The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountant's Report in Appendix I to this prospectus and in particular, "Our Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2017, 2018 and 2019 are to the fiscal years ended December 31, 2017, 2018 and 2019, respectively.

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. 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. Based on the different needs of our brand partners, we operate under three business models: distribution model, service fee model and consignment model. 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, and derive services revenues primarily through charging brand partners and other customers fees under the service fee model and consignment model.

We achieved strong financial and operating results during the Track Record Period. Our GMV was RMB19,112.2 million, RMB29,426.0 million, RMB44,410.3 million and RMB21,967.6 million (US$3,109.3 million) in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. In 2017, 2018, 2019 and the six months ended June 30, 2020, our total net revenues were RMB4,148.8 million, RMB5,393.0 million, RMB7,278.2 million and RMB3,675.7 million (US$520.3 million), respectively. We recorded net income of RMB209.1 million, RMB269.8 million, RMB281.9 million and RMB122.7 million (US$17.4 million) in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. We had non-GAAP net income of RMB267.9 million, RMB346.8 million, RMB358.2 million and RMB173.0 million (US$24.5 million) in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. See "— Non-GAAP Financial Measures."

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

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

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

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

- *Our ability to increase GMV and revenues and manage pricing*. Increases in GMV and revenues depend on our ability to attract higher traffic to the online stores, convert more store visitors into consumers, increase consumers' order values, grow repeat customer base, provide superior experience to consumers and expand product offerings. Increases in GMV and revenues also depend on our ability to manage product pricing and maintain the level of services fees charged to our brand partners and other customer.

- *Our ability to enhance cooperation with marketplaces and other channels*. We generate a substantial portion of our revenues through product sales on official marketplace stores that we operate on Tmall. Our future growth depends on our ability to enhance cooperation with Tmall and expand working relationships with other major online marketplaces, such as JD.com and 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.

- *Our ability to innovate and effectively invest in our technology platform and fulfillment infrastructure*. Our ability to innovate and continue to strategize new value-added brand e-commerce service through improved technologies, especially data analytics and marketing know-how, is key to better serving our brand partners and helping them enhance their e-commerce success. This will in turn contribute to our ability to retain and attract brand partners, sell more solutions and generate more revenues. Our ability to invest in our technology platform and fulfillment infrastructure cost-effectively also affects our results of operations.

- *Our ability to manage our business model mix and product mix*. We generally operate e-commerce businesses for our brand partners based on one of our three business models: distribution model, consignment model and service fee model, or, in some circumstances, a combination of these business models. We derive product sales revenues when we sell products to consumers under the distribution model. We derive services revenues primarily under the consignment model and the service fee model. For services provided under the consignment model and the service fee model, we charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled. In addition to serving our brand partners, we also provide digital marketing and other services to other customers under our service fee model. Our net revenues as a percentage of our GMV and our profitability could vary depending on the mix of our product sales revenues and services revenues, and brand partners' category mix during certain time period. In addition, depending on the product category, we may derive more revenues from product sales than services, or vice versa, which may further impact our profitability.

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

IMPACT OF COVID-19

The COVID-19 pandemic has caused an adverse impact on the Chinese and global economy, as well as the e-commerce industry. Nevertheless, we were still able to achieve 25.1% and 22.9% year-over-year increase in our GMV and net revenues in the six months ended June 30, 2020, respectively, compared with the corresponding period of 2019, due to our continual efforts in empowering our brand partners through our industry-leading technology capabilities. The negative impact of the COVID-19 pandemic on us was primarily in the first quarter of 2020, during which we incurred incremental costs associated with the pandemic, such as incremental fulfillment expenses primarily due to interruptions to logistics services and higher labor cost for temporary fulfillment staff as a result of COVID-19 and incremental general and administrative expenses primarily due to extra labor cost, purchase of COVID-19 supplies and cost for disinfection. Such incremental costs have caused our income from operations and net income for the three months ended March 31, 2020 to decrease. As the Chinese economy and e-commerce industry started to recover from COVID-19 in the second quarter of 2020, the negative impact of COVID-19 on us diminished and we achieved year-over-year growth in our income from operations and net income in the six months ended June 30, 2020. However, the extent to which the COVID-19 outbreak may continue to adversely affect the macro-economic environment as well as our business, results of operations and financial condition remains uncertain, and will depend on future developments, including the duration, severity and reach of the COVID-19 outbreak, and actions taken to contain the outbreak or treat its impacts. We cannot assure you that, for the year ended December 31, 2020, we will be able to achieve the same level of net income that we previously achieved. See "Risk Factors — Risks Related to Our Business — Any occurrence of a natural disaster, health epidemic or similar development could have a material adverse effect on our business. In particular, the COVID-19 pandemic had and may continue to have a negative impact on our business, results of operations and financial condition." Despite the uncertainty of the economic environment, our cash and cash equivalent and available banking facilities are sufficient to maintain our financial viability for at least the next 12 months.

COMPONENTS OF RESULTS OF OPERATIONS

The following describes key components of our statements of operations:

Net Revenues

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

We derive product sales revenues primarily through selling products to consumers under the distribution model. We select and purchase goods from our brand partners and/or their authorized distributors and generally sell branded goods directly to consumers through our online stores. Revenues generated from product sales include fees charged to consumers for shipping and handling expenses. We record product sales revenue, net of return allowances, value added tax and related surcharges, when the products are delivered and accepted by consumers. We offer consumers an unconditional right of return for a typical period of seven days upon receipt of products. Return allowances, which reduce net revenues, are estimated based on our analysis of returns by categories of products based on historical data. The amount of goods returned was RMB89.9 million, RMB120.8 million, RMB232.4 million and RMB91.6 million (US$13.0 million) for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for 4.0%, 4.6%, 6.4% and 5.3% of the product sales revenue in the respective periods. The increases in the amount of goods returned during the Track Record Period were primarily due to the increasing use of live streaming as a sales channel which involves more impulse purchases.

We derive services revenues primarily under the consignment model and service fee model. Under the service fee model, we provide a variety of e-commerce services, such as IT solutions, online store operation, digital marketing, and customer service to our brand partners and other customers. Under the consignment model, in addition to the services provided under the service fee model, we also provide warehousing and fulfillment services, whereby our brand partners (and/or their authorized distributors) stock goods in our warehouses for future sales and we act as an agent to facilitate our brand partners' online sales of their branded products as we bear no physical and general inventory risk and have no discretion in establishing price.

For services provided under the consignment model or service fee model, we charge fixed fees and/or variable fees primarily based on GMV or other variable factors such as number of orders fulfilled. In particular, variable fees based on GMV are calculated using a predetermined ratio that we have negotiated with our brand partners, which may vary depending on factors such as the type and extent of the services we render. Revenue generated from some IT solutions such as one-time online store design and setup services is recognized at a point in time when the services are rendered. Revenue generated from services relating to online store operation, digital marketing, customer services, and warehousing and fulfillment are recognized over the service term in the amount including fixed fees and/or variable fees to which we have a right to invoice.

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

	For the year ended December 31,						For the six months ended June 30,				
	2017		2018		2019		2019		2020		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
	(in thousands, except for percentages)										
Net revenues											
Product sales	2,257,632	54.4	2,516,862	46.7	3,422,151	47.0	1,466,738	49.0	1,628,931	230,560	44.3
Services	1,891,176	45.6	2,876,175	53.3	3,856,041	53.0	1,524,233	51.0	2,046,775	289,702	55.7
Total net revenues	4,148,808	100.0	5,393,037	100.0	7,278,192	100.0	2,990,971	100.0	3,675,706	520,262	100.0

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

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Number of brand partners as of the period end[(1)]	152	185	231	212	250
Number of GMV brand partners as of the period end[(2)]	146	178	222	202	241
Total GMV[(3)] (RMB in millions)	19,112.2	29,426.0	44,410.3	17,556.7	21,967.6
Distribution GMV[(4)]	2,620.2	2,902.0	3,849.5	1,660.9	1,820.5
Non-distribution GMV[(5)]	16,492.0	26,524.0	40,560.8	15,895.8	20,147.1
Average GMV per GMV brand partner[(6)] (RMB in millions)	142	182	222	92	95

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

(2) GMV brand partners are brand partners that contributed to our GMV during the period.

(3) GMV is defined as (i) the full value of all purchases transacted and settled on stores operated by us (including, prior to its closure in 2017, our Maikefeng marketplace but excluding stores for the operations of which we only charge fixed fees) and (ii) the full value of purchases for which consumers have placed orders and paid deposits at such stores and which have been settled offline. Our calculation of GMV includes value added tax but excludes (i) shipping charges, (ii) surcharges and other taxes, (iii) value of the goods that are returned and (iv) deposits for purchases that have not been settled.

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

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

(6) Average GMV per GMV brand partner is calculated by dividing GMV (excluding Maikefeng, our online retail platform that was closed in 2017) by the average number of GMV brand partners as of the beginning and end of the respective periods. For more information on Maikefeng, see "Risk Factors — Risks Related to Our Business — We make investments in business initiatives, some of which may not be successful. Any unsuccessful business initiatives could materially and adversely affect our business, financial condition and results of operations."

Operating expenses

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

	For the year ended December 31,						For the six months ended June 30,				
	2017		2018		2019		2019		2020		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
	(in thousands, except for percentages)										
Net revenues	4,148,808	100.0	5,393,037	100.0	7,278,192	100.0	2,990,971	100.0	3,675,706	520,262	100.0
Operating expenses											
Cost of products	(1,917,467)	(46.2)	(2,034,852)	(37.7)	(2,774,342)	(38.1)	(1,188,056)	(39.7)	(1,365,889)	(193,329)	(37.2)
Fulfillment	(818,173)	(19.7)	(1,262,302)	(23.4)	(1,678,191)	(23.1)	(679,519)	(22.7)	(988,339)	(139,890)	(26.9)
Sales and marketing	(910,843)	(22.0)	(1,338,970)	(24.8)	(1,815,642)	(24.9)	(724,573)	(24.2)	(888,136)	(125,707)	(24.2)
Technology and content	(140,689)	(3.4)	(268,973)	(5.0)	(392,951)	(5.4)	(190,163)	(6.4)	(198,140)	(28,045)	(5.4)
General and administrative	(116,554)	(2.8)	(154,845)	(2.9)	(215,660)	(3.0)	(97,126)	(3.2)	(103,827)	(14,696)	(2.8)
Other operating income (expenses), net	11,250	0.3	22,678	0.4	(17,753)	(0.2)	20,102	0.7	42,067	5,954	1.1
Total operating expenses	(3,892,476)	(93.8)	(5,037,264)	(93.4)	(6,894,539)	(94.7)	(2,859,335)	(95.6)	(3,502,264)	(495,713)	(95.3)

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

Our fulfillment expenses primarily consist of (i) expenses charged by third-party couriers for dispatching and delivering products to consumers, (ii) expenses incurred in operating our fulfillment and customer service center, including personnel cost and expenses attributable to buying, receiving, inspecting and warehousing inventories, retrieval, packaging and preparing customer orders for shipment, and store operations, (iii) rental expenses of leased warehouses, and (iv) packaging material costs. We expect our fulfillment expenses to increase as we will lease more warehouses or cooperate with more warehouse operators to meet the demand driven by the increase in GMV and the expansion of our fulfillment services. We plan to make our fulfillment operations more efficient by enhancing the utilization rate of available spaces, deploying automated warehouse facilities, optimizing our third-party couriers network, and improving workflow efficiency.

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

Our technology and content expenses consist primarily of payroll and related expenses for employees in our technology and system department, technology infrastructure expenses, costs associated with the computers, storage and telecommunications infrastructure for internal use and other costs, such as editorial content costs. We expect spending in technology and content to increase over time as we continue to invest in our technology platform to provide comprehensive services to brand partners.

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

TAXATION

Cayman Islands

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability.

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

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the Shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

Hong Kong

Our subsidiaries incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. On April 1, 2018, a two-tiered profits tax regime was introduced. The profits tax rate for the first HK$2 million of profits of corporations is lowered to 8.25%, while profits above that amount continue to be subject to the tax rate of 16.5%.

China

Generally, our subsidiaries and consolidated VIE in China are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. Entities qualified as "high and new technology enterprises," are entitled to a preferential enterprise income tax rate of 15%. Our VIE, Shanghai Zunyi, qualified as a "high and new technology enterprise" with a valid term of three years starting from 2017 and is therefore subject to a 15% preferential income tax rate for 2017, 2018 and 2019. One of our PRC subsidiaries, Shanghai Fenghe Software Technology Limited, or Shanghai Fenghe, qualified as a "high and new technology enterprise" with a valid term of three years starting from 2018 and is therefore subject to a 15% preferential income tax rate for 2018 and 2019. For the year of 2020, Shanghai Fenghe can continue to enjoy the 15% preferential income tax rate subject to its satisfaction of certification criteria as a high and new technology enterprise. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Before May 1, 2018, we are subject to VAT at a rate of 17% on product sales and 6% on our services, in each case less any deductible VAT we have already paid or borne. On November 19, 2017, the State Council promulgated The Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax (《國務院關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》), or Order 691. According to the VAT Law and Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT tax rate applicable to the small-scale taxpayers is 3%. The Notice of the MOF and the SAT on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》), or the Notice, was promulgated on April 4, 2018 and came into effect on May 1, 2018. According to the Notice, the VAT tax rate of 17% and 11% are changed into 16% and 10%, respectively. In March 2019, the MOF, the SAT and the General Administration of Customs jointly promulgated the Announcement on the Policies for Furtherance of the Reform of Value-Added Tax (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》), or the Announcement 39, according to which: (i) for VAT taxable sales acts or importation of goods originally subject to VAT tax rates of 16% and 10%, respectively, such tax rates shall be adjusted to 13% and 9%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 10%, such deduction rate shall be adjusted to 9%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 13%, such tax shall be calculated at the deduction rate of 10%; (iv) for exported goods and labor originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate shall be adjusted to 13%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate shall be adjusted to 9%. Announcement 39 became effective on April 1, 2019 and superseded then existing provisions which were inconsistent with Announcement 39. Therefore, from May 1, 2018 to March 31, 2019, the VAT tax rates of our PRC subsidiaries changed from 17% to 16% on product sales. After April 1, 2019, the VAT tax rates of our PRC subsidiaries changed from 16% to 13% on product sales. VAT tax rate of our services revenues remains to be the same as that before May 1, 2018, which is 6%. We are also subject to surcharges on VAT payments in accordance with PRC law. Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding companies in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital entered into on August 21, 2006 and receive approval from the relevant tax authority. If the relevant Hong Kong entities satisfy all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong entities would be subject to withholding tax at the standard rate of 5%.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the EIT Law, such entity would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, and we may therefore be subject to PRC income tax on our global income."

NON-GAAP FINANCIAL MEASURES

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

We present the non-GAAP financial measures because they are also used by our management to evaluate our operating performance and formulate business plans. Non-GAAP income from operations, non-GAAP net income, non-GAAP net income attributable to ordinary shareholders of Baozun Inc. and non-GAAP net income attributable to ordinary shareholders of Baozun Inc. per ADS enable our management to assess our operating results without considering the impact of share-based compensation expenses and amortization of intangible assets resulting from business acquisition. Such items are non-cash expenses that are not directly related to our business operations. Share-based compensation expenses represent non-cash expenses associated with share options and restricted share units we grant under the Share Incentive Plans. Amortization of intangible assets resulting from business acquisition represents non-cash expenses associated with intangible assets acquired through one-off business acquisition. We believe that, by excluding such non-cash items, the non-GAAP financial measures help identify the trends underlying our core operating results that could otherwise be distorted. As such, we believe that the non-GAAP financial measures facilitate investors' assessment of our operating performance, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in their financial and operational decision-making.

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

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

A reconciliation of these non-GAAP financial measures in 2017, 2018, 2019, the six months ended June 30, 2019 and the six months ended June 30, 2020 to the nearest U.S. GAAP performance measures is provided below:

	For the year ended December 31,			For the six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)			
Income from operations	256,332	355,773	383,653	131,636	173,442	24,549
Add:						
Share-based compensation expenses	58,231	75,862	75,183	35,436	49,657	7,028
Amortization of intangible assets resulting from business acquisition	782	1,564	1,564	782	782	111
Non-GAAP income from operations	315,345	433,199	460,400	167,854	223,881	31,688
Net income	209,130	269,771	281,891	100,624	122,728	17,371
Add:						
Share-based compensation expenses	58,231	75,862	75,183	35,436	49,657	7,028
Amortization of intangible assets resulting from business acquisition	782	1,564	1,564	782	782	111
Less:						
Tax effect of amortization of intangible assets resulting from business acquisition	(196)	(392)	(392)	(196)	(196)	(28)
Non-GAAP net income	267,947	346,805	358,246	136,646	172,971	24,482

	For the year ended December 31,			For the six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)			
Net income (loss) attributable to ordinary shareholders of Baozun Inc.	208,866	269,712	281,297	101,071	122,010	17,270
Add:						
Share-based compensation expenses	58,231	75,862	75,183	35,436	49,657	7,028
Amortization of intangible assets resulting from business acquisition	398	796	796	398	398	56
Less:						
Tax effect of amortization of intangible assets resulting from business acquisition	(100)	(200)	(200)	(100)	(100)	(14)
Non-GAAP net income attributable to ordinary shareholders of Baozun Inc.	267,395	346,170	357,076	136,805	171,965	24,340
Non-GAAP net income attributable to ordinary shareholders of Baozun Inc. per ADS:						
Basic	4.95	6.11	6.16	2.37	2.93	0.41
Diluted	4.55	5.79	5.99	2.30	2.87	0.41
Weighted average shares used in calculating net income						
Basic	162,113,815	169,884,906	173,937,013	173,310,034	176,119,872	176,119,872
Diluted	176,115,049	179,327,029	178,932,010	178,689,642	179,464,775	179,464,775

RESULTS OF OPERATIONS

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

	For the year ended December 31,						For the six months ended June 30,				
	2017		2018		2019		2019		2020		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
	(in thousands, except for percentages, per share and per ADS data and number of shares)										
Net revenues											
Product sales	2,257,632	54.4	2,516,862	46.7	3,422,151	47.0	1,466,738	49.0	1,628,931	230,560	44.3
Services	1,891,176	45.6	2,876,175	53.3	3,856,041	53.0	1,524,233	51.0	2,046,775	289,702	55.7
Total net revenues	4,148,808	100.0	5,393,037	100.0	7,278,192	100.0	2,990,971	100.0	3,675,706	520,262	100.0
Operating expenses[(1)]											
Cost of products	(1,917,467)	(46.2)	(2,034,852)	(37.7)	(2,774,342)	(38.1)	(1,188,056)	(39.7)	(1,365,889)	(193,329)	(37.2)
Fulfillment	(818,173)	(19.7)	(1,262,302)	(23.4)	(1,678,191)	(23.1)	(679,519)	(22.7)	(988,339)	(139,890)	(26.9)
Sales and marketing	(910,843)	(22.0)	(1,338,970)	(24.8)	(1,815,642)	(24.9)	(724,573)	(24.2)	(888,136)	(125,707)	(24.2)
Technology and content	(140,689)	(3.4)	(268,973)	(5.0)	(392,951)	(5.4)	(190,163)	(6.4)	(198,140)	(28,045)	(5.4)
General and administrative	(116,554)	(2.8)	(154,845)	(2.9)	(215,660)	(3.0)	(97,126)	(3.2)	(103,827)	(14,696)	(2.8)
Other operating income (expense), net	11,250	0.3	22,678	0.4	(17,753)	(0.2)	20,102	0.7	42,067	5,954	1.1
Total operating expenses	(3,892,476)	(93.8)	(5,037,264)	(93.4)	(6,894,539)	(94.7)	(2,859,335)	(95.6)	(3,502,264)	(495,713)	(95.3)
Income from operations	256,332	6.2	355,773	6.6	383,653	5.3	131,636	4.4	173,442	24,549	4.7
Other income (expenses)											
Interest income	13,350	0.3	8,017	0.1	42,614	0.6	15,023	0.5	19,670	2,784	0.5
Interest expense	(4,252)	(0.1)	(13,058)	(0.2)	(61,316)	(0.8)	(24,457)	(0.8)	(36,019)	(5,098)	(1.0)
Gain on disposal of investment	5,464	0.1	–	–	–	–	–	–	–	–	–
Impairment loss of investments	(6,227)	(0.2)	(9,021)	(0.2)	(9,021)	(0.1)	–	–	–	–	–
Exchange gain (loss)	(21)	(0.0)	(5,991)	(0.1)	(7,663)	(0.1)	(2,954)	(0.1)	(4,589)	(650)	(0.1)
Income before income tax and share of income (loss) in equity method investment	264,646	6.4	335,720	6.2	348,267	4.8	119,248	4.0	152,504	21,585	4.1
Income tax expense	(54,251)	(1.3)	(64,953)	(1.2)	(71,144)	(1.0)	(19,622)	(0.7)	(32,517)	(4,602)	(0.9)
Share of income (loss) in equity method investment	(1,265)	(0.0)	(996)	(0.0)	4,768	0.1	998	0.0	2,741	388	0.1
Net income	209,130	5.0	269,771	5.0	281,891	3.9	100,624	3.4	122,728	17,371	3.3

	For the year ended December 31,						For the six months ended June 30,				
	2017		2018		2019		2019		2020		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages, per share and per ADS data and number of shares)										
Net (income) loss attributable to noncontrolling interests	(264)	(0.0)	(59)	(0.0)	187	0.0	447	0.0	(787)	(111)	(0.0)
Net income attributable to redeemable noncontrolling interests	–	–	–	–	(781)	(0.0)	–	–	69	10	0.0
Net income attributable to ordinary shareholders of Baozun Inc.	208,866	5.0	269,712	5.0	281,297	3.9	101,071	3.4	122,010	17,270	3.3
Net income per share attributable to ordinary shareholders of Baozun Inc.											
Basic	1.29		1.59		1.62		0.58		0.69	0.10	
Diluted	1.19		1.50		1.57		0.57		0.68	0.10	
Net income per ADS attributable to ordinary shareholders of Baozun Inc.(2)											
Basic	3.87		4.76		4.85		1.75		2.08	0.29	
Diluted	3.56		4.51		4.72		1.70		2.04	0.29	
Weighted average shares used in calculating net income per ordinary share											
Basic	162,113,815	–	169,884,906	–	173,937,013	–	173,310,034	–	176,119,872	176,119,872	–
Diluted	176,115,049	–	179,327,029	–	178,932,010	–	178,689,642	–	179,464,775	179,464,775	–

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

	For the year ended December 31,			For the six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Fulfillment	(2,904)	(5,831)	(9,839)	(5,051)	(5,344)	(756)
Sales and marketing	(20,363)	(28,346)	(22,209)	(10,321)	(17,326)	(2,452)
Technology and content	(13,822)	(13,445)	(9,817)	(5,368)	(7,700)	(1,090)
General and administrative	(21,142)	(28,240)	(33,318)	(14,696)	(19,287)	(2,730)
Total	(58,231)	(75,862)	(75,183)	(35,436)	(49,657)	(7,028)

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

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six months Ended June 30, 2019.

Net Revenues

Our total net revenues increased by 22.9% from RMB2,991.0 million in the six months ended June 30, 2019 to RMB3,675.7 million (US$520.3 million) in the six months ended June 30, 2020. Net revenues generated from product sales increased by 11.1% while net revenues from services increased by 34.3%. The increase in our net revenues generated from product sales was primarily attributable to the acquisition of new brand partners and the increased popularity of brand partners' products, partially offset by slower growth in personal-care products in appliances category. The increase in our net revenues generated from services was primary driven by the increase in the number of brand partners under our consignment model and service fee model and growth in demand for our services.

Operating Expenses

Our operating expenses increased by 22.5% from RMB2,859.3 million in the six months ended June 30, 2019 to RMB3,502.3 million (US$495.7 million) in the six months ended June 30, 2020. This increase was due to the growth of our business, which resulted in increases in our cost of products, fulfillment expenses, sales and marketing expenses, technology and content expenses, and general and administrative expenses.

Cost of Products. Our cost of products increased by 15.0% from RMB1,188.1 million in the six months ended June 30, 2019 to RMB1,365.9 million (US$193.3 million) in the six months ended June 30, 2020, primarily due to higher costs associated with an increase in product sales revenue, especially for newly acquired brand partners. Cost of products as a percentage of net revenues from product sales increased from 81.0% in the six months ended June 30, 2019 to 83.9% in the six months ended June 30, 2020 primarily due to promotions we conducted to stimulate sales amid the COVID-19 pandemic.

Fulfillment Expenses. Our fulfillment expenses increased by 45.4% from RMB679.5 million in the six months ended June 30, 2019 to RMB988.3 million (US$139.9 million) in the six months ended June 30, 2020. The increase was primarily driven by a rise in GMV contribution from our distribution and consignment models and specifically, (i) an increase in expenses charged by third-party couriers for dispatching and delivering our products, including incremental logistics costs associated with the outbreak of COVID-19 in China primarily in the first quarter of 2020, (ii) an increase in labor cost and expenses attributable to retrieval and sorting, as our volume of product sales increased and we provided more fulfillment services to our brand partners and as we hired more temporary workers during the COVID-19 outbreak which led to higher costs primarily in the first quarter of 2020, and (iii) an increase in rental expenses for our warehouses, which was primarily due to the increase in the aggregate gross floor area leased to support the expansion of warehousing and fulfillment service.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 22.6% from RMB724.6 million in the six months ended June 30, 2019 to RMB888.1 million (US$125.7 million) in the six months ended June 30, 2020. The increase was primarily due to (i) an increase in marketing and platform service fees as we engaged in more advertising activities to increase our GMV and (ii) an increase in labor cost as we hired additional sales and marketing personnel.

Technology and Content Expenses. Our technology and content expenses increased by 4.2% from RMB190.2 million in the six months ended June 30, 2019 to RMB198.1 million (US$28.0 million) in the six months ended June 30, 2020, which was primarily due to an increase in amortization of intangible assets as we enhanced our investment in the development of new and innovative technologies.

General and Administrative Expenses. Our general and administrative expenses increased by 6.9% from RMB97.1 million in the six months ended June 30, 2019 to RMB103.8 million (US$14.7 million) in the six months ended June 30, 2020. The increase was primarily due to an increase in administrative, corporate strategy, and business planning staff.

Other Operating Income, Net. Other operating income, net increased from RMB20.1 million in the six months ended June 30, 2019 to RMB42.1 million (US$6.0 million) in the six months ended June 30, 2020, primarily due to reversal of loss provision for a fire accident that occurred at a third-party warehouse in Shanghai on October 29, 2019 in an amount of RMB6.5 million (US$0.9 million) and an increase in government subsidies in an amount of RMB13.9 million (US$2.0 million).

Income from Operations

As a result of the foregoing, our income from operations increased from RMB131.6 million in the six months ended June 30, 2019 to RMB173.4 million (US$24.5 million) in the six months ended June 30, 2020.

Interest Income

Our interest income increased from RMB15.0 million in the six months ended June 30, 2019 to RMB19.7 million (US$2.8 million) in the six months ended June 30, 2020, primarily due to higher average balance of our time deposit.

Interest Expense

Our interest expense increased from RMB24.5 million in the six months ended June 30, 2019 to RMB36.0 million (US$5.1 million) in the six months ended June 30, 2020, primarily due to higher average balance of our borrowings.

Exchange Gain (Loss)

Our exchange loss increased from RMB3.0 million in the six months ended June 30, 2019 to RMB4.6 million (US$0.7 million) in the six months ended June 30, 2020, primarily due to the depreciation of RMB against USD, as we had net liabilities in USD during the six months ended June 30, 2020.

Income Tax Expense

Our income tax expense increased from RMB19.6 million in the six months ended June 30, 2019 to RMB32.5 million (US$4.6 million) in the six months ended June 30, 2020, primarily due to increase in taxable profit.

Share of Income (Loss) in Equity Method Investment

Our share of income in equity method investment increased from RMB1.0 million in the six months ended June 30, 2019 to RMB2.7 million (US$0.4 million) in the six months ended June 30, 2020, primarily due to the recognition of share of income in equity method investment associated with our investment in Beijing Pengtai Baozun E-commerce Co., Ltd. and certain other equity investees.

Net Income

As a result of the foregoing, our net income increased from RMB100.6 million in the six months ended June 30, 2019 to RMB122.7 million (US$17.4 million) in the six months ended June 30, 2020.

Net Income Attributable to Ordinary Shareholders of Baozun Inc.

Our net income attributable to ordinary shareholders of Baozun Inc. increased from RMB101.1 million in the six months ended June 30, 2019 to RMB122.0 million (US$17.3 million) in the six months ended June 30, 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018.

Net Revenues

Our total net revenues increased by 35.0% from RMB5,393.0 million in 2018 to RMB7,278.2 million in 2019. Net revenues generated from product sales increased by 36.0% while net revenues from services increased by 34.1%. The increase in our net revenues generated from product sales was primarily attributable to the increased popularity of brand partners' products, improvement in the effectiveness of our marketing and promotional campaigns, and incremental contribution from newly-acquired brand partners in 2019. The increase in our net revenues generated from services was primarily due to the rapid growth in sales from existing brand partners and the addition of new brand partners under our consignment model and service fee model.

Operating Expenses

Our operating expenses increased by 36.9% from RMB5,037.3 million in 2018 to RMB6,894.5 million in 2019. This increase was due to the growth of our business, which resulted in increases in our cost of products, fulfillment expenses, sales and marketing expenses, technology and content expenses, and general and administrative expenses.

Cost of Products. Our cost of products increased by 36.3% from RMB2,034.9 million in 2018 to RMB2,774.3 million in 2019. Cost of products as a percentage of net revenues from product sales increased from 80.8% in 2018 to 81.1% in 2019 primarily due to a change in product mix resulting from our acquisition of new brand partners for distribution model in 2019.

Fulfillment Expenses. Our fulfillment expenses increased by 32.9% from RMB1,262.3 million in 2018 to RMB1,678.2 million in 2019. This increase was primarily due to the increase in GMV from RMB29,426.0 million in 2018 to RMB44,410.3 million in 2019 and specifically, (i) an increase of RMB205.0 million in expenses charged by third-party couriers for dispatching and delivering our products, (ii) an increase of RMB102.6 million in labor cost and expenses attributable to retrieval and sorting, as our volume of product sales increased and we provided more fulfillment services to our brand partners, and (iii) an increase in rental expenses for our warehouses, which was primarily due to the increase in the aggregate gross floor area leased to support the expansion of warehousing and fulfillment service.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 35.6% from RMB1,339.0 million in 2018 to RMB1,815.6 million in 2019. This increase was primarily due to an increase in marketing and platform service fees from RMB824.4 million in 2018 to RMB1,120.0 million in 2019, resulting from an increase in our advertising expenditures mainly on Tmall, as we engaged in more advertising activities to increase our GMV, and an increase in expenses incurred relating to digital marketing service. This increase was also attributable to increases in the personnel cost and other expenses attributable to online store operations due to the increase in the number of brand partners and expansion in the number of online stores operated by us.

Technology and Content Expenses. Our technology and content expenses increased by 46.1% from RMB269.0 million in 2018 to RMB393.0 million in 2019. The increase was primarily due to increased investment in our innovation center and the development of new and innovative technologies.

General and Administrative Expenses. Our general and administrative expenses increased by 39.3% from RMB154.8 million in 2018 to RMB215.7 million in 2019. The increase was primarily due to an increase in our administrative, corporate strategy, and business planning staff, as well as the provision for allowance for doubtful accounts in 2019.

Other Operating Income (Expense), Net. Other operating expense was RMB17.8 million in 2019, compared with other operating income of RMB22.7 million in 2018. The increase in other operating expense was mainly due to an operating loss of RMB45.5 million resulting from an accidental fire that occurred at a third-party warehouse in Shanghai on October 29, 2019.

Income from Operations

As a result of the foregoing, our income from operations increased from RMB355.8 million in 2018 to RMB383.7 million in 2019.

Interest Income

Our interest income increased from RMB8.0 million in 2018 to RMB42.6 million in 2019. This increase was primarily due to higher average balance of short-term investments (mainly time deposits) in 2019.

Interest Expense

Our interest expense increased from RMB13.1 million in 2018 to RMB61.3 million in 2019. This increase was primarily due to higher average balance of our borrowings in 2019.

Impairment Loss of Investments

Our impairment loss of investments was RMB9.0 million in 2019, compared with RMB9.0 million in 2018. Our impairment of investments in 2019 was due to the loss of investment in equity investees without readily determinable fair value. We review the investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable.

Exchange Loss

Our exchange loss increased from RMB6.0 million in 2018 to RMB7.7 million in 2019. This increase was primarily due to the depreciation of RMB against the U.S. dollar, as we had net liabilities in U.S. dollar during 2019.

Income Tax Expense

Our income tax expense was RMB71.1 million in 2019, compared with RMB65.0 million in 2018. Our income tax expense in 2019 was due to taxable profit generated in the same period.

Share of Income (Loss) in Equity Method Investment

Our share of income in equity method investment was RMB4.8 million in 2019, compared with loss of RMB1.0 million in 2018. Our share of income in equity method investment in 2019 resulted from our investment in Beijing Pengtai Baozun E-commerce Co., Ltd., or Pengtai Baozun, and other equity investees.

Net Income

As a result of the foregoing, our net income increased by 4.5% from RMB269.8 million in 2018 to RMB281.9 million in 2019.

Net Income Attributable to Ordinary Shareholders of Baozun Inc.

Our net income attributable to ordinary shareholders of Baozun Inc. was RMB281.3 million in 2019, compared with RMB269.7 million in 2018.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017.

Net Revenues

Our total net revenues increased by 30.0% from RMB4,148.8 million in 2017 to RMB5,393.0 million in 2018. Net revenues generated from product sales increased by 11.5% while net revenues from services increased by 52.1%. The increase in our net revenues generated from product sales was primarily due to the increased popularity of brand partners' products and improvement in the effectiveness of our marketing and promotional campaigns, partially offset by a decrease in product sales revenue resulting from transition of a leading electronics brand partner from the distribution model to the consignment model in September 2017. The increase in our net revenues generated from services was primarily due to the rapid growth in sales from existing brand partners and the addition of new brand partners under our consignment model and service fee model.

Operating Expenses

Our operating expenses increased by 29.4% from RMB3,892.5 million in 2017 to RMB5,037.3 million in 2018. This increase was due to the growth of our business, which resulted in increases in our cost of products, fulfillment expenses, sales and marketing expenses, technology and content expenses, and general and administrative expenses.

Cost of Products. Our cost of products increased by 6.1% from RMB1,917.5 million in 2017 to RMB2,034.9 million in 2018. Cost of products as a percentage of net revenues from product sales decreased from 84.9% in 2017 to 80.8% in 2018 primarily due to the transition of a leading electronics brand partner's business with lower product margin from the distribution model to the consignment model in September 2017.

Fulfillment Expenses. Our fulfillment expenses increased by 54.3% from RMB818.2 million in 2017 to RMB1,262.3 million in 2018. This increase was primarily due to the increase in GMV from RMB19,112.2 million in 2017 to RMB29,426.0 million in 2018 and specifically, (i) an increase of RMB230.5 million in expenses charged by third-party couriers for dispatching and delivering our products, (ii) an increase of RMB117.8 million in labor cost and expenses attributable to retrieval and sorting, as our volume of product sales increased and we provided more fulfillment services to our brand partners, and (iii) an increase in rental expenses for our warehouses, which was primarily due to the increase in the aggregate gross floor area leased to support the expansion of warehousing and fulfillment service.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 47.0% from RMB910.8 million in 2017 to RMB1,339.0 million in 2018. This increase was primarily due to an increase in marketing and platform service fees from RMB537.1 million in 2017 to RMB824.4 million in 2018, resulting from an increase in our advertising expenditures mainly on Tmall, as we engaged in more advertising activities to increase our GMV, and an increase in expenses incurred relating to digital marketing service. This increase was also attributable to increases in the personnel cost and other expenses attributable to online store operations due to the increase in the number of brand partners and expansion in the number of online stores operated by us.

Technology and Content Expenses. Our technology and content expenses increased by 91.2% from RMB140.7 million in 2017 to RMB269.0 million in 2018. The increase was primarily due to increased investment in our innovation center and the development of new and innovative technologies, including an increase in technology-focused staff from 552 as of December 31, 2017 to 868 as of December 31, 2018.

General and Administrative Expenses. Our general and administrative expenses increased by 32.9% from RMB116.6 million in 2017 to RMB154.8 million in 2018. The increase was primarily due to an increase in administrative, corporate strategy, and business planning staff.

Other Operating Income (Expense), Net. Our other operating income, net, increased by 101.6% from RMB11.3 million in 2017 to RMB22.7 million in 2018. The increase was primarily due to the increase in government subsidies received.

Income from Operations

As a result of the foregoing, our income from operations increased from RMB256.3 million in 2017 to RMB355.8 million in 2018.

Interest Income

Our interest income decreased from RMB13.4 million in 2017 to RMB8.0 million in 2018. This decrease was primarily due to lower average balance of short-term investments in 2018.

Interest Expense

Our interest expense increased from RMB4.3 million in 2017 to RMB13.1 million in 2018. This increase was primarily due to higher average balance of our borrowings in 2018.

Gain on Disposal of Investment

Our gain on disposal of investment was nil in 2018 compared with RMB5.5 million in 2017. Our gain on disposal of investment in 2017 was due to transfer of equity interests we held in equity investees.

Impairment Loss of Investments

Our impairment loss of investments was RMB9.0 million in 2018 compared with RMB6.2 million in 2017. Our impairment of investments in 2018 was due to the loss of investment in equity investees without readily determinable fair value. We review the investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable.

Exchange Loss

Our exchange loss increased from RMB21.4 thousand in 2017 to RMB6.0 million in 2018. This increase was primarily due to the depreciation of RMB against the U.S. dollar, as we had net liabilities in U.S. dollar during 2018.

Income Tax Expense

Our income tax expense was RMB65.0 million in 2018, compared with RMB54.3 million in 2017. Our income tax expense in 2018 was due to taxable profit generated in the same period.

Share of Income (Loss) in Equity Method Investment

Our share of loss in equity method investment was RMB1.0 million in 2018, compared with RMB1.3 million in 2017. Our share of loss in equity method investment in 2018 resulted from our investment in Baozun-CJ and other equity investees.

Net Income

As a result of the foregoing, our net income increased by 29.0% from RMB209.1 million in 2017 to RMB269.8 million in 2018.

Net Income Attributable to Ordinary Shareholders of Baozun Inc.

Our net income attributable to ordinary shareholders of Baozun Inc. was RMB269.7 million in 2018, compared with RMB208.9 million in 2017.

Qualitative Analysis: We operate under one business segment and our management does not evaluate our results of operations for each business model on a segregated basis, but for all business models as a whole. As we share certain cost and expenses under different business models, we do not have a reasonable basis to accurately allocate such cost and expenses to each business model to derive profitability for each model. The following qualitative analysis is based on rough estimation and is presented solely for illustration. We cannot assure you that such analysis is accurate and you cannot rely on such statements as accurate presentation of our results of operations. In general, our profitability of the non-distribution model is much higher than that of the distribution model since the largest component of our cost and expenses under the distribution model is the cost of products, which accounts for more than 80% of the product sales revenue we generated under the distribution model during the Track Record Period, whereas the non-distribution model does not entail cost of products. We believe that, during the Track Record Period, the fluctuation of the profitability of distribution model and non-distribution model is generally in line with our overall performance as discussed in the period-to-period comparison above.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

We have financed our operations primarily through cash generated from operating activities, proceeds from our public offerings and private placements, short-term and long-term bank borrowings, and issuance of the 2024 Notes. As of June 30, 2020, we had RMB1,606.4 million (US$227.4 million) in cash and cash equivalents and RMB159.9 million (US$22.6 million) in restricted cash. Our cash and cash equivalents generally consist of bank deposits. As of June 30, 2020, we had one-year credit facilities for an aggregate amount of RMB1,620.0 million (US$229.3 million) from several Chinese commercial banks. Under these credit facilities, we had RMB183.5 million (US$26.0 million) short-term loans outstanding with a weighted average effective interest rate of 4.38% per annum, and had utilized credit of RMB343.9 million (US$48.7 million) as guarantee for the issuance of notes payable, and RMB91.9 million (US$13.0 million) for the issuance of letters of guarantee to our suppliers, so as of June 30, 2020, we had RMB1,000.7 million (US$141.6 million) available for future borrowing under these credit facilities.

In October 2019, we entered into a one-year bank loan contract under which we can borrow up to RMB700.0 million by October 2020 and the actual draw down amount is subject to the deposit pledged. As of June 30, 2020, the outstanding loan balance under this contract is nil.

In April 2019, we completed our offering of the 2024 Notes in the aggregate principal amount of US$275.0 million. Our 2024 Notes will mature on May 1, 2024, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 19.2308, before the ADS split, subject to change, of our ADSs per US$1,000 principal amount of the 2024 Notes. The conversion rate may be increased in connection with a make-whole fundamental change and is subject to adjustment upon occurrence of certain events. The holders may require us to repurchase all or portion of the 2024 Notes for cash on May 1, 2022, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. The 2024 Notes bear interest at a rate of 1.625% per annum, payable in arrears semi-annually on May 1 and November 1, began November 1, 2019. Based on the initial conversion rate of 19.2308, the maximum number of ADSs that the 2024 Notes could convert into would be approximately 14.3 million ADSs, assuming no future conversion rate adjustments. Upon conversion of the 2024 Notes, our existing shareholders may experience dilution in their percentage of share ownership. In terms of diluted earnings per share for the six months ended June 30, 2020, the conversion of 2024 Notes would have an anti-dilutive effect as the corresponding interest expenses would be excluded from the net income used for calculation of diluted earnings per share.

Considering the fact that we have obtained approval of our board of directors for issuance of the 2024 Notes (including granting of conversion right and repurchase right to the noteholders as disclosed above) in accordance with our Articles of Association, the directors have exercised their fiduciary duty in granting the approval with a view to the best interests of us and our shareholders as a whole, and granting of such rights was driven by commercial reasons, and after consultation with our legal advisers, we are of the view that granting of such rights (i) does not contravene with the shareholders' protection required under Rule 19C.07; and (ii) complies with all the rules and regulations of the Cayman Islands and Nasdaq Listing Rules. The Joint Sponsors, based on the forgoing, concur.

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

Accounts Receivable

Our accounts receivable mainly represent amounts due from customers and consumers and are recorded net of allowance for doubtful accounts. Under the distribution model, we generally receive funds from the e-commerce platforms within no more than two weeks after online consumers have confirmed receipt of goods. We normally charge service fees to our brand partners with a credit period of one month to four months. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our accounts receivable amounted to RMB1,085.7 million, RMB1,547.6 million, RMB1,800.9 million and RMB1,548.6 million (US$219.2 million), respectively. As of the Latest Practicable Date, we have settled RMB774.9 million (US$109.7 million) of our accounts receivable as of June 30, 2020, constituting 50.0% of the accounts receivable then outstanding, net of allowance for doubtful accounts. The increase in accounts receivable from December 31, 2017 to December 31, 2018 and further to December 31, 2019 was due to the increase in our product sales and service volumes. The decrease in accounts receivable from December 31, 2019 to June 30, 2020 was because we had higher product sales and service volumes in the fourth quarter due to year-end promotional events. Our accounts receivable turnover days were 75 days in 2017, 89 days in 2018, 84 days in 2019, 84 days in the six months ended June 30, 2019 and 82 days in the six months ended June 30, 2020, respectively. The increase in turnover days from 2017 to 2018 was due to the increase in the proportion of our revenues generated from services, which generally has longer payment terms. The decreases in turnover days from 2018 to 2019 and from the six months ended June 30, 2019 to the six months ended June 30, 2020 was due to efficiency enhancement of working capital management. Accounts receivable turnover days for a given period are equal to the average accounts receivable balances as of the beginning and the end of the period divided by total net revenues during the period and multiplied by the number of days during the period (i.e., the actual number of days in a given year for calculating turnover days in such year or 90 days for calculating turnover days in a given quarter).

Inventories

Our inventories were RMB382.0 million, RMB650.3 million, RMB896.8 million and RMB912.2 million (US$129.1 million) as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our inventory turnover days were 66 days in 2017, 93 days in 2018, 102 days in 2019, 102 days in the six months ended June 30, 2019 and 119 days in the six months ended June 30, 2020. The increase in our inventories during the Track Record Period reflected the additional inventory required to support our sales volumes, and the increase of the scale of our existing and new brand partners under the distribution model. The increase in our inventory turnover days from 2017 to 2018 was due to the transition of a leading electronics brand partner's business with quicker inventory turnover days from the distribution model to the consignment model in September 2017. The increase in our inventory turnover days from 2018 to 2019 was due to changes in our product mix with new brands acquired and our higher level of product purchases based on preferential procurement terms. The increase in our inventory turnover days from the six months ended June 30, 2019 to the six months ended June 30, 2020 was because product sales slowed down significantly primarily in the first quarter of 2020 as a result of COVID-19. Inventory turnover days for a given period are equal to the average inventory balances as of the beginning and the end of the period divided by total cost of products during the period and multiplied by the number of days during the period (i.e., the actual number of days in a given year for calculating turnover days in such year or 90 days for calculating turnover days in a given quarter).

Accounts Payable

Our accounts payable include accounts payable for payments in connection with inventory that we purchased and products sold under the consignment model and service fee model for which we are responsible for payment collection. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our accounts payable amounted to RMB583.5 million, RMB886.3 million, RMB877.1 million and RMB413.2 million (US$58.5 million), respectively. The increase in accounts payable from December 31, 2017 to December 31, 2018 and further to December 31, 2019 reflected significant growth in our scale of operations. The increase in accounts payable from December 31, 2018 to December 31, 2019 was partially offset by the decrease in accounts payable for logistics expenses, for which we have not received the invoices of RMB317.3 million from certain logistics suppliers and was recorded in accrued expenses and other current liabilities as of December 31, 2019. The logistics expenses recorded in accrued expense and accounts payable in total as of December 31, 2017, 2018, 2019 and June 30, 2020 were RMB187.8 million, RMB268.9 million, RMB323.1 million and RMB258.0 million (US$36.5 million), respectively. The decrease in accounts payable from December 31, 2019 to June 30, 2020 was primarily because our accounts payable was generally higher at year-end due to the promotional events in the fourth quarter. Our accounts payable turnover days were 106 days in 2017, 132 days in 2018, 116 days in 2019, 110 days in the six months ended June 30, 2019 and 85 days in the six months ended June 30, 2020. The increase in accounts payable turnover days from 2017 to 2018 was mainly due to longer credit periods from our suppliers and brand partners and increased order volumes. The decreases in accounts payable turnover days from 2018 to 2019 and from the six months ended June 30, 2019 to the six months ended June 30, 2020 were mainly due to new brands acquired with shorter credit periods. Accounts payable turnover days for a given period are equal to the average accounts payable balances as of the beginning and the end of the period divided by total cost of products during the period and multiplied by the number of days during the period (i.e., the actual number of days in a given year for calculating turnover days in such year or 90 days for calculating turnover days in a given quarter).

Although we consolidate the results of our consolidated VIE, we only have access to cash balances or future earnings of our consolidated VIE through our contractual arrangements with it. See "Our History and Corporate Structure — Contractual Arrangements." For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see "— Holding Company Structure."

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

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

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

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

	For the year ended December 31,			For the six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)			
Net income	209,130	269,771	281,891	100,624	122,728	17,371
Adjustments to reconcile net income to net cash provided by (used in) operating activities	151,946	181,006	298,733	135,246	199,820	28,283
Changes in operating assets and liabilities	(530,150)	(549,279)	(279,228)	247,416	106,120	15,020
Net cash provided by (used in) operating activities	(169,074)	(98,502)	301,396	483,286	428,668	60,674
Net cash provided by (used in) investing activities	(639,163)	37,564	(1,133,451)	(1,077,017)	52,615	7,447
Net cash provided by (used in) financing activities	167,705	331,225	1,776,891	1,648,330	(245,639)	(34,768)
Net increase (decrease) in cash, cash equivalents and restricted cash	(640,532)	270,287	944,836	1,054,599	235,644	33,353
Cash, cash equivalents and restricted cash, beginning of year/period	968,151	293,657	582,855	582,855	1,526,810	216,106
Effect of exchange rate changes	(33,962)	18,911	(881)	(36,387)	3,846	545
Cash, cash equivalents and restricted cash, end of year/period	293,657	582,855	1,526,810	1,601,067	1,766,300	250,004

Operating Activities

Net cash provided by operating activities in the six months ended June 30, 2020 was RMB428.7 million (US$60.7 million) and primarily consisted of net income of RMB122.7 million (US$17.4 million), as adjusted for non-cash items, and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB73.2 million (US$10.4 million) of depreciation and amortization, RMB62.5 million (US$8.8 million) of inventory write-down, RMB49.7 million (US$7.0 million) of share-based compensation and RMB12.8 million (US$1.8 million) of amortization of issuance cost of convertible senior notes. In the six months ended June 30, 2020, the principal items accounting for the changes in operating assets and liabilities were an increase in inventories of RMB77.8 million (US$11.0 million), a decrease in accounts payable of RMB465.3 million (US$65.9 million), a decrease in operating lease liabilities of RMB71.2 million (US$10.1 million) and a decrease in income tax payables of RMB45.2 million (US$6.4 million), partially offset by a decrease in accounts receivable of RMB254.9 million (US$36.1 million), a decrease in operating lease right-of-use assets of RMB73.1 million (US$10.4 million), a decrease in prepayments and other current assets of RMB9.8 million (US$1.4 million), an increase in notes payable of RMB258.3 million (US$36.6 million) and an increase in accrued expenses and other current liabilities of RMB157.7 million (US$22.3 million). Such changes in operating assets and liabilities were primarily due to seasonality and the impact of COVID-19.

Net cash provided by operating activities in the six months ended June 30, 2019 was RMB483.3 million and primarily consisted of net income of RMB100.6 million, as adjusted for non-cash items, and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB56.1 million of depreciation and amortization, RMB36.7 million of inventory write-down, RMB35.4 million of share-based compensation and RMB4.1 million of amortization of issuance cost of convertible senior notes. In the six months ended June 30, 2019, the principal items accounting for the changes in operating assets and liabilities were an increase in inventories of RMB54.9 million, an increase in advances to suppliers of RMB15.5 million, a decrease in accounts payable of RMB323.2 million and a decrease in income tax payables of RMB32.0 million, partially offset by a decrease in accounts receivable of RMB305.6 million, an increase in notes payable of RMB203.8 million and an increase in accrued expenses and other current liabilities of RMB152.8 million. The increases in our inventories, advances to suppliers, notes payables and accrued expenses and other current liabilities were primarily due to growth of our business. The decreases in our accounts payable and accounts receivable were primarily due to seasonality.

Net cash provided by operating activities in 2019 was RMB301.4 million and primarily consisted of net income of RMB281.9 million, as adjusted for non-cash items, and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB120.1 million of depreciation and amortization expenses, RMB76.2 million of inventory write-down, RMB75.2 million of share-based compensation expenses and RMB16.6 million of amortization of issuance cost of convertible senior notes. In 2019, the principal items accounting for the changes in operating assets and liabilities were an increase in inventories of RMB320.1 million, an increase in accounts receivable of RMB247.8 million, an increase in prepayments and other current assets of RMB100.7 million, and an increase in advances to suppliers of RMB39.2 million, partially offset by an increase in accrued expenses and other current liabilities of RMB242.5 million, an increase in notes payable of RMB183.9 million, and an increase in income tax payables of RMB19.2 million. The increase in our inventories, accounts receivable, prepayments and other current assets, advances to suppliers, notes payable and income tax payables was due to the growth of our business. Our accrued expenses and other current liabilities increased primarily due to increases in logistics, marketing and salary expenses payable.

Net cash used in operating activities in 2018 was RMB98.5 million and primarily consisted of net income of RMB269.8 million, as adjusted for non-cash items, and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB75.9 million of share-based compensation expenses, RMB72.2 million of depreciation and amortization expenses and RMB38.7 million of inventory write-down, partially offset by deferred income tax of RMB22.9 million. In 2018, the principal items accounting for the changes in operating assets and liabilities were an increase in accounts receivable of RMB462.1 million, an increase in inventories of RMB307.0 million, an increase in prepayments and other current assets of RMB80.6 million, and an increase in advances to suppliers of RMB77.2 million, partially offset by an increase in accounts payable of RMB302.8 million, a decrease in amounts due from related parties of RMB56.5 million, and an increase in income tax payables of RMB32.3 million. The increase in our accounts receivable was due to an increase in service fees due from our brand partners as a result of an increase in our sales. The increase in our inventories, prepayments and other current assets, advances to suppliers, and accounts payable was due to the growth of our business.

Net cash used in operating activities in 2017 was RMB169.1 million and primarily consisted of net income of RMB209.1 million, as adjusted for non-cash items, and the effects of changes in operating assets and liabilities. Adjustments for non-cash items primarily included RMB58.2 million of share-based compensation expenses, RMB50.6 million of depreciation and amortization expenses, and RMB42.3 million of inventory write-down. In 2017, the principal items accounting for the changes in operating assets and liabilities were an increase in accounts receivable of RMB457.0 million, an increase in inventories of RMB106.8 million, an increase in prepayments and other current assets of RMB77.2 million, a decrease in notes payable of RMB67.1 million, and an increase in amounts due from related parties of RMB50.0 million, partially offset by an increase in accrued expenses and other current liabilities of RMB175.1 million, an increase in accounts payable of RMB54.5 million, and an increase in income tax payables of RMB14.6 million. The increase in our accounts receivable was due to an increase in service fees due from our brand partners as a result of an increase in our sales. The increase in our inventories, prepayments and other current assets, and accounts payable was due to the growth of our business. Our accrued expenses and other current liabilities increased primarily due to increases in logistics, marketing and salary expenses payable as a result of business growth.

We had negative operating cash flows for the years ended December 31, 2017 and 2018 primarily due to (i) increases in inventories and prepayments for goods driven by growing sales as we expanded our distribution model and (ii) increases in accounts receivables caused by rapid growth of our consignment and service fee models, which led to increases in our working capital. We had positive operating cash flows for the year ended December 31, 2019 and the six months ended June 30, 2020. We plan to further improve our operating cash flows position by improving our inventory and accounts receivable turnover days and obtain better settlement terms from our suppliers leveraging economies of scale.

Investing Activities

Net cash provided by investing activities was RMB52.6 million (US$7.5 million) in the six months ended June 30, 2020, and primarily consisted of proceeds from maturity of short-term investments, partially offset by (i) purchases of property and equipment, which comprised equipment for warehouse, computer hardware for newly hired employees and leasehold improvements, (ii) purchases of short-term investment, (iii) additions of intangible assets due to capitalization of internally developed software and (iv) investment in equity investees.

Net cash used in investing activities was RMB1,077.0 million in the six months ended June 30, 2019, and primarily consisted of (i) purchases of short-term investments, (ii) purchases of property and equipment, which comprised equipment for warehouse, computer hardware for newly hired employees and leasehold improvements, and (iii) additions of intangible assets due to capitalization of internally developed software.

Net cash used in investing activities was RMB1,133.5 million in 2019, and primarily consisted of (i) purchases of short-term investments, (ii) purchase of long-term time deposits, (iii) purchases of property and equipment, which comprised equipment for warehouse, computer hardware for newly hired employees and leasehold improvements, and (iv) additions of intangible assets due to cost incurred for internal development of software.

Net cash provided by investing activities was RMB37.6 million in 2018, and primarily consisted of proceeds from maturity of short-term investments, partially offset by purchases of property and equipment, which comprised equipment for warehouse, computer hardware for newly hired employees and leasehold improvements, and additions of intangible assets due to cost incurred for internal development of software.

Net cash used in investing activities was RMB639.2 million in 2017, and primarily consisted of (i) increase in short-term investments, (ii) purchases of property and equipment, which comprised buildings and equipment for warehouse, computer hardware for newly hired employees and leasehold improvements, (iii) addition of land use right acquired for a warehouse, (iv) additions of intangible assets due to cost incurred for internal development of software, and (v) cash paid for business combination, net of cash received.

Financing Activities

Net cash used in financing activities was RMB245.6 million (US$34.8 million) in the six months ended June 30, 2020, primarily attributable to repayment of short-term borrowings of RMB430.4 million (US$60.9 million), partially offset by proceeds from short-term borrowings of RMB185.4 million (US$26.2 million).

Net cash provided by financing activities was RMB1,648.3 million in the six months ended June 30, 2019, primarily attributable to proceeds of RMB1,856.8 million from issuance of convertible senior notes, net of issuance cost paid, and proceeds from short-term borrowings of RMB332.0 million, partially offset by repayment of short-term borrowings of RMB477.2 million and repayment of long-term borrowings of RMB69.4 million.

Net cash provided by financing activities was RMB1,776.9 million in 2019, primarily attributable to (i) proceeds of RMB1,847.8 million from issuance of convertible senior notes, net of issuance cost, and (ii) proceeds of RMB916.6 million from short-term bank loans, partially offset by repayment of short-term and long-term borrowings of RMB993.7 million.

Net cash provided by financing activities was RMB331.2 million in 2018, primarily attributable to proceeds from short-term bank loans of RMB780.1 million and a long-term loan of RMB63.3 million, partially offset by repayment of borrowings of RMB515.9 million.

Net cash provided by financing activities was RMB167.7 million in 2017, primarily attributable to proceeds from short-term bank loans of RMB329.4 million, partially offset by repayment of borrowings of RMB157.4 million and payment of follow-on public offering costs of RMB8.6 million.

INVESTMENT IN EQUITY INVESTEES

We hold 51% equity interest and CJ O Shopping holds 49% equity interest in Shanghai Baozun-CJ E-commerce Co., Ltd., or BCJ. In October 2019, we signed an agreement with CJ O Shopping whereby CJ O Shopping waived its participating rights in exchange for a put option that allows CJ O Shopping to sell its 49% equity interest in BCJ for a consideration of approximately RMB9.2 million in the event that BCJ's net assets are less than RMB3 million. As such, we have obtained control over BCJ and accounted for BCJ as a consolidated subsidiary.

In January 2018, we invested RMB13.3 million to establish an e-commerce joint venture with Beijing Pengtai Interactive Advertising Co., Ltd., or Beijing Pengtai, through a joint venture agreement. We hold 49% equity interest and Beijing Pengtai holds 51% equity interest.

In July 2018, we entered into a joint venture agreement to establish an e-commerce joint venture with FRAG COMERCIO International SL, or FRAG. We and FRAG each holds 50% equity interest with a total consideration of RMB0.5 million.

In June 2019, we entered into an agreement with Hangzhou Juxi Technology Co., Ltd., or Juxi, to acquire 10% equity interest with a total consideration of RMB15 million.

In December 2019, we entered into an agreement with Jiangsu Shanggao Supply Chain Co., Ltd., or Jiangsu Shanggao, to acquire 10% equity interest with a total consideration of RMB1.5 million.

In January 2020, we invested RMB6 million (US$0.8 million) to establish an e-commerce joint venture with Signify (China) Investment Co., Ltd., or Signify Investment, through a joint venture agreement. We hold 20% equity interest and Signify Investment holds 80% equity interest.

We use the equity method to account for an equity investment over which we have significant influence but do not own a majority equity interest or otherwise control. We are deemed to have significant influence over Juxi and Jiangsu Shanggao because we have one board seat in each of these investees and the approval of the director we nominated is required for certain significant matters of these investees.

For information on the related party transactions between the equity investees and us, please see "Related Party Transactions."

CAPITAL EXPENDITURES

We had capital expenditures of RMB349.2 million, RMB208.7 million, RMB152.9 million and RMB59.3 million (US$8.4 million) in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. Our capital expenditures were used primarily for (i) the purchase of buildings, computer hardware, office furniture and equipment and warehouse equipment, (ii) leasehold improvements, (iii) cost incurred for internal development of software, and (iv) land use rights. Actual future capital expenditures may differ from the amounts indicated above. We have no capital commitment as of December 31, 2017, 2018, 2019, or June 30, 2020.

HOLDING COMPANY STRUCTURE

Baozun Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries and consolidated VIE in China. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with their articles of association and PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our consolidated VIE in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of the entity's registered capital. Each of our PRC subsidiaries and our consolidated VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. As of June 30, 2020, the amount restricted, including paid-in capital and statutory reserve funds, was RMB1,863.4 million (US$263.7 million). Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

Our VIE, Shanghai Zunyi, contributed an aggregate of 6.1%, 9.1%, 8.6% and 9.6% of our net revenues for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

INFLATION

Inflation in China has not materially impacted our results of operations in recent years. According to the NBS, the year-over-year increase in the consumer price index in years 2017, 2018 and 2019 was 1.6%, 2.1% and 2.9%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher inflation rates in China.

CONTRACTUAL OBLIGATIONS

The following sets forth information regarding our aggregate payment obligations under our contracts and commercial commitments as of June 30, 2020:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in RMB thousands)				
Operating lease obligations	434,887	142,240	190,385	83,347	18,915
Short-term loans	183,480	183,480	–	–	–
1.625% Convertible senior notes due 2024 with principal and interest...............	2,069,198	31,574	63,148	1,974,476	–
Payment obligation under certain retail product license agreement	502,573	39,300	140,356	322,917	–
Total	3,190,138	396,594	393,889	2,380,740	18,915

The 2024 Notes are in the aggregate principal amount of US$275.0 million. Our 2024 Notes will mature on May 1, 2024, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 19.2308, before the ADS split, subject to change, of our ADSs per US$1,000 principal amount of the notes. The conversion rate is subject to adjustment upon occurrence of certain events. The holders may require us to repurchase all or portion of the 2024 Notes for cash on May 1, 2022, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. The 2024 Notes bear interest at a rate of 1.625% per annum, payable in arrears semi-annually on May 1 and November 1, beginning on November 1, 2019.

As of June 30, 2020, we had outstanding amounts of short-term bank borrowings and convertible senior notes of RMB183.5 million and RMB1,895.2 million, respectively, which were unsecured. As of June 30, 2020, we also had operating lease liabilities amounting to RMB376.6 million, certain of which were secured by the rental deposits and all of which were unguaranteed. For detailed information of our indebtedness, see the Accountants' Report in Appendix I to this prospectus.

As of June 30, 2020, we did not have significant contingent liabilities.

Save as disclosed above, since June 30, 2020 and up to the date of this prospectus, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

WORKING CAPITAL

We recorded net current assets of RMB1,317.5 million, RMB1,503.7 million, RMB3,366.4 million and RMB3,582.0 million (US$507.0 million), respectively, as of December 31, 2017, 2018 and 2019 and June 30, 2020. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of June 30,	
	2017	**2018**	**2019**	**2020**	
	RMB	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)		
Current Assets					
Cash and cash equivalents	244,809	457,340	1,144,451	1,606,390	227,370
Restricted cash	48,848	56,074	382,359	159,910	22,634
Short-term investments	312,614	56,535	844,040	724,370	102,528
Accounts receivable, net of allowance for doubtful accounts	1,085,669	1,547,631	1,800,896	1,548,649	219,197
Inventories, net	382,028	650,348	896,818	912,175	129,110
Advances to suppliers	88,881	166,076	214,771	193,558	27,396
Prepayments and other current assets	214,636	286,149	387,713	377,958	53,496
Amounts due from related parties	88,795	32,270	19,323	30,532	4,322
Total current assets	2,466,280	3,252,423	5,690,371	5,553,542	786,053

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)		
Current Liabilities					
Short-term loan	172,000	436,200	428,490	183,480	25,970
Accounts payable (including accounts payable of consolidated VIE without recourse to the Company)	583,532	886,340	877,093	413,151	58,478
Notes payable	48,000	26,770	210,693	468,985	66,381
Income tax payables	30,420	62,764	81,966	36,804	5,209
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIE without recourse to the Company)	314,870	322,668	581,122	744,674	105,401
Amounts due to related parties	–	13,994	6,796	5,801	821
Current operating lease liabilities	–	–	137,855	118,689	16,799
Total current liabilities	1,148,822	1,748,736	2,324,015	1,971,584	279,059
Net current assets	1,317,458	1,503,687	3,366,356	3,581,958	506,994

For a detailed discussion of our cash position, the balance sheet item that has a material impact on our liquidity, as well as material changes in the various working capital items, see "— Liquidity and Capital Resources."

Taking into account cash and cash equivalents on hand, our operating cash flows, the available bank facilities and the estimated net proceeds available to us from the Global Offering, our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any material off-balance sheet arrangements in fiscal years 2017, 2018 or 2019 or the six months ended June 30, 2020.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our revenues and expenses are denominated in Renminbi, while some of our cash and cash equivalents, restricted cash and short-term investments are denominated in U.S. dollars. Our exposure to foreign exchange risk primarily relates to such financial assets denominated in U.S. dollars. Any significant revaluation of Renminbi against the U.S. dollar may materially affect our financial position. The value of an investment in our ADSs are affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our ADSs are traded in U.S. dollars. We have not used any derivative financial instruments to hedge exposure to such risk.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in the recent years the RMB has depreciated significantly against the U.S. dollar. In April 2012, the PRC government announced that it would allow RMB exchange rate to fluctuate in a wider range. On August 11, 2015, the PBOC allowed the RMB to depreciate by approximately 2% against the U.S. dollar. Since October 1, 2016, the RMB has joined the International Monetary Fund's basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In 2017, the RMB appreciated approximately 7% against the U.S. dollar. In 2018, the RMB depreciated approximately 5% against the U.S. dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. Starting from the beginning of 2019, the Renminbi has depreciated significantly against the U.S. dollar again. In early August 2019, The PBOC sets the daily reference rate for the Renminbi at RMB7.0039 to US$1.00, the first time that the exchange rate of Renminbi to U.S. dollar exceeded RMB7.0000 to US$1.00 since 2008. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars we receive from our public offerings, and proceeds from issuance of our convertible senior notes into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, for the repayment of the principal and interest of our 2024 Notes, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

The RMB depreciated by 1.3% against the U.S. dollar in 2019. As of December 31, 2019, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB1,105.8 million and U.S. dollar-denominated cash and cash equivalents, restricted cash and short-term investments of US$166.7 million. Assuming we had converted RMB1,105.8 million into U.S. dollars at the exchange rate of RMB6.9618 for US$1.00, as of December 31, 2019, our U.S. dollar cash and cash equivalents, restricted cash and short-term investments would have been US$325.5 million. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash and cash equivalents, restricted cash and short-term investments would have been US$311.1 million instead. Assuming we had converted US$166.7 million into RMB at the exchange rate of RMB6.9618 for US$1.00, as of December 31, 2019, our RMB cash and cash equivalents, restricted cash and short-term investments would have been RMB2,266.3 million. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash and cash equivalents, restricted cash and short-term investments would have been RMB2,382.4 million.

As of June 30, 2020, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB1,495.5 million (US$211.7 million) and U.S. dollar denominated cash and cash equivalents, restricted cash and short-term investments of US$118.1 million. Assuming we had converted RMB1,495.5 million into U.S. dollars at the exchange rate of RMB7.0651 for US$1.00, as of June 30, 2020, our U.S. dollar cash and cash equivalents, restricted cash and short-term investments would have been US$329.8 million. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash and cash equivalents, restricted cash and short-term investments would have been US$310.5 million instead. Assuming we had converted US$118.1 million into RMB at the exchange rate of RMB7.0651 for US$1.00, as of June 30, 2020, our RMB cash and cash equivalents, restricted cash and short-term investments would have been RMB2,329.8 million. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash and cash equivalents, restricted cash and short-term investments would have been RMB2,413.2 million.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest expense incurred by our short-term and long-term borrowings, including the 2024 Notes, and the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, due to changes in market interest rates, our future interest expense may increase and our future interest income may fall short of expectations.

Credit Risk

As of December 31, 2017, 2018 and 2019 and June 30, 2020, substantially all of our cash and cash equivalents and restricted cash were held by major financial institutions located in PRC, Hong Kong, Taiwan and Japan. We believe that we are not exposed to unusual risks as these financial institutions have high credit quality. We have not experienced any losses on deposits of cash and cash equivalents.

Our customers are generally reputable medium to large brands with proven track records, and our customers pay for our product sales through a network of third-party payment service providers. We have not experienced significant bad debts with respect to our accounts receivable, and made allowance for doubtful accounts of RMB1.7 million, RMB1.8 million, RMB10.7 million and RMB10.7 million (US$1.5 million) as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

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

Revenue Recognition

In May 2014, the FASB issued an accounting standard update Revenue from Contracts with Customers (ASC Topic 606) that changes the revenue recognition for companies that enter into contracts with customers to transfer goods or services. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner depicting the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. We adopted this standard on January 1, 2018 using a full retrospective approach.

The full retrospective method requires an entity to present financial statements for all periods as if the new revenue standard had been applied to all prior periods. With the adoption of ASC 606, we recognize allowance for estimated sales returns on a gross basis rather than a net basis on the consolidated balance sheet. We record a right of return asset for products we expect to receive back from customers within other current assets and a liability for refunds payable within accrued expenses and other current liabilities on our consolidated balance sheet.

Our revenue recognition policies effective on the adoption date of ASC 606 are as follows:

We provide brand e-commerce solutions to our brand partners and the revenues are derived principally from product sales and services.

Product Sales

We generate 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. Under this model, we identified one performance obligation which is to sell goods selected and purchased from our brand partners and/or their authorized distributors directly to customers through online stores we operate. Revenue under the distribution model is recognized on a gross basis and presented as product sales on the consolidated statements of operations, because (i) we, rather than the brand partner, are primarily responsible for fulfilling the promise to provide the specified good; (ii) we bear the physical and general inventory risk once the products are delivered to our warehouse; (iii) we have discretion in establishing price.

Product sales, net of discounts, return allowances, value added tax and related surcharges are recognized at the point in time when customers accept the products upon delivery. Revenues are measured as the amount of consideration we expect to receive in exchange for transferring products to consumers. Return allowances, which reduce revenue, are estimated utilizing the most likely amount method based on historical data we have maintained and our analysis of returns by categories of products.

A majority of our customers make online payments through third-party payment platforms when they place orders on websites of our online stores. The funds will not be released to us by these third-party payment platforms until the customers accept the delivery of the products at which point we recognize sales of products. A portion of our customers pay upon the receipt of products. Our delivery service providers collect the payments from our customers for us. We record a receivable on the balance sheet with respect to cash held by third-party couriers.

We utilize delivery service providers to deliver products to our consumers, which we refer to as shipping activities, but the delivery service is not considered as a separate obligation, as the shipping activities are performed before the consumers obtain control of the products. Therefore, shipping activities are not considered a separate promised service to the consumers, but rather are activities to fulfill our promise to transfer the products and are recorded as fulfillment expenses.

Services

In some instances, we act as a service provider, under the consignment model or service fee model, to facilitate our brand partners' online sales of their branded products with the performance obligations to provide a variety of e-commerce services, including IT solutions, online store operation, digital marketing, customer service and warehousing and fulfillment services, of which brand partners may elect to use all or some services that best fit their needs. Each category of the services provided is considered as one performance obligation as they are distinct from each other. Most of our service contracts include multiple performance obligations as they include the provision of a combination of various services based on our brand partner's requirements. We charge our brand partners a combination of fixed fees and/or variable fees based on the value of merchandise sold or other variable factors such as number of orders fulfilled. The transaction price is allocated to each performance obligation using the relative stand-alone selling price. We generally determine the stand-alone selling price based on the prices charged to comparable customers or expected cost plus margin.

Revenue generated from IT solutions such as one-time online store design and setup services is recognized when the services are rendered, while revenue generated from other services is recognized over the service term. We apply the practical expedient to recognize the services except for one-time online store design and setup services in the amount to which we have a right to invoice on a monthly basis with a credit period of one month to four months.

Revenue generated from these service arrangements is recognized on a gross basis and presented as services revenue on the consolidated statements of operations.

All the costs that we incur in the provision of the above services are classified as operating expenses on our consolidated statements of operations.

Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenue recognized prior to invoicing when we have satisfied our performance obligation and have the unconditional right to payment.

We sometimes receive advance payments from consumers before the service is rendered, which is recorded as an advance from customers included in the accrued expenses and other current liabilities on the consolidated balance sheet.

Practical Expedients and Exemptions

We elect not to disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less (ii) contracts for which we recognize revenue at the amount that we have the right to invoice for services performed and (iii) contracts with variable consideration related to wholly unsatisfied performance obligations.

Inventories, net

Inventories, net, consisting of products available for sale, are valued at the lower of cost or market. Cost of inventories is determined using the weighted average cost method. Valuation of inventories is based on currently available information about expected recoverable value. The estimate is dependent upon factors such as historical trends of similar merchandise, inventory aging, historical and forecasted consumer demand and promotional environment. When evidence exists that the net realizable value of inventory is lower than its cost, a write-down is recognized in cost of products in the consolidated statements of operation in the period when it occurs. Inventory write-downs related to the accidents, i.e. fire, are recorded in other operating income (expense), net in the consolidated statements of operations.

Share-Based Compensation

We grant share options and restricted share units to eligible employees, management and directors and account for these share-based awards in accordance with ASC 718 *Compensation – Stock Compensation*.

Employees' share-based awards are measured at the grant date fair value of the awards and recognized as expenses a) immediately at grant date if no vesting conditions are required; or b) using graded vesting method, net of estimated forfeitures, over the requisite service period, which is the vesting period.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

In determining the fair value of the restricted share units granted, the closing market price of the underlying shares on the grant date is applied.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates.

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

Income Taxes

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. We account for current income taxes on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions.

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of existing assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in our consolidated financial statements in the period of change.

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

We have not had any significant unrecognized uncertain tax positions.

Intangible assets, net

Intangible assets mainly consist of trademark, internally developed software and supplier relationships. Trademarks are recorded at cost and amortized on a straight-line basis over the estimated economic useful life of 10 years. The trademarks have been used in our brand e-commerce business. They have been registered with relevant authorities and are effective for an initial period of ten years, subject to renewal upon expiration. We believe that ten years' cash flows are reasonably expected from the contribution of the trademarks.

For internally developed software, we expense all internal-use software costs incurred in the preliminary project stage and capitalize direct costs associated with the development of internal-use software. This internally developed software mostly consists of order management, customer management and retailing solution systems, which are amortized over three years on a straight-line basis. We had internally developed software not yet available for use of RMB7.8 million, RMB26.7 million, RMB64.9 million and RMB41.3 million (US$5.8 million) as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively. As there was no indicator of impairment as described in ASC 350-40-35-1 noted based on our qualitative review, we did not perform impairment analysis on the intangible assets not yet available for use during the Track Record Period.

Supplier relationships are generated from business combination in 2017, representing the relationship that arose as a result of existing supply agreements with certain brand partners of the subsidiary. Supplier relationships are recorded at fair value, and amortized on a straight-line basis over the estimated useful life of 10 years based on the following considerations:

a. Before the acquisition, the acquiree already had long-term cooperation with these brand partners.

b. These brand partners are still in business with us as of the Latest Practicable Date and there has not been any indication that they will terminate their cooperation with us in the near future.

c. Based on our historical experience with other brand partners, although cooperation agreements with brand partners typically have a term of 12 to 36 months, ten-year cooperation is common and represents a reasonable expectation.

Operating leases as lessee

We adopted ASU No. 2016-02, Leases (Topic 842) ("**ASU 2016-02**") on January 1, 2019 by using the modified retrospective method and did not restate the comparable periods. We have elected the package of practical expedients, which allows us not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. We also elected the practical expedient not to separate lease and non-lease components of contracts, and the short-term lease exemption for all contracts with lease terms of 12 months or less.

Under the new lease accounting standard, we determine if an arrangement is a lease or contains a lease at lease inception. For operating leases, we recognize a right-of-use asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. We estimate our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Lease expense is recorded on a straight-line basis over the lease term.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed from the acquired entity as a result of our acquisition of interests in a subsidiary. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. Prior to January 1, 2020, we performed a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, we compare the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we perform Step 2 and compare the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. Starting from January 1, 2020, we adopted ASU2017-04, which simplifies the accounting for good-will impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss.

During the Track Record Period, the reporting units identified for goodwill impairment analysis reached steady growth in revenue and gross margin, and there were no adverse factors on their business noted. Based on the qualitative assessment, we concluded that it was not more likely than not that the fair value of each reporting unit was less than the carrying amount, and thus we were not required to perform the quantitative impairment test during the Track Record Period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

See Note 2(af) to the Historical Financial Information in Appendix I.

DIVIDEND POLICY

Our board of directors has complete discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon various factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. See "Risk Factors — Risks Related to Our Shares, ADSs and the Listing — Because we do not expect to pay dividends in the foreseeable future, holders of our Shares and/or ADSs must rely on price appreciation of our Shares and/or ADSs for return on their investment."

We are a holding company incorporated in the Cayman Islands. We rely principally on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. Dividends distributed by Shanghai Baozun, our major PRC subsidiary, to us are subject to PRC taxes. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated distributable after-tax profits, if any, determined in accordance with their respective articles of association and Chinese accounting standards and regulations. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — We may rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements."

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2020, and there is no event since June 30, 2020 which would materially affect the information shown in the Accountant's Report in Appendix I to this prospectus.

LISTING EXPENSES

We expect to incur listing related expenses of approximately HK$171.5 million after June 30, 2020 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK$103.90 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expense will be recorded as deduction in equity directly.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to our ordinary shareholders as of June 30, 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net consolidated tangible assets attributable to our ordinary shareholders have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Global Offering been completed as of June 30, 2020 or at any future dates. It is prepared based on our audited consolidated net tangible assets attributable to ordinary shareholder as of June 30, 2020 as derived from the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company per ADS	Unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company per ADS
	(in thousands of RMB)	*(in thousands of RMB)*	*(in thousands of RMB)*	*(RMB)*	*(RMB)*	*(HK$)*	*(HK$)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*
Based on the indicative offer price of HK$103.90 per Offer Share	2,583,887	3,632,362	6,216,249	28.70	86.10	31.48	94.45

Notes:

(1) The audited consolidated net tangible assets attributable to ordinary shareholders of the Company as of June 30, 2020 is derived from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets attributable to ordinary shareholders of the Company as of June 30, 2020 of RMB2,739,202,000 with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of the Company of RMB13,574,000 and RMB141,741,000, respectively.

(2) The estimated net proceeds from the Global Offering are based on 40,000,000 Offer Shares at the indicative offer price of HK$103.90 per Offer Share after deduction of the estimated listing expenses and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Company and without taking into account any allotment and issuance of any Shares upon the conversion of the convertible senior notes due 2024, the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.0970 to RMB1.00. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 216,586,256 Shares were in issue excluding 12,692,328 shares outstanding under the ADS lending agreement and assuming that the Global Offering had been completed on June 30, 2020 without taking into account any allotment and issuance of any Shares upon the conversion of the convertible senior notes due 2024, the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents three Shares.

(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets attributable to ordinary shareholders of the Company, the balances stated in Renminbi are converted into Hong Kong dollars at the exchange rate of RMB1.00 to HK$1.0970. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(6) No adjustment has been made to reflect any trading results or other transactions we entered into subsequent to June 30, 2020.