90,066 | 12,972 | 2.7 |
| Other income (expenses) | | | | | | | |
| Interest income | 3,156 | 0.2 | 8,834 | 0.3 | 11,869 | 1,709 | 0.3 |
| Interest expense | (1,552) | (0.1) | — | — | — | — | — |
| Gain on disposal of investment | — | — | 9,674 | 0.4 | — | — | — |
| Exchange gain (loss) | (2,650) | (0.2) | (124) | 0.0 | 320 | 46 | 0.0 |
| Income (loss) before income tax and share of loss in equity method investment | (57,902) | (3.7) | 26,835 | 1.0 | 102,255 | 14,727 | 3.0 |
| Income tax benefit (expense) | (1,912) | (0.1) | 6,022 | 0.3 | (16,831) | (2,424) | (0.5) |
| Share of loss in equity method investment | — | — | (10,236) | (0.4) | — | — | — |
| Net income (loss) | (59,814) | (3.8) | 22,621 | 0.9 | 85,424 | 12,303 | 2.5 |
| Deemed dividend from issuance of convertible redeemable preferred shares | (16,666) | (1.1) | — | — | — | — | — |
| Change in redemption value of convertible redeemable preferred shares | (79,169) | (5.0) | (25,332) | (1.0) | — | — | — |
| Net loss attributable to noncontrolling interests | — | — | — | — | 1,209 | 174 | 0.0 |
| Net income (loss) attributable to ordinary shareholders of Baozun Inc. | (155,649) | (9.9) | (2,711) | (0.1) | 86,633 | 12,477 | 2.5 |
| Net income (loss) per share attributable to ordinary shareholders of Baozun Inc. | | | | | | | |
| Basic | (5.31) | 0.0 | (0.03) | 0.0 | 0.58 | 0.08 | 0.0 |
| Diluted | (5.31) | 0.0 | (0.03) | 0.0 | 0.53 | 0.08 | 0.0 |
| Net income (loss) per ADS ⁽²⁾ | | | | | | | |
| Basic | (15.93) | 0.0 | (0.08) | 0.0 | 1.74 | 0.25 | 0.0 |

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| | | | | | | | | | |
|--|------------|---|-------------|-------|-------------|-------------|------|------|-----|
| Diluted | (15.93 |) | 0.0 | (0.08 |) | 0.0 | 1.59 | 0.23 | 0.0 |
| Weighted average shares used in calculating net income (loss) per ordinary share | | | | | | | | | |
| Basic | 29,314,067 | — | 102,987,119 | — | 149,935,100 | 149,935,100 | — | | |
| Diluted | 29,314,067 | — | 102,987,119 | — | 163,926,674 | 163,926,674 | — | | |

(1) Share-based compensation expenses are allocated in operating expenses items as follows:

| | For the year ended December 31, | | | |
|----------------------------|---------------------------------|-----------|-----------|----------|
| | 2014 | 2015 | 2016 | |
| | RMB | RMB | RMB | US\$ |
| | (in thousands) | | | |
| Fulfillment | (460) | (1,440) | (1,755) | (253) |
| Sales and marketing | (5,469) | (9,793) | (13,370) | (1,926) |
| Technology and content | (26,311) | (5,047) | (7,875) | (1,134) |
| General and administrative | (52,723) | (8,915) | (11,185) | (1,611) |
| | (84,963) | (25,195) | (34,185) | (4,924) |

(2) Each ADS represents three Class A ordinary shares.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2016.

Net Revenues

Our total net revenues increased by 30.5% from RMB2,598.4 million in 2015 to RMB3,390.3 million (US\$488.3 million) in 2016. Net revenue generated from product sales increased by 12.2% while net revenues from services increased by 84.5%. The increase in our net revenues generated from product sales was primarily due to the increased popularity of brand partners' products, increasingly effective promotional and marketing activities and the competitive pricing offered to consumers. The increase in our net revenues generated from services was primarily due to increase in sales of apparel products sold by existing brand partners as they expanded their online presence and the addition of new brand partners in the same category.

Operating Expenses

Our operating expenses increased by 27.4% from RMB2,590.0 million in 2015 to RMB3,300.2 million (US\$475.3 million) in 2016. This increase was due to the growth of our business, which has resulted in increases in our cost of products, fulfillment expenses, sales and marketing expenses, general and administrative expense, and technology and content expense.

Cost of Products. Our cost of products increased by 10.7% from RMB1,735.8 million in 2015 to RMB1,921.9 million (US\$276.8 million) in 2016. Cost of products as a percentage of net revenues from product sales decreased from 89.4% in 2015 to 88.3% in 2016 due to optimization in our product sales mixture.

Fulfillment Expenses. Our fulfillment expenses increased by 66.3% from RMB325.2 million in 2015 to RMB540.9 million (US\$77.9 million) in 2016. This increase was primarily due to the increase in GMV from RMB6,735.3 million in 2015 to RMB11,264.8 million (US\$1,622.5 million) in 2016 and specifically, (i) an increase in expenses charged by third-party couriers for dispatching and delivering our products, and (ii) an increase in labor cost and expenses attributable to retrieval and sorting, as our volume of product sales increased and we provided more fulfillment services to our brand partners. The increase in our fulfillment expenses was also due to an increase in the percentage of total orders fulfilled by a premium delivery service provider and an increase in rental expenses for our warehouses, which was primarily due to the increase in the aggregate gross floor area leased.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 63.3% from RMB403.5 million in 2015 to RMB658.8 million (US\$94.9 million) in 2016. This increase was primarily due to an increase in marketing and platform service fees from RMB247.4 million in 2015 to RMB409.2 million (US\$58.9 million) in 2016, resulting from an increase in our advertising expenditures on Tmall, as we engaged in more advertising activities to increase the GMV of stores operated by us. This increase was also attributable to increases in the personnel cost and other expenses attributable to online store operations due to the increase in the number of brand partners and online stores operated by us.

Technology and Content Expenses. Our technology and content expenses increased by 59.5% from RMB59.9 million in 2015 to RMB95.6 million (US\$13.8 million) in 2016. The increase was primarily due to increases in the number of technology-focused staff and project-based variable technological expenses from brand stores.

General and Administrative Expenses. Our general and administrative expenses increased by 19.8% from RMB73.7 million in 2015 to RMB88.3 million (US\$12.7 million) in 2016. The increase was primarily due to increases in professional service fees associated with being a publicly listed company.

Other Operating Income, Net. Our other operating income decreased by 35.6% from RMB8.1 million in 2015 to RMB5.2 million (US\$0.8 million) in 2016. The decrease was primarily due to the decrease in government subsidy we received.

Income (Loss) from Operations

As a result of the foregoing, our income from operations increased from RMB8.5 million in 2015 to RMB90.1 million (US\$13.0 million) in 2016.

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Brand e-commerce segment. Income from operations in our brand e-commerce segment increased by 125.6% from RMB63.7 million in 2015 to RMB143.8 million (US\$20.7 million) in 2016.

Maikefeng segment. Loss from operations in our Maikefeng segment decreased by 2.8% from RMB55.3 million in 2015 to RMB53.7 million (US\$7.7 million) in 2016.

Interest Income

Our interest income increased from RMB8.8 million in 2015 to RMB11.9 million (US\$1.7 million) in 2016. This increase was primarily due to higher average cash balance we held in 2016 as a result of proceeds received from our initial public offering.

Gain on Disposal of Investment

Our gain on disposal of investment was nil in 2016 compared with RMB9.7 million in 2015. Our gain on disposal of investment in 2015 was due to partial disposal of our investment in Automoney, an automobile performance solution provider based in China.

Income Tax Benefit (Expense)

Our income tax expense was RMB16.8 million (US\$2.4 million) in 2016, compared with our income tax benefit of RMB6.0 million in 2015. Our income tax expense in 2016 was due to taxable profit generated in the same period.

Share of Loss in Equity Method Investment

Our share of loss in equity method investment was nil in 2016, compared with RMB10.2 million in 2015. Our share of loss in equity method investment in 2015 resulted from our investment in Automoney. Starting from February 2016, we changed to cost method of accounting for our investment in Automoney.

Net Income (Loss)

As a result of the foregoing, our net income increased by 277.6% from RMB22.6 million in 2015 to RMB85.4 million (US\$12.3 million) in 2016.

Net Income (Loss) Attributable to Ordinary Shareholders of Baozun Inc.

Our net income attributable to ordinary shareholders of Baozun Inc. was RMB86.6 million (US\$12.5 million) in 2016, compared with net loss attributable to ordinary shareholders of Baozun Inc. of RMB2.7 million in 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2015.

Net Revenues

Our total net revenues increased by 64.0% from RMB1,584.4 million in 2014 to RMB2,598.4 million in 2015. Net revenue generated from product sales increased by 63.5% while net revenues from services increased by 65.6%. The increase in our net revenues generated from product sales was primarily due to the increased popularity of brand partners' products, increasingly effective promotional and marketing activities and the competitive pricing offered to consumers. The increase in our net revenues generated from services was primarily due to increase in sales of apparel products sold by existing brand partners as they expanded their online presence and the addition of new brand partners in the same category.

Operating Expenses

Our operating expenses increased by 57.8% from RMB1,641.3 million in 2014 to RMB2,590.0 million in 2015. This increase was due to the growth of our business, which has resulted in increases in our cost of products, fulfillment expenses, sales and marketing expenses, partially offset by decreases in the general and administrative expense and technology and content expense.

Cost of Products. Our cost of products increased by 59.8% from RMB1,086.1 million in 2014 to RMB1,735.8 million in 2015. Cost of products as a percentage of net revenues from product sales decreased from 91.5% in 2014 to 89.4% in 2015 due to optimization in our product sales mixture.

Fulfillment Expenses. Our fulfillment expenses increased by 93.4% from RMB168.1 million in 2014 to RMB325.2 million in 2015. This increase was primarily due to the increase in GMV from RMB4,248.9 million in 2014 to RMB6,735.3 million in 2015 and specifically, (i) an increase in expenses charged by third-party couriers for dispatching and delivering our products, and (ii) an increase in personnel cost and expenses attributable to picking and sorting, as our volume of product sales increased and we provided more fulfillment services to our brand partners. The increase in our fulfillment expenses was also due to an increase in the rental expenses for our warehouses, which was primarily due to the increase in the aggregate gross floor area leased.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 77.8% from RMB227.0 million in 2014 to RMB403.5 million in 2015. This increase was primarily due to an increase in promotion and marketing expenses from RMB114.8 million in 2014 to RMB208.0 million in 2015, resulting from the increase in our advertising expenditures on Tmall, as we engaged in more advertising activities to increase the GMV of stores operated by us and enhance the recognition of our Maifeng platform. Our sales and marketing expenses increased also because the personnel cost and expenses attributable to online store operations increased due to the increase in the number of brand partners and online stores operated by us.

Technology and Content Expenses. Our technology and content expenses decreased by 5.8% from RMB63.6 million in 2014 to RMB59.9 million in 2015. The decrease was primarily due to the decrease in share-based compensation expenses, which were partially offset by increases in technology-focused staff from 195 as of December 31, 2014 to 266 as of December 31, 2015 and project-based variable technology expenses from brand stores.

General and Administrative Expenses. Our general and administrative expenses decreased by 24.0% from RMB96.9 million in 2014 to RMB73.7 million in 2015. The decrease was primarily due to a decrease in our share-based compensation expense, which was partially offset by an increase in rental expenses to support business growth and increases in professional service fees as a listed company and an increase in employee benefit resulting from increases in both the headcount of general and administrative employees and their average salary level.

Other Operating Income, Net. Our other operating income increased from RMB0.5 million in 2014 to RMB8.1 million in 2015. The increase was primarily due to the increase in government subsidy we received.

Income (Loss) from Operations

As a result of the foregoing, we derived income from operations of RMB8.5 million in 2015, compared with our loss from operations of RMB56.9 million in 2014.

Brand e-commerce segment. Income from operations in our brand e-commerce segment was RMB63.7 million in 2015, compared with our loss from operations of RMB39.8 million in 2014.

Maikefeng segment. Loss from operations in our Maikefeng segment increased by 223.4% from RMB17.1 million in 2014 to RMB55.3 million in 2015.

Interest Income

Our interest income increased from RMB3.2 million in 2014 to RMB8.8 million in 2015. This increase was primarily due to higher average cash balance we held in 2015 as a result of proceeds received from our initial public offering.

Interest Expense

Our interest expense decreased from RMB1.6 million in 2014 to nil in 2015. This decrease was primarily due to the repayment of short-term borrowings by the end of 2014.

Gain on Disposal of Investment

Our gain on disposal of investment was RMB9.7 million in 2015 compared with nil in 2014. Our gain on disposal of investment in 2015 was due to partial disposal of our investment in Automoney, an automobile performance solution provider based in China.

Income Tax (Expense) Benefit

Our income tax benefit was RMB6.0 million in 2015 compared with our income tax expense of RMB1.9 million in 2014. Our income tax benefit in 2015 was due to the reversal of valuation allowance for deferred tax assets and recognition of deferred tax assets relating to current year temporary differences.

Share of Loss in Equity Method Investment

Our share of loss in equity method investment was RMB10.2 million in 2015 compared with nil in 2014. Our share of loss in equity method investment in 2015 was resulted from our investment in Automoney.

Net Income (Loss)

As a result of the foregoing, we derived net income of RMB22.6 million in 2015, compared with our net loss of RMB59.8 million in 2014.

Net Loss Attributable to Ordinary Shareholders

Our net loss attributable to ordinary shareholders of decreased by 98.3% from RMB155.6 million in 2014 to RMB2.7 million in 2015.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

We have financed our operations primarily through cash generated from operating activities, proceeds from our public offerings and private placements, and short-term bank borrowings. As of December 31, 2016, we had RMB917.3 million (US\$132.1 million) in cash and cash equivalents and RMB50.8 million (US\$7.3 million) in restricted cash. Our cash and cash equivalents generally consist of bank deposits. As of December 31, 2016, we had one-year credit facilities for an aggregate amount of RMB353.4 million (US\$50.9 million) from three Chinese commercial banks. We had RMB228.4 million (US\$32.9 million) available under these credit facilities as of December 31, 2016. As of December 31, 2016, we pledged cash of RMB15.3 million (US\$2.2 million) to banks to secure RMB-denominated letters of guarantee issued to our suppliers by these banks for an aggregate maximum of RMB59.7 million (US\$8.6 million). The terms of these letters of guarantee were within 11 to 24 months. We pledged cash of RMB34.5 million (US\$5.0 million) to banks to secure RMB-denominated bank acceptance note to our suppliers by these banks for an aggregate maximum of RMB115.1 million (US\$16.6 million). We pledged cash of RMB1.0 million (US\$0.1 million) to a bank as guarantee for payment under transactions with a brand partner. As of December 31, 2016, we have utilized credit of RMB80.6 million (US\$11.6 million) as guarantee for the issuance of notes payable and RMB44.4 million (US\$6.4 million) for the issuance of letters of guarantee to our suppliers.

We believe that our current levels of cash balances, cash flows from operations and existing credit facilities will be sufficient to meet our anticipated cash needs to fund our operations for at least the next 12 months. In addition, our cash flows from operations could be affected by our payment terms with our brand partners. Furthermore, we may need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand, we may seek to issue debt or equity securities or obtain additional credit facilities.

Our accounts receivables mainly represent amounts due from customers and consumers and are recorded net of allowance for doubtful accounts. We generally grant a credit period of no more than two weeks to the consumers of our products. We normally charge service fees from our brand partners with a credit period of one month to four months. As of December 31, 2014, 2015 and 2016, our accounts receivables amounted to RMB229.5 million and RMB364.8 million, and RMB624.8 million (US\$90.0 million), respectively. The increase in accounts receivables over these periods was due to the increase in our product sales and service volumes. Our accounts receivables turnover days were 39 days in 2014, 42 days in 2015 and 53 days in 2016. Accounts receivables turnover days remained stable in 2015 as compared with that in 2014. The increase in turnover days for 2016 was due to the increase in proportion of revenues generated from services. Accounts receivables turnover days for a given period are equal to the average accounts receivables balances as of the beginning and the end of the period divided by total net revenues during the period and multiplied by the number of days during the period.

Our inventories was RMB243.0 million, RMB334.3 million and RMB312.1 million (US\$44.9 million) as of December 31, 2014, 2015 and 2016. Our inventory turnover days were 63 days in 2014, 61 days in 2015, and 62 days in 2016. The increase in our inventories from December 31, 2014 to December 31, 2015 reflected the additional inventory required to support our substantially expanded sales volumes. Our inventories as of December 31, 2016 remained constant as compared with our inventories as of December 31, 2015. The slight decrease in our inventory turnover days from 2014 to 2015 reflected minor fluctuations in inventory turnover days typical in the ordinary course of our business. The slight increase in our inventory turnover days from 2015 to 2016 was due to changes in our product mix and our higher level of product purchases based on preferential procurement terms. Inventory turnover days for a given period are equal to the average inventory balances as of the beginning and the end of the period divided by total cost of products during the period and multiplied by the number of days during the period.

Our accounts payable include accounts payable for payments in connection with inventory that we purchased and products sold under the consignment model and service fee model for which we are responsible for payment collection. As of December 31, 2014, 2015 and 2016, our accounts payable amounted to RMB300.0 million, RMB457.5 million, and RMB526.5 million (US\$75.8 million), respectively. The increase in accounts payable reflected significant growth in our scale of operations. Our accounts payable turnover days were 80 days in 2014, 80 days in 2015, and 94 days in 2016. Accounts payable turnover days in 2015 remained stable as compared with that in 2014. The increase in accounts payable turnover days from 2015 to 2016 was mainly due to longer credit periods from our suppliers and brand partners and increased order volumes. Accounts payable turnover days for a given period are equal to the average accounts payable balances as of the beginning and the end of the period divided by total cost of

products during the period and multiplied by the number of days during the period.

Although we consolidate the results of our consolidated VIE, we only have access to cash balances or future earnings of our consolidated VIE through our contractual arrangements with it. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Shanghai Zunyi and its Shareholders.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “— Holding Company Structure.”

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our wholly foreign-owned subsidiary in China only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans. In addition, subject to applicable restrictions under PRC foreign exchange laws and regulations, our wholly foreign-owned subsidiary in China may provide Renminbi funding to their respective subsidiaries through capital contributions and entrusted loans, and to our consolidated VIE only through entrusted loans. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—PRC regulations of loans to PRC entities and direct investment in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of our offerings to make loans or additional capital contributions to our foreign-invested enterprises.”

Renminbi may be converted into foreign exchange for current account items, including interest and trade- and service-related transactions. As a result, our PRC subsidiaries and our consolidated VIE in China may purchase foreign exchange for the payment of license, content or other royalty fees and expenses to offshore licensors, for example.

Our wholly foreign-owned subsidiary may convert Renminbi amounts that it generates in its own business activities, including technical consulting and related service fees pursuant to its contract with the consolidated VIE, as well as dividends it receives from its own subsidiaries, into foreign exchange and pay them to its non-PRC parent companies in the form of dividends. However, current PRC regulations permit our wholly foreign-owned subsidiary to pay dividends to us only out of their accumulated profits, if any, determined in accordance with its articles of association and Chinese accounting standards and regulations. Our wholly foreign-owned subsidiary is required to set aside at least 10% of its after-tax profits after making up for previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE and its local branches.

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

| | For the Year Ended December 31, | | | |
|---|---------------------------------|-----------|-----------|-----------|
| | 2014 | 2015 | 2016 | US\$ |
| | RMB | RMB | RMB | |
| | (in thousands) | | | |
| Net cash provided by (used in) operating activities | (66,488) | 2,202 | 13,441 | 1,936 |
| Net cash used in investing activities | (30,545) | (126,949) | (119,429) | (17,202) |
| Net cash provided by financing activities | 151,104 | 687,743 | 210,719 | 30,350 |
| Net increase in cash and cash equivalents | 54,071 | 562,996 | 104,731 | 15,084 |
| Cash and cash equivalents, beginning of year | 154,156 | 206,391 | 787,257 | 113,389 |
| Effect of exchange rate changes | (1,836) | 17,870 | 25,331 | 3,648 |
| Cash and cash equivalents, end of year | 206,391 | 787,257 | 917,319 | 132,121 |

Operating Activities

Net cash provided by operating activities in 2016 was RMB13.4 million (US\$1.9 million) and primarily consisted of net income of RMB85.4 million (US\$12.3 million), as adjusted for non-cash items and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB38.8 million (US\$5.6 million) of inventory write-down, RMB35.9 million (US\$5.2 million) of depreciation and amortization expenses, RMB34.2 million (US\$4.9 million) of share-based compensation expenses, and deferred income tax of RMB1.5 million (US\$0.2 million). In 2016, the principal items accounting for the changes in operating assets and liabilities were an increase in accounts payable of RMB65.4 million (US\$9.4 million), an increase in notes payable of RMB84.1 million (US\$12.1 million), partially offset by an increase in accounts receivable of RMB260.5 million (US\$37.5 million), an increase in advances to suppliers of RMB40.6 million (US\$5.8 million), a decrease in accrued expenses and other current liabilities of RMB19.0 million (US\$2.7 million), and an increase in inventories of RMB16.5 million (US\$2.4 million). Our accounts payable, notes payable and advances to suppliers increased due to the growth of our business. The increase in our accounts receivable was due to an increase in service fees due from our brand partners as a result of an increase in our sales. The increase in our inventories was due to the growth of our business. Our accrued expenses and other current liabilities decreased primarily due to a decrease in amount received from end customers on behalf of and payable to merchants on Maikefeng marketplace in line with decreased GMV.

Net cash provided by operating activities in 2015 was RMB2.2 million and primarily consisted of net income of RMB22.6 million, as adjusted for non-cash items and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB25.2 million of share-based compensation expenses, RMB23.1 million of depreciation and amortization expenses, RMB21.1 million of inventory write-down, and RMB10.2 million of share of loss in equity method investment, partially offset by RMB9.7 million of gain on disposal of investment, and deferred income tax of RMB13.8 million. In 2015, the principal items accounting for the changes in operating assets and liabilities were an increase in accounts payable of RMB170.5 million, an increase in accrued expenses and other current liabilities of RMB82.5 million, and a decrease in advances to suppliers of RMB15.1

million, partially offset by an increase in accounts receivable of RMB135.5 million, an increase in inventories of RMB112.5 million, an increase in prepayments and other current assets of RMB70.8 million, and an increase in amounts due from related parties of RMB22.4 million. Our accounts payable increased due to the growth of our business. Our accrued expenses and other current liabilities increased primarily due to i) an increase in amount received from end customers on behalf of and payable to merchants on Maikefeng marketplace after Maikefeng open to third party merchants; ii) increases in logistics, marketing and salary expenses payable as a result of business growth. The increase in our accounts receivable was due to an increase in service fees due from our brand partners as a result of an increase in our sales on Singles Day in the fourth quarter in 2015. The increase in our inventories was due to the growth of our business. The increase in our prepayments and other current assets was primarily due to an increase in rebates earned and receivable from suppliers upon reaching purchase thresholds.

Net cash used in operating activities in 2014 was RMB66.5 million and primarily consisted of net loss of RMB59.8 million, as adjusted for non-cash items and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB85.0 million of share-based compensation expenses, RMB13.3 million of depreciation and amortization expenses and RMB12.5 million of inventory write-down. In 2014, the principal items accounting for the changes in operating assets and liabilities were an increase in accounts payable of RMB126.6 million, an increase in accrued expenses and other current liabilities of RMB16.0 million and an increase in note payable of RMB17.0 million, partially offset by an increase in accounts receivable of RMB123.5 million, an increase in inventories of RMB122.1 million, an increase in prepayments and other current assets of RMB16.9 million and an increase in advances to suppliers of RMB10.7 million. Our accounts payable increased because we extended payment dates of certain payables from 2013 to 2014 to better use our cash. The increase in our inventories was due to the growth of our business and the purchase of more products to prepare for the expected stronger promotional sales on Singles Day in 2014. The increase in our accounts receivable was due to the increase in revenues generated from services which have a longer credit period, compared with revenues generated from product sales. Advances to suppliers increased because we purchased more products to prepare for the expected stronger sales during the Singles Day promotion in 2014.

Investing Activities

Net cash used in investing activities was approximately RMB119.4 million (US\$17.2 million) in 2016, primarily for (i) purchase of property and equipment, which comprised equipment for warehouse, computer for newly hired employees and leasehold improvement, addition of intangible assets due to cost incurred for internal development of software, investment in cost method investees, and increase in restricted cash, which were partially offset by proceeds received from maturity of short-term investment, and (ii) cash disposed upon deconsolidation of a subsidiary, Baozun-CJ.

Net cash used in investing activities was approximately RMB126.9 million in 2015, primarily for purchase of short-term investment, and purchase of property and equipment, which comprised equipment for warehouse, computer for newly hired employees and leasehold improvement, addition of intangible assets due to cost incurred for internal development of software, and investment in cost method investees, which were partially offset by proceeds received from partial disposal of an equity method investee, Automoney.

Net cash used in investing activities was approximately RMB30.5 million in 2014, primarily for purchase of property and equipment, which comprised equipment for warehouse, computer for newly hired employees and leasehold improvement, and addition of intangible assets due to cost incurred for internal development of software.

Financing Activities

Net cash provided by financing activities was RMB210.7 million (US\$30.4 million) in 2016, primarily due to proceeds from issuance of 9,000,000 Class A ordinary shares represented by 3,000,000 ADSs in December 2016 of RMB253.7 million (US\$36.5 million), partially offset by payment for repurchase of ordinary shares of RMB45.3 million (US\$6.5 million) and payment of follow-on public offering cost of RMB15.6 million (US\$2.3 million).

Net cash provided by financing activities was RMB687.7 million in 2015, primarily due to proceeds from issuance of ordinary shares upon initial public offering in May 2015 of RMB784.4 million, partially offset by payment of initial public offering cost of RMB77.3 million and for repurchase of ordinary shares of RMB19.5 million.

Net cash provided by financing activities was RMB151.1 million in 2014, primarily due to proceeds from short-term borrowings of RMB160.0 million, proceeds from the issuance of convertible redeemable preferred shares of RMB145.7 million and proceeds from amounts due to investors related to the reorganization in January 2014 of

RMB68.9 million, partially offset by repayments of short-term borrowings of RMB160.0 million and repayment of amounts due to investors related to the reorganization in January 2014 of RMB61.5 million.

Capital Expenditures

We had capital expenditures of RMB29.1 million, RMB58.4 million and RMB92.2 million (US\$13.3 million) for 2014, 2015 and 2016, respectively. Our capital expenditures were used primarily for (i) the purchase of computer hardware, office furniture and equipment and warehouse equipment, (ii) leasehold improvements, and (iii) cost incurred for internal development of software. Actual future capital expenditures may differ from the amounts indicated above.

Our capital expenditures currently in progress are used primarily for the development of our internal software system for customer management and retail operations, as well as the acquisition of land use right, buildings and equipments. We rely on our internal sources in financing these capital expenditures, and currently have no capital commitment, other than the capital commitment regarding the acquisition of land use right, buildings and equipments located in Suzhou, China, as disclosed elsewhere in this annual report. See “Item 4. Information on the Company - D. Property, Plants and Equipment.”

Holding Company Structure

Baozun Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries and consolidated VIE in China. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones 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 foreign-owned subsidiary in China is permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with its articles of association and PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our consolidated VIE in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. Each of our PRC subsidiaries and our consolidated VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. As of December 31, 2016, the amount restricted, including paid-in capital and statutory reserve funds, was RMB427.4 million (US\$61.6 million). Our PRC subsidiaries have never paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

Our VIE, Shanghai Zunyi, contributed an aggregate of 1.3%, 3.6% and 3.0% of our net revenues for the years ended December 31, 2014, 2015 and 2016, respectively.

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

We devote significant resources to our research and development efforts, focusing on developing our technology infrastructure and proprietary systems and enhancing the capability of our Business Intelligence software. We employed 331 IT professionals to design, develop and operate our technology platform as of December 31, 2016.

Our research and development expenses were reported as technology and content expense on the consolidated statements of operations in 2014, 2015 and 2016, respectively, accounting for 4.0%, 2.3% and 2.8% of our total revenues during those periods, respectively.

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 period from January 1, 2016 to December 31, 2016 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause 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, 2016, other than as disclosed elsewhere in this annual report, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholder's equity, or that are not reflected in our consolidated combined 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. Moreover, 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

The following sets forth information regarding our aggregate payment obligations under our contracts and commercial commitments as of December 31, 2016:

| | Payments Due by Period | | | | | | | | | |
|-----------------------------|------------------------|--------|------------------|-------|-----------|--------|-----------|--------|-------------------|--------|
| | Total | | Less than 1 year | | 1-3 years | | 3-5 years | | More than 5 years | |
| | RMB | US\$ | RMB | US\$ | RMB | US\$ | RMB | US\$ | RMB | US\$ |
| Operating lease obligations | 339,490 | 48,897 | 68,980 | 9,935 | 109,220 | 15,731 | 82,405 | 11,869 | 78,885 | 11,362 |

G.

Safe Harbor

This report contains forward-looking statements within the meaning of section 27A of the Securities Act, and section 21E of the Exchange Act, and as defined in the Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements.”

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.

| Directors and Executive Officers | Age | Position/Title |
|----------------------------------|-----|--------------------------------------|
| Vincent Wenbin Qiu | 49 | Director and Chief Executive Officer |
| Junhua Wu | 38 | Director and Chief Operating Officer |
| Satoshi Okada | 58 | Director |
| Qian Wu | 43 | Director |
| David McKee Hand | 43 | Independent Director |
| Yiu Pong Chan | 44 | Independent Director |
| Bin Yu | 47 | Independent Director |
| Steve Hsien-Chieng Hsia | 53 | Independent Director |
| Benjamin Changqing Ye | 46 | Independent Director |
| Beck Zhaoming Chen | 34 | Chief Financial Officer |
| Tony Yongjun Wu | 52 | Chief Technology Officer |
| Frank Lie Ma | 40 | Chief Strategy Officer |
| Aaron Kwok Yuen Lung | 52 | Vice president |
| Peter Tao Liang | 29 | Vice president |

Mr. Vincent Wenbin Qiu is one of our co-founders. Since the founding of our business in 2007, Mr. Qiu has served as chairman of our board of directors and our chief executive officer. Mr. Qiu also has served as a director of several companies invested by us. Prior to founding our company, Mr. Qiu founded Shanghai Erry Network Technology Ltd., or Shanghai Erry, in 2000, a company specialized in providing supply chain management solutions and services to consumer brands in China, and served as Shanghai Erry's chief executive officer from 2000 to 2007. From 1992 to 2000, Mr. Qiu worked as a technical and solution architect and held technical management positions in various multinational companies, including NCR (China) Limited, HP China Co., Ltd. and Sun Microsystems (China) Limited. Mr. Qiu obtained his bachelor's degree in electronic engineering from Tsinghua University in 1992.

Mr. Junhua Wu is one of our co-founders and has served as our chief operating officer since the founding of our business in 2007 and as our director since 2012. He primarily supervises our apparel and beauty business. From 2001 to 2006, Mr. Wu served as director of the professional service department at Shanghai Erry. From 2000 to 2001, he worked as senior IT manager in Goodbaby International Group, an international durable juvenile products company headquartered in China. Mr. Wu graduated from Shanghai Jiao Tong University where he studied computer science in 2000.

Mr. Satoshi Okada has served as a member on our board since October 2014. Mr. Okada has also served as director at Alibaba.com Japan since 2008, as a director of GDS Holdings Limited, a China-based developer and operator of