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## OUR BUSINESS

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### OVERVIEW

#### Our mission

Driven by technological innovation and customer needs, we strive to become the leading global brand e-commerce business partner.

#### Business overview

We are the leader and a pioneer in the brand e-commerce service industry in China, with a 7.9% market share as measured by GMV in 2019, according to iResearch. China's brand e-commerce service industry represents the third-party service industry in which e-commerce service providers provide e-commerce services to brands, including IT solutions, online store operation, marketing, customer services, and warehousing and fulfillment. We empower a broad and diverse range of brands to grow and succeed by leveraging our end-to-end e-commerce service capabilities, omni-channel coverage and technology-driven solutions. We help brands execute their e-commerce strategies in China.

Underpinned by the rapidly-developing e-commerce industry in China, the brand e-commerce service industry has prospered and reached a total market size of RMB563.5 billion (US\$79.6 billion) as of December 31, 2019, according to iResearch. The growth rate of China's brand e-commerce service industry is expected to continue to outpace that of China's B2C e-commerce industry as brand e-commerce service providers that offer e-commerce solutions to brands to help them run their e-commerce business in China have more professional operations teams that can better improve product sales, brand influence and customer experience than such brand partners themselves running B2C online stores. The market size of China's brand e-commerce service industry is expected to grow at an estimated CAGR of 23.9% from 2019 to 2025, compared to an estimated CAGR of 18.5% for the B2C e-commerce industry over the same period, according to iResearch. The current penetration rate of the brand e-commerce service industry as a percentage of the B2C e-commerce industry is still low with substantial potential for future growth. The penetration is expected to increase from 10.5% in 2019 to 13.7% in 2025, according to iResearch.

Our competitive advantages have enabled us to achieve rapid growth in the number of our brand partners to 231 brand partners as of December 31, 2019, including 15 out of the top 50 most valuable global brands in the non-public-service sector in terms of brand value in 2019, according to BrandZ Top 100 Most Valuable Global Brands. We serve global leaders in their respective verticals such as Philips, Nike and Microsoft. Our ability to help brand partners navigate through the challenges imposed by COVID-19 leveraging our efficient e-commerce operational capabilities and effective digital marketing solutions demonstrates the value of our services. With our excellent performance, we managed to acquire 19 new partners in the first half of 2020 and grow our brand partner portfolio to a total of 250 as of June 30, 2020.

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We are able to capture the huge market opportunities with our deep understanding of the needs of various brands, which allow us to offer value propositions differentiated from other market players.

- **Multi-category, multi-brand capabilities:** We are capable of serving brands of different types, different scales and at different stages of development. We provide in-depth, industry specific domain knowledge across the e-commerce value chain.
- **Full-scope services:** We provide integrated one-stop solutions to address all core aspects of e-commerce operations, including IT solutions, online store operation, digital marketing, customer service, and warehousing and fulfilment. Our ability to provide one-stop e-commerce solutions is empowered by our proprietary and robust technology stack, including our Cloud-based System that enables efficient setup of official brand stores and official brand Wechat Mini Programs, ROSS that facilitates smooth and efficient online store operations, big data analytics and AI capabilities that drive our efficient and effective digital marketing solutions, CRM that supports attentive real-time pre-sale and post-sale customer services and engagement, and OMS and WMS that enable integrated and reliable multi-category warehousing and fulfillment services. We constantly develop new technologies and infrastructure in order to provide innovative and reliable solutions to our brand partners.
- **Omni-channel coverage:** We help brand partners adapt to and thrive on China's complex e-commerce landscape and evolving e-commerce channels. We enable brands to integrate online and offline operations. We help brand partners formulate and implement coherent e-commerce strategies, which requires holistic performance analysis across channels and balanced tactics for different platforms.

We are devoted to innovation in order to maintain and strengthen our market leading position, both in our business model and technology stack. Our comprehensive end-to-end service capabilities, along with our in-depth industry knowledge and integrated technology platforms and solutions, enable different brands to plan and execute e-commerce strategies efficiently. With the strong compatibility of our IT systems, we are able to provide omni-channel solutions across official brand stores, online marketplaces, such as Tmall, JD.com and Pinduoduo, and social media channels, such as WeChat Mini Programs and RED (Xiaohongshu), as well as emerging live streaming and short video platforms, such as Douyin and Kuaishou. We will continue to focus on business and technology innovation to further enhance our value proposition.

Leveraging our technology capabilities, we have continuously expanded and enhanced our service offerings to brand partners throughout our history. Our technology stack can support all categories of products and is comprised of three layers:

- **Front-end systems,** including various omni-channel technology solutions, customized SaaS tools and efficiency-oriented applications.

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- **Middle-end systems**, including our powerful and versatile middle-end tools for order management, logistics management, warehouse management and customer analysis and relationship management.
- **Back-end infrastructure**, including proprietary Baozun Hybrid Cloud (寶尊雲) with strong computing, storage and network capabilities and Big Data Platform, our proprietary system that supports big data analytics.

Based on the different needs of our brand partners, we operate under three business models: distribution model, service fee model and consignment model. The distribution model primarily generates product sales revenue and the other two models generate services revenue.

	<u>Distribution Model</u>	<u>Service Fee Model</u>	<u>Consignment Model</u>
Description	Under the distribution model, we select and purchase goods from our brand partners and/or their authorized distributors and sell such goods directly to end consumers, generating product sales revenue.	Under the service fee model, we offer one or more of the following services to our brand partners: IT solutions, online store operation, digital marketing and customer services.	Under the consignment model, we offer warehousing and fulfillment services to our brand partners in addition to the service offerings under the service fee model.
Customers	End consumers	Brand partners	Brand partners
Whether we hold inventory and are subject to inventory risk	Yes. We assume inventory ownership under the distribution model and thus are subject to inventory risk. We carefully select brand partners with low inventory risks and high growth potential for this model.	No	No

Our GMV grew from RMB19,112.2 million in 2017 to RMB29,426.0 million in 2018 and further to RMB44,410.3 million in 2019 at a CAGR of 52.4%. Our GMV for the six months ended June 30, 2020 was RMB21,967.6 million (US\$3,109.3 million), a 25.1% year-over-year growth from RMB17,556.7 million for the six months ended June 30, 2019, in spite of the impact of COVID-19. Our total net revenues increased from RMB4,148.8 million in 2017 to RMB5,393.0 million in 2018 and further to RMB7,278.2 million in 2019 at a CAGR of 32.4%. Our total net revenues for the six months ended June 30, 2020 were RMB3,675.7 million (US\$520.3 million), a 22.9% year-over-year increase from RMB2,991.0 million for the six months ended June 30, 2019, in spite of the impact of COVID-19. Our services revenue accounted for 45.6%, 53.3%, 53.0% and 55.7% of our total net revenues, in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. For the same periods, we recorded net income of RMB209.1 million, RMB269.8 million, RMB281.9 million and RMB122.7 million (US\$17.4 million), respectively, and non-GAAP net income of RMB267.9 million, RMB346.8 million, RMB358.2 million and RMB173.0 million (US\$24.5 million), respectively. See “Financial Information — Non-GAAP Financial Measures.”

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### OUR STRENGTHS

We believe the following competitive strengths are key drivers of our success and set us apart from our competitors.

#### **Clear industry leader**

We are the leader in China's brand e-commerce service industry with a 7.9% market share as measured by GMV in 2019, according to iResearch. Empowered by technology, we are currently the only player that not only provides full services across the e-commerce value chain but also serves the most diverse product categories on omni-channels in China, according to iResearch.

We are also one of the first movers in China's brand e-commerce service industry, according to iResearch. We introduced our brand e-commerce service model in 2007, and have since accumulated significant experience in understanding consumer needs and leading industry trends. We proactively adapted our business model to the emerging trends in the e-commerce industry. We established our logistics service capabilities in 2016; we recognized the importance of omni-channel promotion and initiated digital marketing services in 2017; we started to develop our smart operational platform ROSS on top of the transaction-oriented platforms in 2018, and have deployed a number of ROSS-based functions and modules to improve efficiency in daily online store operations. We have continuously invested heavily in technology compared with our peers, and as a testament to our strong R&D capabilities, we have copyrights to 100 software programs developed by us relating to various aspects of our operations as of June 30, 2020.

Our industry leading position is further evidenced by the certificates and awards that we have received. We are currently a Tmall "six-star" e-commerce service partner, and have been recognized as the highest ranking Tmall e-commerce service partner since Tmall introduced the grading system. We are currently also the only service provider that has ever obtained 12 certificates on the Alibaba platform, primarily for digital marketing and data analytics, 4 certificates on JD.com digital marketing platform, as well as digital marketing certificates across multiple social platforms, including RED (Xiaohongshu), Douyin, Kuaishou and Weibo.

#### **Entrenched and long-term relationship with brands of broad categories**

Our unique insights into different product verticals and e-commerce channels are key to establishing strong relationships with brands across categories and building up our multi-category and multi-brand capabilities. As of December 31, 2019 and June 30, 2020, we served 231 and 250 brand partners, respectively, including leaders in their respective industries such as Philips, Nike and Microsoft, as well as 15 out of the top 50 most valuable global brands in non-public-service sector in terms of brand value in 2019, according to BrandZ Top 100 Most Valuable Global Brands.

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We have empowered our brand partners to succeed in China's e-commerce market through efficient technology integration and effective strategic co-planning based on their specific needs. We deeply understand varying needs of the brands with different stages of e-commerce engagement: we help early-stage brands formulate their e-commerce strategies; we advise brands with a single-channel e-commerce presence on new channel strategies to improve their online store performance; we provide solutions for brands with more established e-commerce strategies to better align data management across channels, maximize their operational efficiency, exploit new online-offline integration opportunities and improve brand influence. We help global brands gain local insights and establish presence in the Chinese market, and we also help local brands develop and execute e-commerce strategies by offering customized technology solutions and digital marketing solutions to integrate online and offline campaigns. We constantly innovate through our service offerings to adapt to market changes, which has kept both global and local brands and ourselves at the frontier of China's e-commerce industry.

We deepen our engagement with brand partners over the course of our collaboration with them. As the e-commerce needs of our brand partners evolve, we expand our service scope to accommodate their needs and explore cross-selling opportunities. We are typically able to advance from offering single or limited services to full services, and from serving brands on a single channel to omni-channels.

Our strong relationship with brands is also evidenced by our long-term partnerships with brands, which brings us recurring and sustainable revenues. As of the Latest Practicable Date, we have successfully retained almost all of our top 20 brand partners under the consignment and service fee models in terms of revenue contributions in 2018, which in aggregate contributed 68.8% and 65.1% of our services revenue in 2018 and 2019, respectively, and 75.2% and 59.2% of our Non-distribution GMV in 2018 and 2019, respectively. In addition to retaining existing brand partners, we also acquired 46 new brand partners in 2019.

### **Full service scope with omni-channel capabilities**

We are the leading brand e-commerce service provider with end-to-end service capabilities across the entire e-commerce value chain and omni-channels. With the surfacing of multiple emerging e-commerce channels and the growing complexity of the e-commerce landscape, brands are in need of a sophisticated service partner that could provide them with hassle-free one-stop e-commerce services, assist them with optimizing resources allocation along the e-commerce value chain and help them expand e-commerce reach to consumers across omni-channels. We have proven ourselves as a compelling choice.

We enhance the online presence of our brand partners and help them attract end consumer on omni-channels, including official brand stores, online marketplaces, such as Tmall, JD.com and Pinduoduo, and social media channels, such as WeChat Mini Programs and RED (Xiaohongshu), as well as emerging live streaming and short video platforms, such as Douyin

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and Kuaishou. Our omni-channel solutions enable brand partners to obtain a single view of their business and consumer profiles across different channels and platforms. We also offer O2O solutions that help brand partners integrate their online and offline operations to increase store traffic and sales.

We serve as a one-stop platform that offers integrated, full services to help brand partners execute their e-commerce strategies and increase their brand value. By offering full services across different parts of the e-commerce value chain, we are able to take a coordinated and holistic approach and streamline the process which would otherwise incur more lead time and coordination if it were provided by different vendors. Our one-stop, turn-key approach enables our brand partners to focus on their core expertise such as product development. Our comprehensive service offerings include IT solutions, digital marketing, warehousing and fulfillment, online store operations and customer services.

- *IT solutions:* Our IT solutions help improve the operational efficiency of our brand partners. Through integration of our IT solutions with our brand partners' internal systems, we are able to expedite the new product introduction process across multiple channels for our brand partners and streamline their merchandise maintenance process. We also provide IT solutions to simplify complex e-commerce billing procedures by aggregating sales orders, dissecting business events and reconciling financial records of every transaction with online consumers.
- *Digital marketing:* We offer AI-and big data-driven digital marketing solutions that help brand partners improve marketing precision and efficiency and achieve better sales results. We have developed a set of data-driven tools that can provide brands with insights into their sales, traffic, customer engagement, product inventories and pricing information across channels so that they can make prompt decisions to achieve their business targets.
- *Warehousing and fulfillment:* We have built well-established and efficient logistics infrastructure that can accommodate different product categories. Our IOSP provides brand partners with a holistic view of inventories across channels to help them achieve "sales anywhere, fulfill anywhere," which improves transaction efficiency and reduces inventory costs. Our ECS system (E-commerce System) has gone through several generations of upgrades, and includes OMS 4.0 and WMS 4.0 with strong capacities and functionalities to support high growth of our business as well as our omni-channel capabilities. In addition, we have solid partnerships with leading high quality, nationwide logistics service providers and are able to achieve next-day delivery in over 200 cities across China.
- *Online store operations:* We improve intelligence and automation of store operations through our proprietary ROSS system. We also provide customized services to cater to specific needs of our brand partners, such as digital asset management, site authoring, content management and merchandise lifecycle management.

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- *Customer services:* Our customer services solutions can satisfy the needs of different brands, ranging from luxury brands to mass-market brands.

### **Continuous innovation**

We have been actively investing in innovation to promote the future growth of our brand partners and constantly enhancing our servicing capabilities. We have focused on both business model innovation and technology innovation throughout our history.

For business model innovation, we are among the first to introduce a cross-category e-commerce service model. As an early mover, we were able to help our brand partners participate in the very first Singles Day promotion in 2009. We led the market trend by offering customized warehousing, operation automation and digital marketing solutions based on our deep understanding of our brand partners' needs across channels. We have also enhanced our logistics capabilities by upgrading our logistics offerings from B2C-focused to a B2C/B2B-combined model. We continuously innovate through our full-service, omni-channel business model to keep abreast of the ever-changing e-commerce market in China and better serve our brand partners.

We have also devoted ourselves to continuous technology innovation in order to provide omni-channel solutions to, and improve operational efficiency for, our brand partners. As the industry leader in the brand e-commerce market in China, we were among the first to build proprietary OMS and WMS systems and were also a pioneer in building our cloud computing infrastructure. To maintain our innovative edge, we have also established a Technology and Innovation Center (TIC). Our constantly evolving solutions have brought concrete benefits to our brand partners. For instance, Shopdog, our self-developed technology tool for O2O solutions, helps brick-and-mortar stores to tackle inventory shortage issues by offering integrated inventory management and enables offline pick-up, exchange and return of online orders. Our integrated smart operational platform, ROSS, improves efficiency by automating and streamlining online store operations process, including store content generation, campaign management and pricing and promotion management.

We commit to continuous innovation with unwavering R&D investment. We expanded our investment in R&D-related activities, and our technology and content expenses increased from RMB140.7 million in 2017 to RMB269.0 million in 2018 and further to RMB393.0 million in 2019. The capitalized cost of R&D relating to internally developed software was RMB37.0 million, RMB86.0 million and RMB62.0 million in 2017, 2018 and 2019, respectively.

Over the years, our innovation endeavors have been well-recognized within the industry. The innovative solutions we provided to certain brand partner helped such brand partner win the award of “Tmall Super One” – Brand with Best Digital Innovation Capabilities (天貓超級ONE:最具數字創新力品牌獎) in 2019.



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### Proprietary and robust technology stack

Our proprietary and robust technology stack is fully integrated and readily scalable to support e-commerce operations of our brand partners. We have copyrights to 100 software programs developed by us relating to various aspects of our operations as of June 30, 2020. Our technology framework is comprised of front-end applications, middle-end systems and back-end infrastructure.

At the front-end, we have developed omni-channel and efficiency improvement solutions. The omni-channel sales solutions that we have developed include CASABA Plus, which is a cloud-based system supported by the DOP module from both a data and operations perspective. DOP serves as a middle-end platform that integrates our internal systems, including CRM, IOSP, OMS, WMS and LMIS, and consolidates data across different systems. It can be customized according to specific requirements. The efficiency-oriented applications that we have developed include ROSS, Yunbian (雲辨) and Yunzhuan (雲撰). ROSS supports daily operations management and coordination. With automation and intelligence modules for store event management, store content management and customer analysis, ROSS enables brands to maximize operational efficiency and reduce store maintenance costs. Yunzhuan is an AI-driven smart writer that can generate tailor-made, high-quality marketing content on a large scale and within a short period of time. Yunbian is another efficiency tool that we have developed for digital marketing, which enhances marketing precision and efficiency through smart placement on Taobao. We also offer customized, flexible and fine-grained SaaS solutions to our brand partners, including official brand store and WeChat Mini Program solutions.

At the middle-end, we have developed systems that are key to integrate the full technology stack. Our WMS and OMS are enterprise-class systems for warehousing and fulfillment, which enhance our logistics capabilities. They can intelligently route and fulfill orders to optimize brands' business results. The systems encompass B2B and B2C business logics that can be tailored to brands' proprietary needs. They were designed at our inception to accommodate all product categories and channels, and are also capable of processing massive volume of data. Such compatibility is unique as most of the brand e-commerce service providers are only able to tap into certain product verticals. Other middle-end systems include Shopcat, our CRM system, and LMIS, our logistics management information system.

At the back-end, we have developed cloud and data infrastructure which serves as the backbone to support the transactions and operations. Our proprietary cloud platform Baozun Hybrid Cloud (寶尊雲) is a flexible and elastic platform that can be readily expanded internally or through public clouds (such as AliCloud) to accommodate business and customer needs. Baozun Hybrid Cloud is the foundation of SaaS applications and helps handle and store data relating to goods, orders, logistics, inventory, payment and settlement in an efficient and secure manner. Baozun Hybrid Cloud has successfully supported single-day GMV of as much as RMB10 billion in the Singles Day promotion in 2019. Our Big Data Platform is the foundation of data intelligence. It is an open source big data platform with comprehensive data analytics, visualization and reporting packages which provide strategic support from operations to targeted marketing.



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### **Achieving quality through developing people**

Baozun is steered by a passionate and visionary management team with strong industry background, execution capabilities, and diverse and complementary experience. Our co-founders and senior management team have on average more than 20 years of experience in online retail, brand marketing, technology, logistics and finance that enable us to provide full services and omni-channel coverage to help brands prosper in China's e-commerce market. Our group of industry veterans and close-knit teams are paramount to our continuing success.

We have maintained a stable and committed core management team. Our team of executive directors and senior management have worked at Baozun for more than six years on average, and our co-founders have been working closely together at Baozun for more than 13 years.

We value talents as a key success factor to maintain and strengthen our competitive advantages and realize our vision. We have focused on grooming a young, talented and passionate mid-level management team that is in charge of various key business functions. Our senior management team serves on the Baozun Talent Committee to lead, develop and nurture internal talent. We also have ongoing talent development programs to help talent at all levels fulfill their career goals and ambitions at Baozun. We believe that our open, vibrant and brand-oriented corporate culture inspires and encourages innovation, and helps us attract, retain and motivate an aspiring team to drive our growth.

### **OUR STRATEGIES**

We intend to further grow our business and reinforce our leading market position by pursuing the following strategies. We plan to use the proceeds from the Global Offering to implement these strategies.

#### **Continue to focus on quality growth**

We will continue to empower our brand partners to grow and seize the vast opportunities in China's e-commerce market with our end-to-end service capabilities, omni-channel coverage and technology driven solutions.

We will deepen our relationship with existing brand partners. We also aim to work with more brand partners and grow with them as they expand their presence and business online. We seek to expand our reach to emerging brands that are relatively small in scale but with high growth potential. We will also incubate more local brands and empower them to develop online capabilities.

To retain existing brand partners and attract new brands, we strive to provide consistent and quality services empowered by advanced technology to help them design and execute their e-commerce strategies. We will also actively expand our collaboration with emerging channels, such as Pinduoduo, to complement our existing capabilities.

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We also plan to establish presence in Singapore, Malaysia, Japan and South Korea, with capability to provide solutions and services to brand owners across Greater China and other countries and regions in Asia.

### **Enhance our capabilities along the full e-commerce value chain**

We plan to continuously innovate and invest in our front-end, middle-end and back-end technology systems as a backbone to support the full e-commerce value chain and continue to lead the digital transformation of our brand partners. We will continue to optimize our online store operations through organizational structure upgrades and ROSS implementation to adapt to the changing e-commerce market.

We consider logistics and fulfillment an integral part of our suite of offerings and will continue to commit resources to enhance our logistics capabilities. We aim to develop more functionalities on our OMS and WMS. We will also continue with warehouse network expansion in terms of gross floor area and number of key hubs established, either through a self-owned model or partnerships.

We will keep building on our digital marketing capabilities by integrating more emerging sales channels and enhancing our marketing effectiveness and efficiency. We will leverage the extensive customer data accumulated from omni-channels, and explore more marketing strategies to create greater value for our brand partners.

In addition to enhancing our current service offerings, we will further explore other emerging service opportunities along the brand e-commerce service value chain.

### **Selectively pursue strategic alliances and acquisition opportunities**

We intend to selectively pursue strategic alliances, investments and potential acquisitions, including opportunities to strengthen our technology and digital marketing capabilities, expand our product categories and e-commerce solutions offerings, or expand our brand partner portfolio.

We seek to grow through partnerships in Southeast Asia by collaborating with regional e-commerce platforms or sales channels to replicate our success in China.

We also plan to pursue selective investments in or acquisitions of other e-commerce solutions providers that have valuable brand portfolios or complementary expertise in brand e-commerce solutions and services.

### **Investment in technology and innovation**

We will maintain the current investment intensity with a longer-term horizon to better serve our brand partners. We aim to continue improving IT systems that are compatible across channels and product verticals to differentiate our services. We plan to leverage our data

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analytics and AI capabilities to improve technology systems that automate and standardize key processes in online store set-up and daily store operations. We will also work on additional innovative solutions, including digital operating platform, automated finance system, centralized data service platforms, data analytics systems and other innovations.

### 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. We leverage our brand partners' 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 are currently a Tmall "six-star" e-commerce service partner, and have been recognized as the highest ranking Tmall e-commerce service partner since Tmall introduced the grading system, based on a suite of performance measures, including operational capabilities, brand development capabilities and service ratings.

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 product category, our brand partners utilize one or a combination of our solutions under one or a combination of our business models:

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

We derive revenues under our business models as follows:

- **Product sales revenues.** We derive product sales revenues primarily through selling the products that we purchase from our brand partners and/or their authorized distributors to consumers under the distribution model.

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- **Services revenues.** We derive services revenues primarily through charging brand partners and other customers fees under the service fee model and consignment model.

In 2017, 2018, 2019 and the six months ended June 30, 2020, our services revenues accounted for 45.6%, 53.3%, 53.0% and 55.7%, 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. See “Financial Information — Components of Results of Operations — Net Revenues” for a breakdown of our product sales revenue and services revenue for the Track Record Period.

### **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 business models: distribution model, consignment model and service fee model. There is no brand partner to which we offer all three business models.

### ***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. Therefore, our brand partners and/or their authorized distributors are deemed as our suppliers under the distribution model. We primarily generate product sales revenue under this model. In order to generate product sales, we utilize every aspect of our e-commerce capabilities. Specifically, we utilize our IT and online 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 the goods that we purchase from brand partners and deliver these goods to our consumers who purchase these goods. 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. As we assume inventory ownership under the distribution model, other than quality issues, we generally are not allowed to return unsold inventories to the brand partners and/or their authorized distributors.

We adopt the distribution model primarily to cater to specific needs of brand partners for certain product categories, such as appliances and beauty and cosmetics. We implement strict screening procedures utilizing our strong data analytics capabilities in analyzing product category data and historic SKU data of brand partners and impose high thresholds on the brand partners selected for the distribution model. Based on the screening and evaluation, we carefully select competitive, reputable and reliable brands with low inventory risk and

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long-term potential for the distribution model. We choose to adopt the distribution model when the benefits of such model outweigh the potential risks in inventory management. We have more control over pricing and merchandising under the distribution model and can more effectively apply our e-commerce solutions, which can better improve operational efficiency and sales performance. For instance, we generally have discretion in adjusting pricing and organizing promotional events to cater to evolving market conditions and consumer needs.

### *Service Fee Model*

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

- IT solutions, including consultations with brand partners, IT infrastructure setup and integration, and online store setup and design;
- online store operation, including merchandising, site content management and store event management;
- digital marketing, including marketing campaign planning and media services, social marketing, creative contents and big data support; and/or
- customer service, including pre-sale and post-sale customer services.

Our brand partners are deemed as our customers under the service fee model. We primarily generate services revenue under this model.

### *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 their goods in our warehouses for their own future sales and we are responsible for managing storage and delivering goods to consumers. 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.

Our brand partners are deemed as our customers under the consignment model. We primarily generate services revenue under this model.

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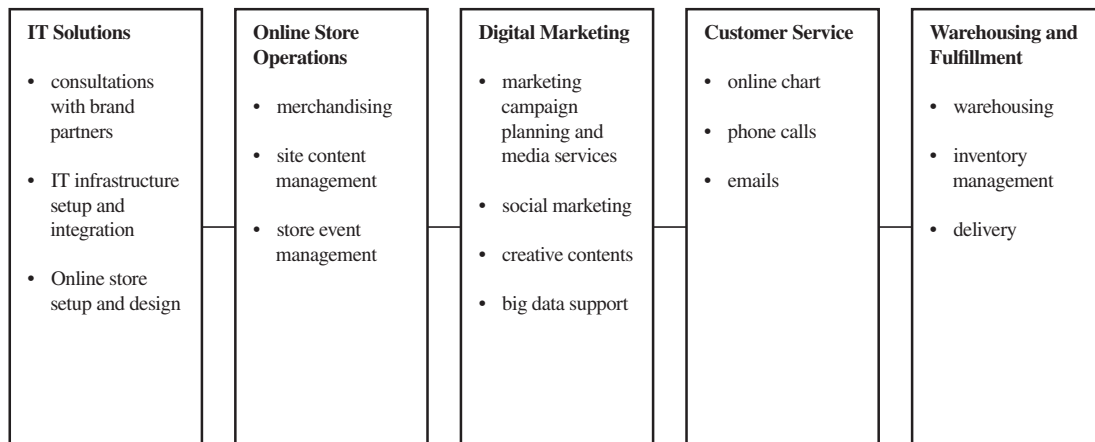
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### End-to-End Brand E-Commerce Capabilities

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, online store operations, visual merchandising 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. Over the course of the collaboration, many brand partners appreciate the value we bring to them and gradually expand their engagement with us to a broader set of solutions.

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 systems, interactive page design and our deep understanding of Chinese consumers' online shopping habits, we provide consultations to our brand partners, help our brand partners set up e-commerce sites that 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 operational 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. We have made significant investments and intend to continue to invest in developing our proprietary technology platform to deliver solutions that aim to address comprehensive e-commerce needs across different sales channels for our brand partners. Our technology systems and applications facilitate our brand partners' digital transformation throughout their e-commerce value chain: from storefront sales to backend fulfillment, from user acquisition to customer lifecycle management, from achieving operational efficiency to gaining industry insights. Our IT services enable our brand partners to quickly adapt to the local e-commerce market and effectively service online shoppers in

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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 Business Application Portfolio.”

In addition to establishing the infrastructure for system integration, our 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. Our Cloud-based System, a proprietary operations system on our cloud-based platform, enables efficient setup of official brand stores and official brand WeChat Mini Programs for our brand partners. It is seamlessly integrated with our e-commerce support systems such as OMS and WMS to ensure omni-channel synchronization, and allows us to efficiently build up comprehensive functions necessary for official brand stores and official brand WeChat Mini Programs, such as digital marketing, order management, product recommendations, and membership management.

### *Online Store Operations*

We believe efficient online store operations are crucial to our brand partners’ e-commerce business. We staff dedicated operations teams with relevant industry expertise and brand-specific knowledge for stores we operate and maintain proprietary technology infrastructure and systems for online store operations. Our operations teams closely monitor and are responsible for all activities and the daily upkeep of online stores. The functions of the operations teams and systems broadly fall into three categories: merchandising, site content management and store event 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 launching products, managing product listing, and processing sales orders in online stores. We manage sales orders through our proprietary OMS 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 in stores we operate in order to maintain the appeal of the online 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.”



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- *Store Event Management:* Our store event management system monitors and identifies events and activities on e-commerce marketplaces or other channels, and systematically manages application and registration procedures in batch processing, including event consolidation, goods identification and data unification, and visual content organization and upload, to improve efficiency and minimize errors. With this robust system, we were able to effectively manage the number of employees engaged in our store event management functions.

### ***Digital Marketing***

We believe digital marketing is key in boosting visitor traffic and increasing conversion and overall transaction volume at online stores. Our omni-channel brand e-commerce operation capabilities enable us to effectively leverage diverse data to conduct results-driven marketing planning and execution. We have developed multi-faceted digital marketing capabilities and are able to effectively design and execute marketing plans across various online platforms, including official marketplace stores, brand stores, as well as other major and emerging online media and channels. Our digital marketing service can also be provided independently from our brand e-commerce service and is available to our non-brand partners, which serves as an additional brand partner acquisition channel.

Leveraging our experience in the e-commerce value chain, we have achieved broad awareness and recognition of our expertise in digital marketing. We won two bronze awards and one nomination in the ROI Festival (“金投賞”) 2017, in our first year participating in this event, and one silver award and one bronze award in the ROI Festival 2018. The ROI Festival is considered one of the most influential award ceremonies for creative marketing in Asia. In 2018, we were awarded the Bronze Award for Data-driven Marketing at the 2018 Greater China Effie Awards (“大中華區艾菲獎”), a preeminent advertising award in China’s advertising industry. We also received agency certifications from reputable companies such as Alibaba Group to become their marketing partner, data mining partner and Multi-Channel Network (MCN) partner, which we believe will enhance our in-depth understanding of consumer behavior, increase effectiveness of our digital marketing service, as well as further strengthen our advantage in e-commerce operations. In 2019, we were named the “best marketing service provider” for the third consecutive year by the Golden Wheat Awards (“金麥獎”), a reputable award for the e-commerce industry.

Our digital marketing capabilities include (i) marketing campaign planning and media services; (ii) social marketing; (iii) creative content; and (iv) big data support.

- *Marketing Campaign Planning and Media Services:* We provide both marketing campaign planning and media services to our customers. In planning our brand partners’ online advertising media, we first work with our brand partners to determine their most likely and desired audience. 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

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crafted to have the most impact on the targeted audience. Our media planning capabilities enable our brand partners to achieve targeted online advertising campaigns, minimize wastage and thereby increasing their return on investment, or ROI.

We provide diversified media services for our brand partners including comprehensive marketing on major e-commerce marketplaces, search engine optimization, and advertising on other popular online media and channels. For example, based on our understanding of the methodologies and mechanisms adopted by search engines, we customize the content of the stores we operate to achieve high rankings. Where appropriate, we also help our brand partners negotiate arrangements with search engines to favorably list the stores we operate on search results pages.

- *Social Marketing:* Based on our experience, purchase decisions of Chinese e-commerce consumers are heavily influenced by recommendations from family, friends, key opinion leaders, key opinion consumers and colleagues who are considered to be trusted information sources. We believe we are able to provide tremendous value to our brand partners by helping them formulate social marketing strategies and campaigns that encourage consumers' engagement with their brands and drive consumers' desire to purchase their products.

One of the most important social marketing channels is social media platforms. We identify the preferred social media platforms of our brand partners' target consumers and 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 dialogue with consumers who post on our brand partners' accounts. We track visitors' activities and analyze the impact of our social marketing outreach, and we also facilitate interactive marketing through livestreams and short-form videos.

In 2019, we were certified by Alibaba Group as an MCN partner, and we have been closely following industry trends and remain on track to further expand our services to include a wider array of comprehensive digital marketing solutions. These solutions include new initiatives such as live streaming, key opinion leader and key opinion consumer positioning to convert marketing power into sales results.

In addition, we monitor and respond to 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 facilitates their purchase decisions.

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

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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 engage a team of copywriting staff, and use AI technologies, to produce product descriptions and related content, such as product description, buyers' guides, sizing charts, product tours and comparison shopping tools. We have developed and utilized Yunzhuan, an AI-based automated content generator that identifies specifications of merchandise based on pictures of such merchandises using image recognition technology and automatically generates batches of promotional articles on such merchandises, which helps reduce manual inputs and improve marketing efficiency.

- *Big Data Support:* 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 campaigns for our brand partners. We are able to analyze such data and provide holistic big data support to our brand partners to help them refine their digital marketing strategies under a results-driven approach. We have developed our own business intelligence software, which enables real-time analysis of transaction data across personal computers and mobile channels to make more targeted and insightful marketing recommendations to our brand partners. Our self-developed intelligent advertising placement tool, Yunbian, improves the precision of advertising placement and optimizes ROI based on analytics of historical advertising placement and ROI data. For more information about our data warehouse and reporting system, please see “— Technology Infrastructure and Business Application Portfolio — Back-end proprietary technology infrastructure.”

### *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. Consumers can contact us through online chat, phone calls or emails. Pre-sale questions relating to product details comprise most of the questions we receive from consumers, and we believe that an effective pre-sale customer service experience can encourage consumer purchases. We also provide post-sale services to address questions like return and exchange. Consumers can access our online representatives and service hotlines from 9 a.m. to 10 p.m. daily (except three days per year during the Chinese New Year holiday).

We assign our brand partners with dedicated brand customer service teams for pre-sale and post-sale customer services, who have undergone customer service training, initial and periodic examinations and targeted coaching sessions.

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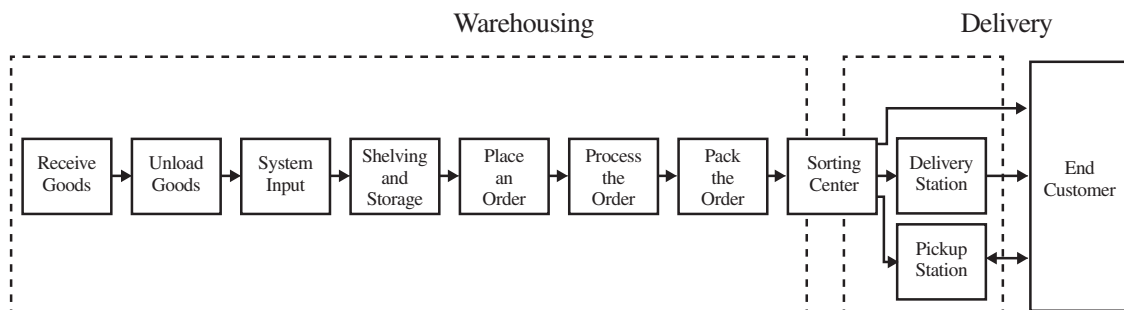
## OUR BUSINESS

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### *Warehousing and Fulfillment*

We offer warehousing and fulfillment services under the consignment model. 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. Our WMS is customized to accommodate different needs in product specifications and can handle requirements specific to each of the eight product categories we serve. In addition to fulfilling brand partners' e-commerce orders, we have launched additional value-added services to enrich our warehouse and logistics service offerings, such as anti-counterfeit code protection, tailor-made packaging, B2B offline store fulfillment, and O2O integrated inventory management.

We adopt a flexible outsourcing logistics model with several third-party logistic partners supported by our robust and advanced WMS. We partner with leading nationwide and quality logistics service providers to ensure reliable and timely delivery to over 500 cities across China through their network. We are able to achieve next-day delivery in over 200 cities across China. The following flowchart illustrates our warehousing and fulfillment process:



As of June 30, 2020, we directly operated 15 warehouses with an aggregate gross floor area of approximately 500,000 square meters in eight cities, including Suzhou, Shenzhen, Tianjin, Guangzhou, Langfang, Chengdu, Wuxi and Hong Kong, serving end consumers from mainland China, Hong Kong, Macau and Taiwan. Our directly-operated warehouses fulfilled approximately 34.3 million, 48.4 million, 54.4 million and 41.4 million outbound orders to consumers in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. Our warehouses cater to different product categories. In addition, we also collaborate with eight third-party warehousing service providers and store goods in warehouses operated by them as of June 30, 2020, to better utilize warehouse resources and better serve brand partners' needs. In September 2016, our wholly-owned warehousing and logistics solutions subsidiary, Baotong E-Logistics, became a partner of Cainiao, which enabled us to leverage Cainiao's network to better serve our brand partners.

With our proprietary WMS, we are able to closely monitor each step of the fulfillment process from the time a purchase order from a consumer is confirmed and the product stocked in our warehouses, up to when the product is packaged and picked up by a logistics service provider for delivery to the consumer. Shipments from suppliers first arrive at our warehouses. At each warehouse, inventory is bar-coded and tracked through our WMS, allowing real-time monitoring of inventory levels across our network. Our WMS is specifically designed to

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support a large volume of inventory turnover. As of June 30, 2020, our WMS was capable of processing 7,609,951 inbound pieces and 12,378,292 outbound orders per day. During the Singles Day promotion in 2019, our WMS processed approximately 17.6 million orders, showcasing our ability to support an enormous flow of transactions and order traffic. We closely monitor the speed and service quality of our logistics service providers through consumer surveys and feedbacks from consumers to ensure their satisfaction.

### **BRAND PARTNERS & BRAND PARTNER DEVELOPMENT AND SERVICES**

#### **Brand Partners**

As of June 30, 2020, we provided e-commerce solutions to 250 brand partners primarily under service contracts with a term typically ranging from 12 months to 36 months. Our brand partners cover diverse product categories, including: apparel and accessories; appliances; electronics; home and furnishings; food and health products; beauty and cosmetics; fast moving consumer goods, and mother and baby products; and automobiles. 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 we operate under the distribution model and (ii) provision of our services to these brand partners primarily under the consignment model and service fee model. Our brand partners and/or their authorized distributors are deemed as our suppliers under the distribution model and our customers under the service fee model and consignment model.

Our contracts with our brand partners are generally not on an exclusive basis and we generally do not have contractual rights to exclusively sell the products of our brand partners on any e-commerce channel under the distribution model. As a result, we may face competitions with other brand e-commerce service providers that our brand partners work with. See “Risk Factors — Risks Related to Our Business — We may not be able to compete successfully against current and future competitors.”

Some of our contracts with existing brand partners were based on standard forms proposed by such brand partners that contain non-compete provisions prohibiting us from selling products of, or providing similar services to, competitors of such brand partners. As our business further expands, we may engage in business with multiple brand partners that may be in competition with each other. We have been transparent with our brand partners as to the other brand partners that we are cooperating with. As of the Latest Practicable Date, we were not aware of any notice or claim by any brand partner that we have breached any non-compete restriction in its agreement with us, which in the opinion of our PRC Legal Adviser, may materially and adversely affect our financial condition and results of operation. However, we cannot assure you that any of our brand partners will not bring such claims against us in the future. See “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.”

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### **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 with those that conduct business in profitable or promising industries and product categories 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, projected growth outlook 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 strategically focus on brand partners in product categories that we believe will help optimize our revenue mix and improve our profitability. We intend to grow our business by adding new brand partners into our brand partner portfolio and cross sell our services. 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. We also intend to attract customers with our interactive digital marketing services and technology services, and convert such customers into our brand partners.

We periodically conduct reviews on our brand partners based on category mix, profitability, growth outlook and other criteria. We have dropped a minority of brand partners to optimize our brand partner portfolio from time to time.

#### ***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.

In 2019, we started to implement our ROSS system to improve our operational efficiency and level of automation. Starting from 2020, we reorganized the structure of our service team at the store level to consolidate certain functions so that we can expand our capacity to serve more brand partners.

### **OMNI-CHANNELS**

We currently provide brand e-commerce services under three business models on major marketplaces, such as Tmall, JD.com and Pinduoduo, and social media channels, such as WeChat Mini Programs and RED (Xiaohongshu), as well as emerging live streaming and short video platforms, such as Douyin and Kuaishou. We also operate official brand stores and provide O2O solutions to our brand partners. Enabled by our advanced technological

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capabilities, we can seamlessly integrate the brand partners' operations across various channels with unified product details and consumer profiles, strategic cross-channel marketing and synchronized inventory management, which provide the brand partners with a single view of their business across different channels and platforms. 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 the e-commerce objectives of each brand partner.

### **Official Marketplace Stores**

We maintain close working relationships with the major online marketplaces in China, such as Tmall, JD.com and Pinduoduo. 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 annual upfront service fees to marketplaces, up to 100% of which may be refunded depending on our sales volume. We also pay upfront security deposits for potential disputes under these agreements.

### **Official Brand Stores**

We also offer to work with our brand partners in setting up and operating their standalone official brand stores. Based on our experience, consumers expect a total brand immersion experience at an official brand store, which may involve a different presentation of a store compared to official marketplace stores that 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 an impactful online presence for our brand partners. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we operated 35, 42, 48 and 45 official brand stores, respectively.

### **Social Media Channels**

We work with our brand partners to enhance awareness of their brands on social media e-commerce channels. For example, we help our brand partners set up accounts and design their homepage on WeChat official store, and/or WeChat Mini-programs, help to regularly update their accounts with stories relating to their products, activities and brands, and sustain user engagement through community groups. We also monitor comments on our brand partner's accounts and work with our brand partners in responding to these comments. In addition, we help brand partners directly integrate their WeChat public accounts with their back-end systems across all marketplace platforms to enable flash sale or routine sale of branded products on social media platforms.



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### Other Emerging Channels

As live streaming and short-form videos have gained increasing popularity in China in recent years, we have expanded our e-commerce solutions to cover these emerging channels. For instance, we offer digital marketing solutions that help the brand partners promote their products and increase their sales on live streaming and short video platforms, such as Douyin and Kuaishou.

### O2O/New Retail Solutions

We help our brand partners devise and execute O2O and new retail 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' e-commerce objectives. We also offer our omni-channel matrix of solutions to our brand partners to help them rapidly establish an online presence. Examples of our O2O capabilities include:

- allowing consumers to place purchase orders and make payments online, and pick up or return and exchange goods offline;
- aligning consumers' online and offline loyalty programs;
- syncing online and offline QR codes;
- 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 in offline retail stores;
- devising and executing O2O strategies for traditional brands lacking IT and system integration capabilities but that have a strong offline presence;
- connecting and integrating brand partners' offline stores with their official brand stores, marketplaces stores and other brand hubs; and
- utilizing CPS (cost-per-sale), a WeChat Mini Program-based tool, to help brand partners formulate key SKU promotion strategies, design promotional events and articles, track sales performance of the sales agents by tracing the products and sales events they share and calculate commissions accordingly. CPS provides the brands with a cost effective way to stimulate the digitization of the offline sales process and facilitates traffic conversion.

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### **PAYMENT SERVICE PROVIDERS**

Third-party marketplaces and our brand partners' official brand stores provide consumers 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 WeChat Pay.

In addition, official brand stores typically offer a "payment on delivery" payment option. Our logistics partners deliver products to consumers' 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 in China through reputable third-party couriers with nationwide coverage, such as SF Express, STO Express, YTO Express, EMS and ZTO Express as well as other quality logistics service providers.

We believe our large-scale operations and reputation enable us 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 BUSINESS APPLICATION PORTFOLIO**

We have made significant investments and intend to continue to invest in developing our proprietary technology platform to deliver solutions that aim to address comprehensive e-commerce needs across different sales channels for our brand partners and to enhance efficiency and scalability. Our technology systems and applications facilitate brand partners' digital transformation throughout the e-commerce value chain: from storefront sales to backend fulfillment, from consumer acquisition to customer lifecycle management, from achieving operational efficiency to gaining industry insights. We have copyrights to 100 software programs developed by us relating to various aspects of our operations as of June 30, 2020.

The principal components of our proprietary technology infrastructure span across all areas of our business and cover front-end, middle-end and back-end operations systems. The front-end technology systems include various cloud-based omni-channel technology solutions and efficiency-oriented applications that enable online store setup and operations and O2O solutions. The middle-end technology systems include powerful and versatile middle-end tools for customer services, warehousing and fulfillment, including order management, logistics management, warehouse management and customer relationship management. The back-end technology infrastructure, including Baozun Hybrid Cloud and big data platform, serves as backbone to support the functionality of the front-end and middle-end systems.

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### Front-end proprietary technology systems

- Omni-channel user-interfaces construction and integration facilitate brand partners to stay engaged with consumers wherever they are. Our solutions cover brand partners' official brand stores and major online marketplaces in China, such as Tmall, JD.com and Pinduoduo, and social media channels, such as WeChat Mini Programs and RED (Xiaohongshu), as well as emerging live streaming and short video platforms, such as Douyin and Kuaishou, and offline stores.
- Cloud-based System is a system established on our cloud infrastructure with a high level of safety and stability that enables efficient setup of official brand stores and official brand WeChat Mini Programs. Our Cloud-based System is seamlessly integrated with our e-commerce support systems such as OMS and WMS to ensure synchronization across omni-channel solutions, and allows us to efficiently build up comprehensive functions necessary for an online store, such as real-time data exchange, digital marketing, order management, product recommendations, membership management, payment management, as well as O2O functions. The system contains various prototypes to ensure greater efficiency in setting up a brand's online stores, while also supporting comprehensive customization, to best fulfill brand's specific needs. Such system helps us improve our operating efficiency, reduce store maintenance costs, and improve our ability to serve more brand partners.
- ROSS is a system to facilitate online store operations which encompasses a series of automation and intelligence modules enabling efficient product management, store content management, store event management and customer analysis. ROSS is also designed to increase the level of intelligence and automation to enhance efficiency of online store operations. For instance, the merchandise operating system helps brands launch and upgrade merchandises available for sale on various channels in batches. The store content management system can automatically collect and process visual designs for online stores. The store event management system monitors and identifies events and activities on e-commerce marketplaces or other channels and systematically manages application and registration procedures to improve efficiency and minimize errors. For more information about product management, store content management and store event management, please see “— Our Business Models and Solutions — End-to-end Brand e-commerce Capabilities — Online Store Operations.”
- O2O Solutions allow brand partners to seamlessly integrate their inventories across offline and online channels to share and best utilize resources of products and inventories across different channels. These solutions provide seamless data integration that cover order routing, customer management, products and inventory intelligence, and delivery optimization. We carry out our O2O initiatives through our self-developed intelligent application, Shopdog. Designed for use on tablets, Shopdog was developed to help brand partners closely integrate online sales

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channels with offline store inventories, allowing offline stores to sell inventory through online stores with an integrated warehouse management system. Shopdog also increases efficiency by utilizing offline stores for returns, exchanges, payment and pickup of online orders and allows consumers to make orders online while they are in offline stores where the products are out of stock.

### **Middle-end proprietary technology systems**

DOP serves as a middle-end platform that integrates our internal systems, including CRM, IOSP, OMS, WMS and LMIS, and consolidates data across different systems.

- CRM system, or Shopcat, mainly consists of a customer service system and a customer data analysis and membership management system. By leveraging big data technologies, Shopcat formulates a unified user profile which our brand partners can use to perform precision marketing and enhance overall customer lifecycle management. Shopcat also integrates online and offline membership programs to facilitate our O2O initiatives. Collectively, our Shopcat and business intelligence systems enable us to effectively gather, analyze and make use of internally generated customer behavior and transaction data to generate actionable insights for our brand partners.
- IOSP is designed for our omni-channel e-commerce and O2O initiatives, which instantly and precisely interlinks and synchronizes with inventories at each of our brand partners' omni-channels. It allows brands to consolidate digital inventories and to dispatch across different scenarios at each of their retail omni-channels. IOSP is comprised of two key modules: Inventory Management, which enables real-time and smart inventory monitoring and management to ensure sufficient inventories across channels; and Order Routing, which assigns orders based on optimal inventory level, inventory location and fulfillment cost. IOSP helps brands reduce inventory cost, minimize overselling risk and maximize the management efficiency of inventories.
- OMS controls the processing of sales orders by online stores, including order data fetching and transfer and fulfillment. OMS connects 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 payment refunds. OMS currently supports all channels including marketplaces and official brand stores.
- 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 and enhance labor productivity. Our WMS covers brand partners' logistics needs in both B2C and B2B businesses. For more information about the function of our WMS, please see “— Our Business Models and Solutions — End-to-end Brand e-commerce Capabilities — Warehousing and Fulfillment.”

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- LMIS coordinates the flow of goods between our warehouses and the final address for each package in each order. Our LMIS is well integrated with the systems of third-party couriers to provide multiple levels of services, such as same-day delivery and real-time tracking.

### **Back-end proprietary technology infrastructure**

- Baozun Hybrid Cloud, is a hybrid cloud infrastructure, upon which our proprietary technology is built. Baozun Hybrid Cloud provides secure and elastic computing power, storage, and network infrastructure that could facilitate brand partners' business 24/7. It can be readily expanded internally or through public clouds (such as AliCloud) to accommodate business and customer needs. Baozun Hybrid Cloud and its underlying data centers achieve multiple levels of system and network redundancies and resiliencies, and enhance our storing and computing capabilities with added flexibility to improve efficiency and reliability.
- Data Warehouse and Reporting System collects and organizes data relating to product information, transaction information, consumers' geographic location and purchase history throughout all stages of business transactions. Based on the data we collect, our data reporting system and business intelligence reporting facilities generate reports that are useful for both our brand partners and us, such as daily sales reports and inventory reports, while making store financial forecasts based on omni-channel operational analyses and dashboards. In addition, we also provide selected data to our brand partners to help them optimize their product development, manufacturing, and sales and marketing strategies.
- 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 our core systems, such as OMS and WMS.

### **RESEARCH AND DEVELOPMENT**

We devote significant resources to our research and development efforts, focusing on developing our technology infrastructure and proprietary systems, expanding our technological footprint and enhancing the digitalization of brand partners' retail business. We have a Technology and Innovation Center with offices in Shanghai and Chengdu dedicated to innovating and upgrading our technologies to reinforce our market leadership in China's brand e-commerce solutions market. The Technology and Innovation Center focuses on enhancing our IT capabilities and helps us shape the market by developing and deploying artificial intelligence solutions in brand e-commerce over time and standardizing new services such as cloud-based operating platforms, big data analysis tools for brand e-commerce, the implementation of artificial intelligence in brand e-commerce over time and the upgrade of current technology systems, in order to serve a wider variety of brand partners and other customers with a broader array of services. In 2019, we upgraded our technology infrastructure to a hybrid cloud model — Baozun Hybrid Cloud — to enhance our storing and computing

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capabilities. We are now in the process of integrating and migrating all of our core e-commerce systems and applications to Baozun Hybrid Cloud, which will help us better utilize cloud computing, enhance the scalability of our business, and improve cost efficiency. We employed 749 IT professionals to design, develop and operate our technology platform as of June 30, 2020.

### INTELLECTUAL PROPERTY

We use our brand partners' names, URLs, logos and other marks in connection with the operation and promotion of their e-commerce business. 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 business. These licenses are typically coterminous with the respective agreements.

We also rely on technologies that we license from third parties, such as Microsoft, Adobe and certain management information systems. These licenses may not continue to be available to us on commercially reasonable terms in the future or at all. As a result, we may be required to obtain substitute technologies. See "Risk Factors — Risks Related to Our Business — 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."

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 June 30, 2020, we owned 149 registered trademarks, copyrights to 100 software programs developed by us relating to various aspects of our operations, and 83 registered domain names.

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

### DATA PRIVACY AND CYBERSECURITY

Data privacy protection and cyber security are top priorities for us. We have developed strong cybersecurity technology and practices that safeguard our systems and data and have established a dedicated team to supervise our data protection and data security, ensure compliance with applicable laws and regulations and ensure that we are meeting the expectations of consumers and our brand partners. Through our privacy policy, consumers and our brand partners can learn how their data is used and provide consent for data collection when necessary. Our multi-layer security infrastructure provides comprehensive data security infrastructure for continuous monitoring and system protection throughout all platforms. We received our ISO27001 certifications in December 2015 with a valid term of three years, which

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was renewed in December 2018 with a valid term of three years. We also received certification of Level 3 of Classified Protection of Cybersecurity for Baozun E-commerce Transaction System (寶尊電商交易系統) in April 2019, which we plan to renew this year.

### CUSTOMERS AND SUPPLIERS

Our brand partners and/or their authorized distributors are deemed as our suppliers under the distribution model and our customers under the service fee model and consignment model.

#### Customers

Our top five customers and their affiliates accounted for 20.5%, 22.4%, 24.0% and 27.7% of our total net revenues for the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020, respectively. These customers are brand partners under the consignment model or service fee model. Our largest customer and its affiliates accounted for 12.8%, 12.8%, 13.6% and 16.1% of our total net revenues for the same periods, respectively. As at the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the knowledge of our Directors, owns more than 5% of our share capital, had any interest in any of our five largest customers. For concentration risk related to our brand partners, please see “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.”

Our contracts with brand partners under the consignment model and service fee model typically have a term of 12 to 36 months, which can be renewed at the option of our brand partners. The contracts set forth the scope of services that we provide to the brand partners as well as pricing terms. We typically charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled.

#### Suppliers

Our top five suppliers and their affiliates accounted for 68.2%, 64.2%, 65.0% and 66.8% of our purchases for the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020, respectively. Our largest supplier and its affiliates accounted for 35.2%, 41.2%, 44.5% and 47.0% of our purchases for the same periods, respectively. These suppliers are our brand partners and/or their authorized distributors under the distribution model. We select and purchase goods from such brand partners and/or their authorized distributors and sell goods directly to consumers through official brand stores or official marketplace stores operated by us on behalf of them. We do not deem any of such suppliers as material since they only contributed to less than 10% of our GMV in aggregate during the Track Record Period. One of our top five suppliers in 2017, an electronics brand partner which accounted for approximately 18% of our total purchases in 2017, switched from the distribution model to the consignment model in September 2017. We generated services revenues from such brand partner after it switched to the consignment model and it became our customer. In 2017 and 2018, such brand partner was among our top five customers and contributed to 1.8% and 1.6%



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of our total net revenues for 2017 and 2018, respectively. Starting from 2019, it ceased to be our top five customers as certain other brand partners contributed more revenues. As at the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the knowledge of our Directors, owns more than 5% of our share capital, had any interest in any of our five largest suppliers.

### INVENTORY MANAGEMENT

We adopt different strategies to manage our inventory in order to deal with non-seasonal and seasonal demands. We make forecast of the necessary inventory level based on historical sales data and carefully formulate our procurement plans. For promotional events such as the Singles Day promotion, we pre-order sufficient level of inventory to meet surging demand. We track our inventory from the point we receive the inventory to the point when an order is fulfilled through our OMS and WMS. Once an order is shipped, our systems automatically update the inventory level for the relevant products to ensure that additional inventory will be ordered as needed. In order to maintain accurate inventory records, we conduct monthly inventory counts and address any problems immediately. We also conduct full inventory counts at year-end and assess the effectiveness of our historical inventory levels on a regular basis. In addition, we actively track the sales data on a real-time basis 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.

### INSURANCE

As at the Latest Practicable Date, we maintained various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our inventory inside our self-operated warehouses 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. In addition, we provide supplementary commercial insurances including health insurances, transportation insurances, and accidental injury insurance to a substantial majority of our employees. We maintain directors' and officers' liability insurance for our directors and officers. We do not maintain business interruption insurance, nor do we maintain product liability insurance or key-man life insurance. We do not have insurance related to the COVID-19 pandemic either. We consider that the coverage from the insurance policies we maintain is adequate for our present operations and is in line with the industry norm. See "Risk Factors — Risks Related to Our Business — We may not have sufficient insurance coverage to fully cover our business risks, which could expose us to significant costs and business disruption." During the Track Record Period and up to the Latest Practicable Date, we have not made, nor been the subject of, any material insurance claim.

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### COMPETITION

We face competition from other brand e-commerce solutions providers in China. We differentiate ourselves from our competitors in our omni-channel end-to-end solutions along the e-commerce value chain that cover diverse product categories. In contrast, our competitors typically fall into one of the following three categories: (i) provide a narrow scope of e-commerce services and address limited aspects of brands' e-commerce strategies; (ii) provide a narrow scope of e-commerce services on multiple e-commerce channels but lack the ability to provide services for multiple product categories; or (iii) provide basic end-to-end e-commerce services (including basic online store operations, customer services, IT services, marketing services and warehousing and fulfillment services) but lack the ability to help brands develop and execute e-commerce strategies across omni-channels or provide multi-category services. Brands that seek collaboration with our competitors may end up having to work with multiple service providers with different technology infrastructure, information system and operational requirements, while their e-commerce related needs can be served by our omni-channel end-to-end solutions in a seamless and efficient manner.

### CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has been central to how we do business. It is an integral part of the way we operate and has a positive impact on the communities in which we do our business. Our core values, including our commitment to our employees, investors, business partners and other customers, consumers, and broader society, are the foundation upon which we have built and will continue to build a sustainable and vibrant ecosystem.

*Benefits and Developing.* We strive to provide our employees with comprehensive social benefits, a diverse work environment and a wide range of career and leadership development and training opportunities. In addition, we also provide supplementary commercial insurance including health insurance, transportation insurance, and accidental injury insurance to substantially all of our employees, and also make complementary commercial health insurance available at preferred rate to family members as needed. Since 2016, we have held an annual family gather-together, “*Baozun Family Day*”, and on the occasion of our most recent event in July 2019, we had over 650 families of our employees, with a total of more than 2,000 participants.

We have invested significant resources in employee career development and training at different levels. For example, we have established comprehensive training programs that cover topics such as corporate culture, business ethics, employee rights and responsibilities, on-the-job training, leadership and executive decision-making. We also periodically circulate employee satisfaction questionnaires to collect information and feedback for a better work environment, and make it a regular practice to provide leadership coaching and promotions to boost morale and the skill levels of our employees. In 2014, we set up a special dedicated training program, Baozun College, to further strengthen our internal training programs. On average, we provided training programs for 19.6 for each employee in 2019.

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Employee Assistance Program (“EAP”). In June 2018, we launched the “Baozun Care” EAP program, a “happy work, happy life” coaching program, aimed at supporting the mental wellbeing of our employees and supporting a healthy work-life balance. We engaged a third-party psychological consulting firm to provide employees and their family members with confidential psychological consultations and treatment through 24/7 hotlines, video meetings and face-to-face consultations. In 2019, we hosted three onsite consulting sessions and two trainings sessions, covering topics of emotional management and coaching of children, planning for children’s education and future, marital management, and work pressure.

*Community and Diversification.* In December 2018, Baozun formed a labor union to promote an open, transparent and inclusive work environment through an emphasis on communication and participation. We also encourage and support employees to organize social associations and events according to their interests, such as hiking, swimming, football, basketball and marathon communities, among others. We believe diversity is fundamental to maintaining our ability to innovate, and gender diversity is deep-rooted in the history of Baozun. As of June 30, 2020, 54.6% of our full-time employees were female employees. Our female mid-level or above management accounted for approximately 37.7% of our aggregate mid-level or above management as of June 30, 2020.

*Whistleblowing.* Honesty is the most basic requirement for all employees of Baozun. We take a zero-tolerance approach to any violation of laws and regulations or improper behavior in commercial activities in order to create a healthy and ethical culture. We have established whistleblowing channels, including email, mail and a 24/7 phone line, for our employees and stakeholders, who have the right to report anonymously while making whistleblowing reports.

Baозun has adhered to these core values in its human resources management for many years. In December 2019, we were named “Shanghai Best Employers Top 30” at one of the most influential and prestigious brand nomination events for both China-based and multinational employers organized by Zhaopin.com, one of China’s leading career platforms. This was our third consecutive year to receive this honor.

## ENVIRONMENTAL SUSTAINABILITY

We are committed to raising public awareness about environmental issues and promoting an eco-friendly mindset among our business partners. We actively promote “green” initiatives such as our “sustainable logistics operation,” by promoting the use of biodegradable and reusable packaging, and recyclable and reusable paper boxes, and by minimizing materials used in our logistics operations, as well as replacement of diesel vehicles with electric vehicles, implementation of garbage classification and recycling, among other measures.

We have actively spearheaded and promoted “green” initiatives with our courier partners for “green delivery,” including by encouraging them to use electric delivery vehicles and through the utilization of our logistics system and network to shorten the package delivery distance from warehouses, thereby reducing the carbon footprint of the logistics.

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In addition, in 2019, we upgraded to a hybrid cloud infrastructure – *Baozun Hybrid Cloud* – to enhance our storing and computing capabilities and enhance the flexibility and efficiency of our core e-commerce systems, which we believe will also reduce the carbon footprint of our hardware infrastructure.

Due to our continual ESG (Environmental, Social and Governance) initiatives, we received a rating of BBB (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment in 2020.

### PROPERTIES AND FACILITIES

We are headquartered in Shanghai and leased an aggregate of approximately 44,000 square meters of offices and operation centers as of June 30, 2020. In addition, as of June 30, 2020, we leased 14 warehouses with an aggregate gross floor area of approximately 400,000 square meters in Suzhou, Shenzhen, Tianjin, Guangzhou, Langfang, Chengdu, Wuxi and Hong Kong. Our premises are leased under operating lease agreements from unrelated third parties.

In addition, as of June 30, 2020, we owned the land use right for an area of 133,542.40 square meters, located in Suzhou, China, along with title to buildings with a gross floor area of 118,201.97 square meters located on that land that we use as a warehouse.

As of the Latest Practicable Date, no single property interest of our Group that formed part of non-property activities had a carrying amount of 15% or more of our Group's total assets as of June 30, 2020. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirement of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

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### EMPLOYEES

As of June 30, 2020, we had 5,758 full-time employees. We had a total of 3,944, 5,141 and 5,979 full-time employees as of December 31, 2017, 2018 and 2019, respectively. We had a total of 552, 868, 803 and 749 R&D (information technology) staff as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively. As of June 30, 2020, 70.6% of our R&D staff have bachelor's or higher degrees. We have streamlined our R&D team to improve efficiency. The following table provides a breakdown of our employees as of June 30, 2020 by function:

<u>Function</u>	<u>Number</u>
Front-end <sup>1</sup> .....	3,876
Warehouse and Logistics .....	631
Information technology .....	749
Back-end <sup>2</sup> .....	502
<b>Total</b> .....	<b><u>5,758</u></b>

(1) Front-end functions include store management and operations, customer service, business development, design and digital marketing.

(2) Back-end functions include administration, finance, legal, internal audit and sales operation team.

Our success depends on our ability to attract, retain and motivate qualified personnel. Our senior management team consists of members that possess overseas or top-tier educational backgrounds, strong IT capabilities, deep industry knowledge and working experience with brand partners. In addition, our brand management team comprises personnel who connect well culturally with brands. We have developed a corporate culture that encourages teamwork, effectiveness, self-development and commitment to providing our brand partners with superior services.

We invest significant resources in the recruitment of employees in support of our fast-growing business operations. We have established procedures and selective standards in recruiting capable employees through various channels, including internal referral, job boards, on campus interviews, job fairs and recruiting agents.

We have established comprehensive training programs, including orientation programs and on-the-job training, to enhance performance and service quality. Our orientation program covers such topics as our corporate culture, business ethics, e-commerce workflows and services. Our on-the-job training includes training of business English and business presentation, management training camp for junior managers and customer service agent career development programs. In 2014, we set up a special dedicated training facility, Baozun College, to further strengthen our internal training programs.

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As required by regulations in China, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund. We are required under PRC law to contribute to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time. See “Risk Factors — Risks Related to Our Business — Failure to make adequate contributions to various employee benefit plans as required by the PRC regulations may subject us to penalties.”

We enter into standard labor contracts with our employees. We also enter into standard confidentiality and non-compete agreements with our senior management. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

### LEGAL PROCEEDINGS

From time to time, we may be involved in legal proceedings or be subject to claims arising in the ordinary course of our business.

On December 10, 2019 and December 26, 2019, purported securities class action complaints were filed in the United States District Court for the Southern District of New York against us, our chief executive officer and our chief financial officer. These suits, which are captioned *Snyder, et. al. v. Baozun Inc. et. al.* (Case No.: 1: 19 cv-11290) and *AUS, et. al. v. Baozun Inc., et. al.* (Case No.: 1: 19 cv-11812), allege, among other things, that defendants made materially false and misleading statements, or failed to disclose material facts, regarding the termination of our business relationship with a Chinese electronics brand. The various suits assert claims covering the period from March 6, 2019 through November 20, 2019 and seek compensatory damages, costs and expenses incurred in such actions, as well as equitable or other relief. On September 8, 2020, the court appointed the lead plaintiffs and the lead counsel and consolidated the separate actions into a consolidated action. We have carefully analyzed the allegations in the complaints together with our special litigation counsel engaged for these lawsuits. Based on our analysis and consultation with such special litigation counsel, we believe the complaints include many allegations that are factually incorrect or unsupported and thus do not adequately support the asserted claims. Therefore, we believe that the claims against us are without merit and intend to vigorously defend against the actions. Since we believe the actions lack merit and the claims asserted are not strong, we do not believe the lawsuits are likely to have a material adverse impact on our business. However, in light of the inherent uncertainties involved in the lawsuits, some of which are beyond our control, we cannot assure you that the lawsuits will not have any material adverse impact on us. For risks and uncertainties relating to the pending cases against us, please see “Risk Factors — Risks

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Related to Our Business — We and certain of our directors and senior management have been named as defendants in shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation and cash flows, our reputation, and the prices and trading volumes of our Shares and/or ADSs.”

Except for the class action suits described above, we are not currently a party to, nor are we aware of, any other legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Our PRC Legal Adviser is of the opinion that, during the Track Record Period, our subsidiaries incorporated under PRC laws have complied with relevant PRC laws and regulations currently in effect in all material respects, and obtained all material requisite licenses and approvals from relevant governmental authorities for their operations in the PRC, and that as at the Latest Practicable Date, these licenses and approvals remained valid and in effect to the extent required for their operations and that no material legal impediment to the renewal of such material licenses and approvals existed. Additional, the Company confirms the same with respect to our Group and, in particular, confirms that during the Track Record Period and as of the Latest Practicable Date, our Group has complied with all relevant Laws currently in effect in all material respects, including obtaining all material licenses and approvals.

### 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, particularly in November when Singles Day campaign occurs and consumers tend to do more shopping.