The following is the text of a report set out on pages I-1 to I-53, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BAOZUN INC. AND CITIGROUP GLOBAL MARKETS ASIA LIMITED, CMB INTERNATIONAL CAPITAL LIMITED AND CREDIT SUISSE (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Baozun Inc. (the "Company"), its subsidiaries and variable interest entity (together, the "Group") set out on pages I-4 to I-53, which comprises the consolidated balance sheets of the Group as at December 31, 2017, 2018, 2019 and June 30, 2020, the consolidated statements of operations, the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-53 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated September 18, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2017, 2018, 2019 and June 30, 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of operations, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statements of cash flows of the Group for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 23 to the Historical Financial Information which states that no dividend was declared or paid by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 18, 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued consolidated financial statements of the Group for each of the three years ended December 31, 2019 and the consolidated financial statements of the Group for the six months ended June 30, 2020 (together, the "Underlying Financial Statements"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The previously issued consolidated financial statements for each of the three years ended December 31, 2019 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the consolidated financial statements and the effectiveness of internal control over financial reporting. The consolidated financial statements for the six months ended June 30, 2020 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of PCAOB relating to the consolidated financial statements only.

The Historical Financial Information is presented in Renminbi ("RMB"). Translations of balances in the consolidated balance sheet as of June 30, 2020, consolidated statement of operations, consolidated statement of comprehensive income and consolidated statement of cash flows for the six months ended June 30, 2020 from Renminbi into United States Dollars ("USD" or "US$") are solely for the convenience of the readers as described in Note 2(g). All values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except share and per share data)

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*US$ (Note 2)*
ASSETS					
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 of RMB1,658, RMB1,767, RMB10,726 and RMB10,671 as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively	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
Non-current assets:					
Restricted cash	–	69,441	–	–	–
Long-term time deposits	–	–	209,495	212,030	30,011
Investments in equity investees	24,268	33,974	37,373	56,114	7,942
Property and equipment, net	330,924	402,740	415,648	417,219	59,054
Intangible assets, net	66,150	132,393	151,041	141,741	20,062
Land use right, net	44,618	43,593	42,567	42,054	5,952
Operating lease right-of-use assets	–	–	440,593	367,470	52,012
Goodwill	13,158	13,158	13,574	13,574	1,921
Other non-current assets	18,043	30,021	41,461	39,124	5,538
Deferred tax assets	15,528	38,081	54,477	55,489	7,854
Total non-current assets	512,689	763,401	1,406,229	1,344,815	190,346
TOTAL ASSETS	2,978,969	4,015,824	7,096,600	6,898,357	976,399

The accompanying notes are an integral part of the Historical Financial Information.

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*US$* *(Note 2)*
LIABILITIES AND SHAREHOLDERS' EQUITY					
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 of RMB4,715, RMB4,891, RMB5,048 and RMB5,429 as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively)	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 of RMB28,002, RMB6,884, RMB14,520 and RMB32,726 as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively)	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
Non-current liabilities:					
Long-term loan	–	68,753	1,859,896	1,895,148	268,241
Deferred tax liability	3,710	3,319	2,929	2,734	387
Long-term operating lease liabilities	–	–	309,989	257,931	36,508
Total non-current liabilities	3,710	72,072	2,172,814	2,155,813	305,136
TOTAL LIABILITIES	1,152,532	1,820,808	4,496,829	4,127,397	584,195

The accompanying notes are an integral part of the Historical Financial Information.

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	*RMB*	*RMB*	*RMB*	*US$* *(Note 2)*
Commitment *(Note 17)*					
Redeemable non-controlling interests	–	–	9,254	9,185	1,300
Baozun Inc. shareholders' equity:					
Class A ordinary shares (US$0.0001 par value; 470,000,000 shares authorized, 152,824,659, 159,247,873, 174,918,929 and 175,977,846 shares issued and outstanding as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively)	95	98	107	107	15
Class B ordinary shares (US$0.0001 par value; 30,000,000 shares authorized, 13,300,738 shares issued and outstanding as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively)	8	8	8	8	1
Additional paid-in capital	1,823,925	1,903,503	2,014,227	2,063,997	292,140
Retained earnings/(Accumulated deficit)	(25,000)	244,712	526,009	648,019	91,721
Accumulated other comprehensive income	9,995	29,222	28,380	27,071	3,832
Total Baozun Inc. shareholders' equity	1,809,023	2,177,543	2,568,731	2,739,202	387,709
Non-controlling interests	17,414	17,473	21,786	22,573	3,195
Total equity	1,826,437	2,195,016	2,590,517	2,761,775	390,904
TOTAL LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY	2,978,969	4,015,824	7,096,600	6,898,357	976,399

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF OPERATIONS
(All amounts in thousands, except for share and per share data)

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*	*US$ (Note 2)*
Net revenues						
Product sales	2,257,632	2,516,862	3,422,151	1,466,738	1,628,931	230,560
Services (including related-party revenues of RMB5,222, RMB26,933, RMB29,564, RMB19,602 and RMB17,124 for the years ended December 31, 2017, 2018, 2019, and the six months ended June 30, 2019 and 2020, respectively)	1,891,176	2,876,175	3,856,041	1,524,233	2,046,775	289,702
Total net revenues	4,148,808	5,393,037	7,278,192	2,990,971	3,675,706	520,262
Operating expenses:						
Cost of products	(1,917,467)	(2,034,852)	(2,774,342)	(1,188,056)	(1,365,889)	(193,329)
Fulfillment	(818,173)	(1,262,302)	(1,678,191)	(679,519)	(988,339)	(139,890)
Sales and marketing	(910,843)	(1,338,970)	(1,815,642)	(724,573)	(888,136)	(125,707)
Technology and content	(140,689)	(268,973)	(392,951)	(190,163)	(198,140)	(28,045)
General and administrative	(116,554)	(154,845)	(215,660)	(97,126)	(103,827)	(14,696)
Other operating income (expense), net	11,250	22,678	(17,753)	20,102	42,067	5,954
Total operating expenses	(3,892,476)	(5,037,264)	(6,894,539)	(2,859,335)	(3,502,264)	(495,713)
Income from operations	256,332	355,773	383,653	131,636	173,442	24,549
Other income (expenses):						
Interest income	13,350	8,017	42,614	15,023	19,670	2,784
Interest expense	(4,252)	(13,058)	(61,316)	(24,457)	(36,019)	(5,098)
Gain on disposal of investment	5,464	–	–	–	–	–
Impairment loss of investments	(6,227)	(9,021)	(9,021)	–	–	–
Exchange loss	(21)	(5,991)	(7,663)	(2,954)	(4,589)	(650)
Income before income tax and share of income (loss) in equity method investment	264,646	335,720	348,267	119,248	152,504	21,585
Income tax expense	(54,251)	(64,953)	(71,144)	(19,622)	(32,517)	(4,602)
Share of income (loss) in equity method investment	(1,265)	(996)	4,768	998	2,741	388
Net Income	209,130	269,771	281,891	100,624	122,728	17,371

The accompanying notes are an integral part of the Historical Financial Information.

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*	*US$ (Note 2)*
Net (income) loss attributable to non-controlling interests	(264)	(59)	187	447	(787)	(111)
Net (income) loss attributable to redeemable non-controlling interests	–	–	(781)	–	69	10
Net income attributable to ordinary shareholders of Baozun Inc.	208,866	269,712	281,297	101,071	122,010	17,270
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 American depositary shares ("ADS") attributable to ordinary shareholders of Baozun Inc.:						
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

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(All amounts in thousands, except for share and per share data)

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*	*US$* *(Note 2)*
Net income	209,130	269,771	281,891	100,624	122,728	17,371
Other comprehensive income, net of tax of nil:						
Foreign currency translation adjustment	(34,353)	19,227	(842)	(6,181)	(1,309)	(185)
Comprehensive income	174,777	288,998	281,049	94,443	121,419	17,186
Total comprehensive (income) loss attributable to non-controlling interests	(264)	(59)	187	447	(787)	(111)
Total comprehensive (income) loss attributable to redeemable non-controlling interests	–	–	(781)	–	69	10
Total comprehensive income attributable to ordinary shareholders of Baozun Inc.	174,513	288,939	280,455	94,890	120,701	17,085

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts in thousands, except for share and per share data)

	Ordinary shares		Additional paid-in capital	Retained earnings/ (Accumulated deficit)	Accumulated other comprehensive income	Total Baozun shareholders' equity	Non-controlling interests	Total equity
	Number of Shares	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance as of January 1, 2017	159,411,982	100	1,761,430	(233,866)	44,348	1,572,012	–	1,572,012
Net income	–	–	–	208,866	–	208,866	264	209,130
Share-based compensation	–	–	58,231	–	–	58,231	–	58,231
Exercise of share options and vesting of restricted share units ("RSUs")	6,713,415	3	4,264	–	–	4,267	–	4,267
Acquisition of a subsidiary	–	–	–	–	–	–	17,150	17,150
Foreign currency translation adjustment	–	–	–	–	(34,353)	(34,353)	–	(34,353)
Balance as of December 31, 2017	166,125,397	103	1,823,925	(25,000)	9,995	1,809,023	17,414	1,826,437
Net income	–	–	–	269,712	–	269,712	59	269,771
Share-based compensation	–	–	75,862	–	–	75,862	–	75,862
Exercise of share options and vesting of RSUs	6,423,214	3	3,716	–	–	3,719	–	3,719
Foreign currency translation adjustment	–	–	–	–	19,227	19,227	–	19,227
Balance as of December 31, 2018	172,548,611	106	1,903,503	244,712	29,222	2,177,543	17,473	2,195,016
Net income	–	–	–	281,297	–	281,297	594	281,891
Net income attributable to redeemable non-controlling interests	–	–	–	–	–	–	(781)	(781)
Contribution from non-controlling interests	–	–	–	–	–	–	4,500	4,500
Issuance of ordinary shares under ADS lending arrangement	12,692,328	9	–	–	–	9	–	9
ADS lending arrangement in connection with issuance of convertible senior notes	–	–	33,836	–	–	33,836	–	33,836
Share-based compensation	–	–	75,183	–	–	75,183	–	75,183
Exercise of share options and vesting of RSUs	2,978,728	–	1,705	–	–	1,705	–	1,705
Foreign currency translation adjustment	–	–	–	–	(842)	(842)	–	(842)
Balance as of December 31, 2019	188,219,667	115	2,014,227	526,009	28,380	2,568,731	21,786	2,590,517

The accompanying notes are an integral part of the Historical Financial Information.

	Ordinary shares		Additional paid-in capital	Retained earnings/ (Accumulated deficit)	Accumulated other comprehensive income	Total Baozun shareholders' equity	Non-controlling interests	Total equity
	Number of Shares	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance as of January 1, 2019 (unaudited)	172,548,611	106	1,903,503	244,712	29,222	2,177,543	17,473	2,195,016
Net income (loss)	–	–	–	101,071	–	101,071	(447)	100,624
Share-based compensation	–	–	35,436	–	–	35,436	–	35,436
Issuance of ordinary shares under ADS lending arrangement	12,692,328	9	–	–	–	9	–	9
Contribution from non-controlling interests	–	–	–	–	–	–	4,500	4,500
ADS lending arrangement in connection with issuance of convertible senior notes	–	–	33,836	–	–	33,836	–	33,836
Exercise of share options and vesting of RSUs	1,668,525	–	1,601	–	–	1,601	–	1,601
Foreign currency translation adjustment	–	–	–	–	(6,181)	(6,181)	–	(6,181)
Balance as of June 30, 2019 (unaudited)	186,909,464	115	1,974,376	345,783	23,041	2,343,315	21,526	2,364,841
Balance as of January 1, 2020	188,219,667	115	2,014,227	526,009	28,380	2,568,731	21,786	2,590,517
Net income	–	–	–	122,010	–	122,010	718	122,728
Net income attributable to redeemable non-controlling interests	–	–	–	–	–	–	69	69
Exercise of share options and vesting of RSUs	1,058,917	–	113	–	–	113	–	113
Share-based compensation	–	–	49,657	–	–	49,657	–	49,657
Foreign currency translation adjustment	–	–	–	–	(1,309)	(1,309)	–	(1,309)
Balance as of June 30, 2020	189,278,584	115	2,063,997	648,019	27,071	2,739,202	22,573	2,761,775

The accompanying notes are an integral part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands, except for share and per share data)

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*	*US$* *(Note 2)*
Cash flows from operating activities:						
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:						
Provision for allowance for doubtful accounts	1,485	159	9,037	–	174	25
Inventory write-down	42,313	38,725	76,169	36,726	62,491	8,845
Share-based compensation	58,231	75,862	75,183	35,436	49,657	7,028
Depreciation and amortization	50,615	72,175	120,096	56,097	73,236	10,366
Amortization of issuance cost of convertible senior notes	–	–	16,563	4,087	12,766	1,807
Deferred income tax	(3,391)	(22,944)	(16,786)	(471)	(1,207)	(171)
(Income) loss on disposal of property and equipment	1,056	2,063	3,489	(52)	963	136
Gain on disposal of investment	(5,464)	–	–	–	–	–
Share of (income) loss in equity method investment	1,265	996	(4,768)	(998)	(2,741)	(388)
Impairment loss of investments	6,227	9,021	9,021	–	–	–
Exchange (gain) loss	(391)	4,949	10,729	4,421	4,481	635
Changes in operating assets and liabilities:						
Accounts receivable	(457,012)	(462,121)	(247,806)	305,649	254,939	36,084
Inventories	(106,807)	(307,045)	(320,086)	(54,859)	(77,847)	(11,019)
Advances to suppliers	(13,154)	(77,195)	(39,232)	(15,484)	21,678	3,068
Prepayments and other current assets	(77,235)	(80,644)	(100,738)	10,844	9,755	1,381
Amounts due from related parties	(50,023)	56,525	12,947	11,769	(11,209)	(1,587)
Operating lease right-of-use assets	–	–	24,456	14,362	73,123	10,350
Other non-current assets	(3,064)	(11,978)	(10,959)	(2,954)	2,337	331
Accounts payable	54,547	302,808	(24,369)	(323,157)	(465,309)	(65,860)
Notes payable	(67,140)	(21,230)	183,923	203,808	258,292	36,559
Income tax payables	14,609	32,344	19,202	(32,038)	(45,162)	(6,392)
Amounts due to related parties	–	13,994	(7,198)	(13,025)	(995)	(141)
Accrued expenses and other current liabilities	175,129	5,263	242,521	152,806	157,742	22,327
Operating lease liabilities	–	–	(11,889)	(10,305)	(71,224)	(10,081)
Net cash (used in) provided by operating activities	(169,074)	(98,502)	301,396	483,286	428,668	60,674

The accompanying notes are an integral part of the Historical Financial Information.

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*	*US$* *(Note 2)*
Cash flows from investing activities:						
Purchases of property and equipment	(267,028)	(123,014)	(91,266)	(33,825)	(42,291)	(5,986)
Purchases of short-term investments	(272,614)	–	(1,532,028)	(1,012,740)	(726,199)	(102,787)
Maturity of short-term investments	–	256,079	765,969	–	854,244	120,911
Purchase of long-term time deposits	–	–	(211,599)	–	–	–
Additions of intangible assets	(36,383)	(85,724)	(61,611)	(25,452)	(17,039)	(2,412)
Purchases of land use right	(45,810)	–	–	–	–	–
Investment in equity investees	–	(17,385)	(16,500)	(5,000)	(16,000)	(2,265)
Net cash received (paid) for business combination	(17,031)	–	13,584	–	(100)	(14)
Cash received for disposal of equity investees	1,143	7,608	–	–	–	–
Loan to an equity investee without readily determinable fair value	(1,440)	–	–	–	–	–
Net cash (used in) provided by investing activities	(639,163)	37,564	(1,133,451)	(1,077,017)	52,615	7,447

The accompanying notes are an integral part of the Historical Financial Information.

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*	*US$* *(Note 2)*
Cash flows from financing activities:						
Payment for public offering costs	(8,562)	–	–	–	–	–
Proceeds from short-term borrowings	329,392	780,123	916,603	332,000	185,389	26,240
Repayment of short-term borrowings	(157,392)	(515,923)	(924,313)	(477,200)	(430,399)	(60,919)
Proceeds from long-term borrowings	–	63,306	–	–	–	–
Repayment of long-term borrowings	–	–	(69,415)	(69,415)	–	–
Capital contribution from NCI	–	–	4,500	4,500	–	–
Proceeds from exercises of stock options	4,267	3,719	1,705	1,601	113	16
Proceeds from issuance of convertible senior notes, net of issuance cost paid	–	–	1,847,802	1,856,835	(742)	(105)
Proceeds from ADS lending	–	–	9	9	–	–
Net cash provided by 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 on cash, cash equivalents and restricted cash	(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

The accompanying notes are an integral part of the Historical Financial Information.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown in the statement of cash flows.

	As of December 31,			As of June 30,		
	2017	**2018**	**2019**	**2019**	**2020**	
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*	*US$*
Cash and cash equivalents	244,809	457,340	1,144,451	1,468,177	1,606,390	227,370
Restricted cash	48,848	125,515	382,359	132,890	159,910	22,634
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	293,657	582,855	1,526,810	1,601,067	1,766,300	250,004
Supplemental disclosure of cash flow information:						
Cash paid for interest	3,054	12,992	37,578	12,677	23,430	3,316
Cash paid for income tax	43,034	55,553	68,728	52,131	78,886	11,166
Supplemental disclosures of non-cash investing and financing activities:						
Unpaid convertible senior notes offering costs	–	–	742	9,775	–	–
Unpaid Hong Kong public offering costs	–	–	–	–	6,365	901
Receivable from disposal of equity investees	7,608	–	–	–	–	–
Purchases of property and equipment included in payables	–	2,534	59	299	6,425	909

In October 2019, the Group obtained control over an equity method investee by entering into a redemption feature agreement with the other equity interest owner, which allows the other owner to sell its equity interest to the Group under certain conditions at a fixed price (Note 9).

The accompanying notes are an integral part of the Historical Financial Information.

NOTES TO HISTORICAL FINANCIAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2017, 2018, 2019 AND THE SIX MONTHS ENDED JUNE 30, 2019 AND 2020 (All amounts in thousands, except for share and per share data)

1. Organization and Principal Activities

Baozun Inc. (the "Company") was incorporated under the laws of Cayman Islands on December 18, 2013. The Company, its subsidiaries and its variable interest entity (collectively referred to as the "Group") are principally engaged to provide its customers with end-to-end E-commerce solutions including the sales of apparel, home and electronic products, online store design and setup, visual merchandising and marketing, online store operations, customer services, warehousing and order fulfillment.

In 2014, the Group expanded their business and commenced their own online marketplace, Maikefeng, which operates as a mobile application and offers branded products at discounted prices. Maikefeng was operated by Shanghai Zunyi Business Consulting Ltd. ("Shanghai Zunyi" or "VIE"). To comply with the People's Republic of China ("PRC") law and regulations which restrict foreign ownership of companies that provide value-added telecommunication services in China, Shanghai Baozun entered into a series of contractual arrangements in April and July 2014 with Shanghai Zunyi and its respective shareholders through which the Company became the primary beneficiary of Shanghai Zunyi. Shanghai Zunyi was established in December 2010 and had no operations before July 2014. The Group began to consolidate Shanghai Zunyi in July 2014 upon entering into the VIE arrangements with Shanghai Zunyi. Maikefeng ceased its operation in 2017. Shanghai Zunyi currently provides brand e-commerce solutions to certain brand partners.

As of June 30, 2020, the Company's major subsidiaries and VIE are as follows:

	Date of incorporation	Place of incorporation	Legal ownership
Subsidiaries:			
Baozun Hong Kong Holding Limited	10-Jan-14	HK	100%
Shanghai Baozun E-commerce Limited	11-Nov-03	PRC	100%
Shanghai Bodao E-commerce Limited	30-Mar-10	PRC	100%
Shanghai Yingsai Advertisement Limited	30-Mar-10	PRC	100%
Baozun Hongkong Limited	11-Sep-13	HK	100%
Shanghai Fengbo E-commerce Limited	29-Dec-11	PRC	100%
Baozun Hongkong Investment Limited	21-July-15	HK	100%
Baotong Hong Kong Holding Limited	5-May-16	HK	100%
Baotong E-logistics Technology (Suzhou) Limited	27-March-17	PRC	100%
VIE:			
Shanghai Zunyi Business Consulting Ltd.	31-Dec-10	PRC	N/A

History of the Group and reorganization under identical common ownership

The Group's history began in November 2003 with the commencement of operations of Shanghai Baozun E-commerce Limited ("Shanghai Baozun"), a limited liability company incorporated in the PRC by Mr. Vincent Wenbin Qiu, CEO of the Group, and 5 other individual founders (collectively known as "the Founding Shareholders").

From December 2009 to September 2012, Alibaba Investment Limited ("Alibaba"), Private Opportunities (Mauritius) I Limited ("Private Opportunities"), GS Investment Partners (Mauritius) I limited ("GS Investment"), Stelca Holding Ltd ("Stelca Holding"), New Access Capital Fund ("New Access"), Crescent Castle Holdings Ltd ("Crescent Castle") and Infinity I-China Investment (Israel) L.P ("Infinity") (collectively known as the "Investors") each acquired 25.16%, 5.81%, 3.88%, 1.53%, 3.86%, 24.80% and 6.46%, respectively of equity interest in Shanghai Baozun.

Starting December 2013, pursuant to a framework agreement entered into by the Founding Shareholders and all of the Investors, the Group undertook a series of reorganization transactions to redomicile its business from PRC to the Cayman Islands (the "Redomiciliation"). The main purpose of the Redomiciliation is to establish a Cayman holding company for the existing business in preparation for its overseas initial public offering. The Redomiciliation was subject to PRC government approval and executed in the following steps:

1) In December 2013, the Company was incorporated in the Cayman Islands to be the holding company of the Group. The Founding Shareholders subscribed to 29,983,883 ordinary shares of the Company at par value of US$0.0001 per share.

2) Upon obtaining all necessary approvals from the PRC government in May 2014, the Investors subscribed for convertible redeemable preferred shares at no consideration, all in the same proportions, on an as converted basis, as the percentage of equity interest they held in Shanghai Baozun in June 2014. Upon the issuance of preferred shares and ordinary shares in step 1), the equity structure of the Company is identical to that of Shanghai Baozun.

3) In July 2014, the Company legally acquired 100% of the equity interest of Shanghai Baozun from the Founding Shareholders and the Investors, thus Shanghai Baozun became a wholly owned subsidiary of the Company.

The VIE arrangements

Applicable PRC laws and regulations currently limit foreign ownership of companies that provide internet content distribution services. The Company is deemed a foreign legal person under PRC laws and accordingly subsidiaries owned by the Company are ineligible to engage in provisions of internet content or online services. The Group therefore conducted its online marketplace business, Maikefeng, which had ceased its operation, through its consolidated VIE, Shanghai Zunyi.

Shanghai Zunyi was established by two of the Company's Founding Shareholders in December 2010 and had no operations until July 2014 when the Group transferred the Maikefeng online marketplace business to Shanghai Zunyi. To provide the Group effective control over Shanghai Zunyi and receive substantially all of the economic benefits of Shanghai Zunyi, Shanghai Baozun entered into a series of contractual arrangements, described below, with Shanghai Zunyi and its individual shareholders.

The agreements that provide the Company effective control over the VIE include:

(i) Proxy Agreement, under which each shareholder of Shanghai Zunyi has executed a power of attorney to grant Shanghai Baozun the power of attorney to act on his behalf on all matters pertaining to Shanghai Zunyi and to exercise all of the rights as a shareholder of the Shanghai Zunyi, including but not limited to convene, attend and vote at shareholders' meetings, designate and appoint directors and senior management members. The proxy agreement will remain in effect unless Shanghai Baozun terminates the agreement by giving a 30-day prior written notice or gives its consent to the termination by Shanghai Zunyi.

(ii) Exclusive Call Option Agreement, under which the shareholders of Shanghai Zunyi granted Shanghai Baozun or its designated representative(s) an irrevocable and exclusive option to purchase their equity interests in Shanghai Zunyi when and to the extent permitted by PRC law. Shanghai Baozun or its designated representative(s) has sole discretion as to when to exercise such options, either in part or in full. Without Shanghai Baozun's written consent, the shareholders of Shanghai Zunyi shall not transfer, donate, pledge, or otherwise dispose any equity interests of Shanghai Zunyi in any way. The acquisition price for the shares or assets will be the minimum amount of consideration permitted under the PRC law at the time when the option is exercised. The agreement can be early terminated by Shanghai Baozun, but not by Shanghai Zunyi or its shareholders.

The agreements that transfer economic benefits to the Company include:

(i) Exclusive Technology Service Agreement, under which Shanghai Zunyi engages Shanghai Baozun as its exclusive technical and operational consultant and under which Shanghai Baozun agrees to assist in arranging the financial support necessary to conduct Shanghai Zunyi's operational activities. Shanghai Zunyi shall not seek or accept similar services from other providers without the prior written approval of Shanghai Baozun. The agreement has a term of twenty years and will be automatically renewed on a yearly basis after expiration unless otherwise notified by Shanghai Baozun, and shall be terminated if the operation term of either Shanghai Baozun or Shanghai Zunyi expires. Shanghai Baozun may terminate this agreement at any time by giving a prior written notice to Shanghai Zunyi.

(ii) Equity Interest Pledge Agreements, under which the shareholders of Shanghai Zunyi pledged all of their equity interests in Shanghai Zunyi to Shanghai Baozun as security of due performance of the obligations and full payment of consulting and service fees by VIE under the Exclusive Technology Service Agreement and other amounts payable by the individual shareholders to Shanghai Baozun under other agreements. If the shareholders of Shanghai Zunyi or Shanghai Zunyi breach their respective contractual obligations, Shanghai Baozun, as pledgee, will be entitled to certain rights, including the right to dispose the pledged equity interests. Pursuant to the agreement, the shareholders of Shanghai Zunyi shall not transfer, assign or otherwise create any new encumbrance on their respective equity interest in Shanghai Zunyi without prior written consent of Shanghai Baozun. The pledge shall be continuously valid until all the obligations and payments due under the Exclusive Technology Service Agreement and certain other agreements have been fulfilled.

These contractual arrangements allow the Company, through its wholly owned subsidiary, Shanghai Baozun, to effectively control Shanghai Zunyi, and to derive substantially all of the economic benefits from them. Accordingly, the Company treats Shanghai Zunyi as VIE and because the Company is the primary beneficiary of Shanghai Zunyi, the Company has consolidated the financial results of Shanghai Zunyi since July 2014.

U.S. GAAP provides guidance on the identification of VIE and financial reporting for entities over which control is achieved through means other than voting interests. The Group evaluates each of its interests in an entity to determine whether or not the investee is a VIE and, if so, whether the Group is the primary beneficiary of such VIE. In determining whether the Group is the primary beneficiary, the Group considers if the Group (1) has power to direct the activities that most significantly affects the economic performance of the VIE, and (2) receives the economic benefits of the VIE that could be significant to the VIE. If deemed the primary beneficiary, the Group consolidates the VIE.

Risks in relation to the VIE structure

The Company believes that the contractual arrangements with Shanghai Zunyi are in compliance with PRC law and are legally enforceable based on the legal advice of the Company's PRC legal counsel. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and the interests of the shareholders of Shanghai Zunyi may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing Shanghai Zunyi not to pay the service fees when required to do so.

The Company's ability to control Shanghai Zunyi also depends on the power of attorney Shanghai Baozun has to vote on all matters requiring shareholder approval. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership. In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the Group may be subject to fines and the PRC government could:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict the Group's operations;
- restrict the Group's right to collect revenues;
- block the Group's websites;
- require the Group to restructure its operations in such a way as to compel the Group to establish a new enterprise, re-apply for the necessary licenses or relocate its businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to its business.

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of Shanghai Zunyi or the right to receive its economic benefits, the Group would no longer be able to consolidate the entity.

The following amounts and balances of Shanghai Zunyi were included in the Group's Historical Financial Information after the elimination of intercompany balances and transactions:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB*
Cash and cash equivalent	3,554	4,102	4,218	2,284
Accounts receivable, net	124,930	319,946	266,717	240,474
Inventories, net	104	30	144	117
Advance to suppliers	369	693	933	1,261
Amounts due from related parties	67,335	12,144	45	110
Prepayments and other current assets	5,180	11,417	224	413
Investment in equity securities without readily determinable fair value	5,464	5,464	–	10,000
Property and equipment, net	7	4,352	3,716	3,300
Intangible assets, net	221	63	53	48
Other non-current assets	662	52	–	–
Total assets	207,826	358,263	276,050	258,007
Accounts payable	4,715	4,891	5,048	5,429
Income tax payables	–	675	11,554	4,638
Accrued expenses and other current liabilities	28,002	6,884	14,520	32,726
Total liabilities	32,717	12,450	31,122	42,793

	For Year Ended December 31,			For Six Months Ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Net revenues	253,551	490,796	626,912	252,808	353,763
Operating expenses	182,715	391,595	544,727	252,403	326,932
Net income	71,102	90,753	65,279	91	24,922
Net cash provided by (used in) operating activities	959	(5)	356	3,989	8,368
Net cash provided by (used in) investing activities	859	553	(240)	–	(10,302)

The VIE contributed an aggregate of 6.11%, 9.10%, 8.61%, 8.45% (unaudited) and 9.62% of the consolidated net revenues for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively. As of December 31, 2017, 2018, 2019 and June 30, 2020, the VIE accounted for an aggregate of 6.98%, 8.92%, 3.89% and 3.74% of the consolidated total assets, and 2.85%, 0.68%, 0.69%, and 1.04% of the consolidated total liabilities, respectively.

There are no assets of the VIE that are collateral for the obligations of the VIE and can only be used to settle the obligations of the VIE. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIE.

However, if the VIE ever needs financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIE through loans to the shareholders of the VIE or entrustment loans to the VIE. Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of its paid-in capital, additional paid-in capital and statutory reserve, to the Company in the form of loans and advances or cash dividends.

2. Summary of Significant Principal Accounting Policies

(a) Basis of presentation

The Historical Financial Information is prepared and presented in accordance with accounting principles generally accepted in the United States of America (''U.S. GAAP'').

(b) Basis of consolidation

The Historical Financial Information includes the financial statements of the Company, its subsidiaries and the VIE. All transactions and balances among the Company, its subsidiaries and the VIE have been eliminated upon consolidation.

(c) Use of estimates

The preparation of the Historical Financial Information in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenues and expenses during the Track Record Period in the Historical Financial Information. Significant accounting estimates are used for, inventory write-down, fair value measurement and impairment of investments, realization of deferred tax assets, assessment for useful life and impairment of long-lived assets and allowance for credit loss.

(d) Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The Group's short-term financial instruments include cash and cash equivalents, restricted cash, short-term investments, receivables, payables, other current assets, amounts due from related parties, other current liabilities, amounts due to related parties and short-term loan. The carrying amounts of these short-term financial instruments approximate their fair values due to the short-term maturity of these instruments. The carrying amounts of the long-term time deposits and long-term bank borrowings approximate their fair values as the interest rates are comparable to the prevailing interest rates in the market. The fair value of the convertible senior notes is determined based on the inputs that are observable in the market, including the trading price of the Group's convertible senior notes, when available, or the Company's stock price and the interest rates currently offered by financial institutions for similar debt instruments with comparable maturities. The fair value of convertible senior notes with the carrying amount of RMB1,895,148 is estimated to be approximately RMB1,518,113 as of June 30, 2020.

The Group measures equity method investments at fair value on a nonrecurring basis when they are deemed to be impaired. The fair values of these investments are determined based on valuation techniques using the best information available. An impairment charge to these investments is recorded when the carry amount of an investment exceeds its fair value and this condition is determined to be other-than-temporary. During the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, no impairment of equity method investments was recorded.

Upon the adoption of ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)", on January 1, 2018, the Group elected to measure equity investments that were accounted for under the cost method prior to the adoption and do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Certain of such equity investments were measured at fair value due to the recognition of impairment losses during the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020. Please refer to Note 9(b) for further discussion.

(e) Concentration and risks

Concentration of customers and suppliers

The following customer accounted for 10% or more of net revenue for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020:

	For Year Ended December 31,			**For Six Months Ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*
A	462,384	637,963	879,220	341,046	531,605

The following customer accounted for 10% or more of balances of accounts receivable as of December 31, 2017, 2018, 2019 and June 30, 2020:

	As of December 31,			**As of June 30,**
	2017	**2018**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB*
A	342,752	318,396	397,999	353,601

The following suppliers accounted for 10% or more of purchases for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020:

	For Year Ended December 31,			**For Six Months Ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*
B	938,128	1,300,297	1,775,444	742,708	837,492
C	474,399	*	*	*	*

* Supplier with less than 10% of total purchase in the respective year/period.

Concentration of credit risk

Financial instruments that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash, accounts receivable, short-term investments, amounts due from related parties and long-term time deposits. As of December 31, 2017, 2018, 2019 and June 30, 2020, all of the Group's cash and cash equivalents, restricted cash, short-term investments and long-term time deposits were held by major financial institutions located in the PRC, Hong Kong, Japan and Taiwan which management believes are of high credit quality. Accounts receivable and amounts due from related parties are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

Foreign Currency Risk

Renminbi ("RMB") is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The Group had aggregated amounts of RMB213,983, RMB416,461, RMB1,105,803 and RMB1,495,484 of cash and cash equivalents, restricted cash and short-term investments denominated in RMB as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively.

(f) Foreign currency translation

The Group's reporting currency is RMB. The functional currency of the Company is the United States dollar ("US$"). The functional currency of the Group's entities incorporated in Hong Kong is Hong Kong dollars ("HK$"). The functional currency of the Group's subsidiaries in PRC is RMB.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year/period are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

Assets and liabilities are translated from each entity's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the year/period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss) in the consolidated statements of changes in shareholders' equity and consolidated statements of comprehensive income.

(g) Convenience translation

Translations of balances in the consolidated balance sheet, consolidated statement of operations, consolidated statement of comprehensive income and consolidated statement of cash flows from RMB into US$ as of and for the six months ended June 30, 2020 are solely for the convenience of the readers and were calculated at the rate of US$1.00 = RMB7.0651, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on June 30, 2020. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on June 30, 2020, or at any other rate.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments with an original maturity of less than three months.

(i) Restricted cash

Restricted cash consist primarily of (i) minimum cash deposits or cash collateral deposits required to be maintained with certain banks under the Group's borrowing arrangements or in relation to bank guarantees issued on behalf of the Group (ii) deposit required by its business partners and (iii) security for issuance of commercial acceptance notes mainly relating to purchase of inventories. In the event that the obligation to maintain such deposits is expected to be terminated within the next twelve months, these deposits are classified as current assets. Otherwise, they are classified as non-current assets. All restricted cash is held by major financial institutions in segregated accounts.

(j) Short-term investments

Short-term investments primarily comprise of time deposits with maturities between three months and one year.

(k) Accounts receivable, net

Accounts receivable represents amounts due from customers and are recorded net of allowance for credit losses. On January 1, 2020, the Group adopted Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), using the modified retrospective transition method. ASU 2016-13 replaces the existing incurred loss impairment model with a forward-looking current expected credit loss ("CECL") methodology, which results in more timely recognition of credit losses. The Group has developed a CECL model based on historical experience, the age of the accounts receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. The cumulative effect from the adoption as of January 1, 2020 was immaterial to the consolidated financial statements.

(l) 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.

(m) Investments

The Group's investments include equity method investments and equity securities without readily determinable fair value.

The Group uses the equity method to account for an equity investment over which it has significant influence but does not own a majority equity interest or otherwise control. The Group records equity method adjustments in share of earnings and losses. Equity method adjustments include the Group's proportionate share of investee income or loss, adjustments to recognize certain differences between the Group's carrying value and its equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method. Dividends received are recorded as a reduction of carrying amount of the investment. Cumulative distributions that do not exceed the Group's cumulative equity in earnings of the investee are considered as a return on investment and classified as cash inflows from operating activities. Cumulative distributions in excess of the Group's cumulative equity in the investee's earnings are considered as a return of investment and classified as cash inflows from investing activities.

Equity securities without readily determinable fair values and over which the Group does not have significant influence are measured and recorded using a measurement alternative that measures the securities at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to January 1, 2018, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

(n) Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and impairment. Property and equipment are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives and residual rates are as follows:

Classification	Useful years	Residual rate
Electronic devices	3 years	0% - 5%
Vehicle	5 years	5%
Furniture and office equipment	5 years	5%
Machinery	10 years	5%
Buildings	44 years	5%
Leasehold improvement	Over the shorter of the expected life of leasehold improvements or the lease term	0%

Repairs and maintenance costs are charged to expenses as incurred, whereas the cost of renewals and betterment that extends the useful lives of property and equipment are capitalized as additions to the related assets. Gains and losses from the disposal of property and equipment are included the consolidated statements of operations.

(o) Intangible assets, net

Intangible assets mainly consist of trademark, internally developed software and supplier relationship. Trademark is recorded at cost and amortized on a straight-line basis over the estimated economic useful lives of 10 years.

For internally developed software, the Group expenses all internal-use software costs incurred in the preliminary project stage and capitalized direct costs associated with the development of internal-use software. This internally developed software mostly consisted of order management, customer management and retailing solution systems, which are amortized over 3 years on a straight-line basis.

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

(p) 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 the Company's 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, the Group performed a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, the Group compares 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, the Group performs Step 2 and compares 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, the Group adopted ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): simplifying the test for goodwill impairment", which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss.

No impairment charge was recognized for the each of the three years ended December 31, 2019 and six months ended June 30, 2019 and 2020.

(q) Impairment of long-lived assets

The Group evaluates the recoverability of long-lived assets with determinable useful lives whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques and assumptions including future cash flows over the life of the asset being evaluated and discount rate. These assumptions require significant judgment and may differ from actual results. No impairment charge was recognized for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020.

(r) Revenue

In May 2014, the FASB issued an accounting standards update, "Revenue from Contracts with Customers" (Topic 606) ("ASC 606"), which 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. The Group adopted the 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, the Group recognizes allowance for estimated sales returns on a gross basis rather than a net basis on the consolidated balance sheet. The Group records a right of return asset for products the Group expects to receive from customers within other current assets and a liability for refunds payable within accrued expenses and other current liabilities on the consolidated balance sheet.

The Group's revenue recognition policies effective on the adoption date of ASC 606 are as follows:

The Group provides brand e-commerce solutions to its brand partners. And its revenues are derived principally from product sales and services.

Product Sales

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

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

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

The Group utilizes delivery service providers to deliver products to its consumers ("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 the Group's promise to transfer the products and are recorded as fulfillment expenses.

Services

The Group acts as a service provider, under the consignment or service fee model, to facilitate its 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 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 the Group's service contracts include multiple performance obligations as they include provision of a combination of various services based on the brand partner's requirements. The Group charges its brand partners a combination of fixed fees and/or variable fees based on the value of merchandise sold, number of orders fulfilled or other variable factors. The transaction price is allocated to each performance obligation using the relative stand-alone selling price. The Group generally determines 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 are recognized over the service term. The Group applies the practical expedient to recognize the services except for one-time online store design and setup services in the amount to which the Group has a right to invoice on a monthly basis with a credit period of one month to four months.

The Group acts as the principal in its service provision but not in product sales of its brand partners, and therefore, only recognizes service fees as revenue in the consolidated statements of operations. All the costs that the Group incurs in the provision of services are classified as operating expenses on the 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 the Group has satisfied its performance obligation and has the unconditional right to payment.

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

Practical Expedients and Exemptions

The Group elects 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 the Group recognizes revenue at the amount it has the right to invoice for services performed and (iii) contracts with variable consideration related to wholly unsatisfied performance obligations.

(s) Cost of products

Cost of product consists of the purchase price of products and inbound shipping charges, as well as inventory write-downs. 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 customers. Cost of products does not include other direct costs related to product sales such as shipping and handling expense, payroll and benefits of logistic staff, logistic centers rental expenses and depreciation expenses, etc. Therefore, the Group's cost of products may not be comparable to other companies which include such expenses in their cost of products.

(t) Rebates

Rebates are provided by brand partners under the distribution model and determined based on the product purchase volume on a monthly, quarterly or annual basis. The Group accounts for the volume rebates as a reduction to the price it pays for the products subject to the rebate determination. When volume rebates can be reasonably estimated based on the Group's past experiences and current forecasts, a portion of the rebate is recognized as the Group makes progress towards the purchase threshold. Rebates are also provided as negotiated between the Group and its brand partners, which is recorded as reductions of cost of products in the consolidated statements of operations when the amounts are agreed by both parties.

(u) Fulfillment

Fulfillment costs primarily represent shipping and handling expenses, payment processing and related transaction costs, packaging material costs and costs incurred in outbound shipping, operating and staffing the Group's fulfillment and customer service center, including costs attributable to buying, receiving, inspecting and warehousing inventories and picking, packaging and preparing customer orders for shipment.

(v) Sales and marketing

Sales and marketing expenses primarily consist of payroll, bonus and benefits of sales and marketing staff, advertising costs, agency fees and costs for promotional materials. Advertising costs are expensed as incurred.

Advertising and promotion costs are primarily related to the provision of marketing and promotion services to brand clients and consist of fees the Group pays to third party venders for advertising and promotion on various online and offline channels. Such costs were included as sales and marketing in the consolidated statements of operations and totaled RMB362,721, RMB619,841, RMB869,977, RMB323,127 (unaudited) and RMB416,765 for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively.

(w) Technology and content

Technology and content expenses consist primarily of technology infrastructure expenses, payroll and related expenses for employees in technology and system department, editorial content costs, as well as costs associated with the computers, storage and telecommunications infrastructure for internal use.

(x) General and administrative

General and administrative expenses consist of payroll related expenses for corporate employees, professional service fees and other corporate overhead costs.

(y) Other operating income (expense), net

Other operating income mainly consists of government subsidies and income derived from American Depositary Receipt ("ADR") arrangements entered into between the Company and an ADR depositary bank ("DB") in May 2015.

Government subsidies consist of cash subsidies received by the Company's subsidiaries in the PRC from local governments. Subsidies received as incentives for conducting business in certain local districts with no performance obligation or other restriction as to the use are recognized when cash is received. Cash subsidies of RMB10,308, RMB25,477, RMB25,761, RMB19,651 (unaudited) and RMB33,529 were included in other operating income (expenses), net for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively. Subsidies received with performance obligations are recognized when all the obligations have been fulfilled.

According to the ADR arrangements, the Company has the right to receive a series of reimbursements after the closing of Initial Public Offering ("IPO") over the five-year term as a return of using DB's services. Total reimbursements are recognized over the contract term as other operating income. For the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, the Group recorded other operating income of RMB2,517, RMB2,856, RMB3,231, RMB1,323 (unaudited) and RMB1,196, respectively.

Other operating expense for the year ended December 31, 2019 mainly consists of an operating loss of RMB45,469 relating to an accidental fire that occurred at a third-party warehouse in Shanghai in October 2019.

(z) Share-based compensation

The Company grants share options and restricted share units to eligible employees, management and directors and accounts 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, the Company records 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.

(aa) Income tax

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The Group accounts 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.

The Group accounts 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. Deferred tax assets are reduced by a valuation allowance when, based upon the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of operations in the period of change.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

According to ASC 740-270 "Interim Reporting", the Group estimates its annual effective tax rate and applies it to its year-to-date ordinary income. The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates are reflected in the interim periods presented.

(ab) Operating leases as lessee

The operating leases of the Group include leases of offices and warehouses. Before January 1, 2019, the leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. From January 1, 2019, the Group adopted ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), by using the modified retrospective method and did not restate the comparable periods. The Company has elected the package of practical expedients, which allows the Company 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. The Company also elected the practical expedient not to separate lease and non-lease components of contracts. Lastly, the Company elected the short-term lease exemption for all contracts with lease terms of 12 months or less.

Under the new lease accounting standard, the Company determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Company recognizes 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. The Company estimates its 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.

Upon the adoption, the Company recognized right-of-use assets of RMB462,391 and lease liabilities, including current and non-current, of RMB459,733 for operating leases as of January 1, 2019.

The following table discloses the weighted-average remaining lease term and weighted-average discount rate for the Group's leases:

	As of	
Lease Term and Discount Rate	**December 31, 2019**	**June 30, 2020**
Weighted-average remaining lease term:		
– Operating leases	3.98 years	3.79 years
Weighted-average discount rate		
– Operating leases	7.97%	8.05%

The following is a maturity analysis of the annual undiscounted cash flows as at December 31, 2019:

Fiscal Year	**Operating lease**
	RMB
2020	165,670
2021	120,654
2022	103,016
2023	53,258
2024	43,600
Thereafter	34,771
Total lease commitment	520,969
Less: Imputed interest	(73,125)
Total operating lease liabilities	447,844
Less: current operating lease liabilities	(137,855)
Long-term operating lease liabilities	309,989

The following is a maturity analysis of the annual undiscounted cash flows as at June 30, 2020:

Fiscal Year	Operating lease
	RMB
2020 (July-December)	76,213
2021	122,659
2022	104,190
2023	53,454
2024	43,600
Thereafter	34,771
Total lease commitment	434,887
Less: Imputed interest	(58,267)
Total operating lease liabilities	376,620
Less: current operating lease liabilities	(118,689)
Long-term operating lease liabilities	257,931

As of December 31, 2019 and June 30, 2020, the future lease payments for short-term operating leases that are not capitalized as right-of-use assets were RMB3,974 and RMB22,892, respectively.

During the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, the Group incurred operating lease expenses of RMB105,126, RMB141,993 and RMB172,727 (excluding RMB2,786 for short-term leases not capitalized as right-of-use assets), RMB81,603 (excluding RMB1,152 for short-term leases not capitalized as right-of-use assets) (unaudited) and RMB93,176 (excluding RMB12,869 for short-term leases not capitalized as right-of-use assets), respectively.

Supplemental cash flow information related to leases for the year ended December 31, 2019 and six months ended June 30, 2020 is as follows:

	Year ended December 31, 2019	Six months ended June 30, 2020
Cash paid for amounts included in measurement of liabilities:		
Operating cash flows from operating leases	162,818	91,299
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	277,638	3,938

As of December 31, 2018, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follows:

Fiscal Year	Operating lease
	RMB
2019	161,402
2020	139,306
2021	102,574
2022	100,001
2023 and after	140,201
Total lease commitment	643,484

As of December 31, 2017, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follows:

Fiscal Year	Operating lease
	RMB
2018	93,022
2019	87,836
2020	71,977
2021	39,095
2022 and after	106,265
Total lease commitment	398,195

The land use right acquired in 2017 represents lease prepayments to the local government authorities which is separately presented in the consolidated balance sheets. The Company determines its land use right agreement contains an operating lease of land under the new lease accounting standard. This determination does not result in any changes to the accounting for land use right as the cost for the land use right was fully prepaid and no liabilities would be recorded. Land use right is carried at cost less accumulated amortization and impairment losses. Amortization has been provided on a straight-line basis over 44 years, the life of the land use right. The amortization expenses of the land use right were RMB342, RMB1,026, RMB1,026, RMB513 (unaudited) and RMB513 for the years ended December 31, 2017, 2018, 2019, and six month ended June 30, 2019 and June 30, 2020 respectively. As of June 30, 2020, the land use right has a remaining useful life of 41.5 years.

(ac) Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. For the periods presented, the Group's comprehensive income includes net income and foreign currency translation adjustments and is presented in the consolidated statements of comprehensive income.

(ad) Earnings per share

Basic earnings per ordinary share is computed by dividing net income attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period.

Diluted earnings per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares, which consist of the ordinary shares issuable upon the conversion of the convertible senior notes (using the if-converted method) and ordinary shares issuable upon the exercise of stock options and vest of non-vested restricted share units (using the treasury stock method).

The loaned shares under the ADS lending agreement are excluded from both the basic and diluted earnings per share calculation unless default of the ADS lending arrangement occurs of which the Group considers the possibility is remote.

(ae) Redeemable non-controlling interests

Redeemable non-controlling interests ("RNCI") represents interests of certain third parties that are not mandatorily redeemable but redeemable for cash at a fixed or determinable price or a fixed or determinable date, at the option of the holder or upon the occurrence of an event that is not solely within the control of the Company. These interests are classified in the "redeemable non-controlling interest" section of the consolidated balance sheet, outside of shareholders' equity. RNCI are recorded at the greater of (i) the redemption amount if currently redeemable or (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. Changes in the RNCI amount are recognized immediately as they occur.

(af) Recently issued accounting pronouncements

New Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued accounting standards update ("ASU") 2014-09, Revenue from Contracts with Customers 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. The FASB has also issued a number of updates to this standard. The Group adopted the requirements of this ASU using the full retrospective method from the effective date.

In February 2016, the FASB issued ASU 2016-02, which introduces a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right of use assets and lease liabilities on the balance sheet. The Group adopted the new lease standard beginning January 1, 2019 using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, Restricted Cash ("ASU 2016-18"), which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The Group adopted ASU 2016-18 on January 1, 2018 using the retrospective transition method. According to this ASU, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the previously incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. The Company adopted this new standard on January 1, 2020. The adoption of this ASU does not have any material impact on its consolidated financial statements. According to ASC 326-20-15-2, as of June 30, 2020, the Group had the accounts receivable of RMB1,548,649 and held to maturity investment included in short term investments of RMB7,000, which are measured at amortized cost and are in the scope of current expected credit loss ("CECL") assessment. The average expected credit loss rates for accounts receivable and held to maturity investment as of June 30, 2020 are 0.69% and nil, respectively.

In January 2017, the FASB issued ASU 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss. The Company adopted this new standard on January 1, 2020 and the adoption of this ASU does not have any material impact on the Group's consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". This ASU simplifies the accounting for income taxes by removing certain exceptions to general principles in Income Taxes (Topic 740). It also clarifies and amends existing guidance to improve consistent application. The new standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company does not expect the adoption of this new standard to have any material impact on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01 "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)", clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments in this ASU clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The amendments clarify that: (a) an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method; (b) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 815. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

3. Revenue

For the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, all of the Group's revenues were generated in the PRC. The disaggregated revenues by types and the timing of transfer of goods or services were as follows:

Disaggregation of revenues

	For Year Ended December 31,			For Six Months Ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*
Product sales	2,257,632	2,516,862	3,422,151	1,466,738	1,628,931
Service					
– online store operations, digital marketing, customer service, warehousing and fulfillment and IT maintenance service which revenues are recognized over time	1,863,446	2,835,206	3,817,450	1,492,398	2,037,579
– one-time online store design and setup services which revenue is recognized at point of time	27,730	40,969	38,591	31,835	9,196
Total revenue	4,148,808	5,393,037	7,278,192	2,990,971	3,675,706

Contract Liability

The movement of the advances from customers for the years ended December 31, 2017, 2018, 2019 and six months ended June 30, 2020 were as follows:

	Advances from Customers
Opening Balance as of January 1, 2017	22,682
Increase/(decrease), net	2,466
Opening Balance as of December 31, 2017	25,148
Increase/(decrease), net	(6,760)
Ending Balance as of December 31, 2018	18,388
Increase/(decrease), net	6,360
Ending Balance as of December 31, 2019	24,748
Increase/(decrease), net	28,220
Ending Balance as of June 30, 2020	52,968

Revenue amounted RMB22,682, RMB25,148, RMB18,388, RMB18,388 (unaudited) and RMB24,748 were recognized in the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively that were included in the balance of advance from customers at the beginning of each reporting period.

4. Accounts receivable, net

Accounts receivable, net, consists of the following:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB*
Accounts receivable	1,087,327	1,549,398	1,811,622	1,559,320
Allowance for credit losses:				
Balance at beginning of the year/period	(1,180)	(1,658)	(1,767)	(10,726)
Additions	(1,485)	(159)	(9,037)	(174)
Write-offs	1,007	50	78	229
Balance at end of the year/period	(1,658)	(1,767)	(10,726)	(10,671)
Accounts receivable, net	1,085,669	1,547,631	1,800,896	1,548,649

5. Inventories, net

Inventories, net consist of the following:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB*
Products	407,359	696,515	973,327	1,024,628
Packing materials and others	7,004	77	122	25
Inventories	414,363	696,592	973,449	1,024,653
Inventory write-down:				
Balance at beginning of the year/period	(22,709)	(32,335)	(46,244)	(76,631)
Additions	(42,313)	(38,725)	(76,169)	(62,491)
Write-offs	32,687	24,816	45,782	26,644
Balance at end of the year/period	(32,335)	(46,244)	(76,631)	(112,478)
Inventories, net	382,028	650,348	896,818	912,175

Inventories write-downs of RMB42,313, RMB38,725, RMB76,169, RMB36,725 (unaudited) and RMB62,491 were recorded in cost of products in the consolidated statements of operations for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively. Inventories write-down of RMB24,194 was recorded in other operating income (expense), net in the consolidated statements of operations for the year ended December 31, 2019 as it related to an accidental fire that occurred at a third-party warehouse in Shanghai in October, 2019.

6. Prepayments and other current assets

Prepayments and other current assets consist of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	*RMB*	*RMB*	*RMB*
Rebate receivable from suppliers	165,220	197,178	281,095	256,851
Prepaid expenses	17,106	31,559	28,992	67,228
Interest receivables	8,620	3,399	21,829	8,055
Deposits(1)	6,322	12,155	18,972	25,375
Value-added tax ("VAT") recoverable	–	26,747	13,283	–
Employee advances(2)	748	3,608	2,317	3,108
Receivable from disposal of equity investees	7,608	–	–	–
Others	9,012	11,503	21,225	17,341
Prepayment and other current assets	214,636	286,149	387,713	377,958

(1) Deposits represent rental deposits and deposits paid to third-party platforms.

(2) Employee advances represent cash advanced to online store managers for store daily operation, such as online store promotion activities.

7. Property and equipment, net

Property and equipment, net, consists of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	*RMB*	*RMB*	*RMB*
Electronic devices	79,729	130,725	148,407	159,769
Vehicle	4,872	4,872	3,479	2,627
Furniture and office equipment	15,078	20,760	39,280	61,144
Leasehold improvement	106,367	168,899	211,087	221,935
Machinery	17,684	17,684	14,560	14,560
Buildings	196,477	198,264	198,263	201,129
Total	420,207	541,204	615,076	661,164
Accumulated depreciation and amortization	(89,283)	(138,464)	(199,428)	(243,945)
Property and equipment, net	330,924	402,740	415,648	417,219

Depreciation expenses were RMB37,436, RMB51,669, RMB75,775, RMB36,157 (unaudited) and RMB46,383 for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively.

8. Intangible assets, net

Intangible assets, net, consist of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	*RMB*	*RMB*	*RMB*
Internally developed software	85,928	171,801	233,366	250,407
Trademark	841	692	1,070	1,070
Supplier relationship	15,620	15,620	15,620	15,620
Accumulated amortization	(36,239)	(55,720)	(99,015)	(125,356)
Intangible assets, net	66,150	132,393	151,041	141,741

Amortization expenses for intangible assets were RMB12,837, RMB19,481, RMB43,295, RMB19,428 (unaudited) and RMB26,341 for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively. Estimated amortization expenses of the existing intangible assets for the year 2020 (July to December), 2021, 2022, 2023 and 2024 are RMB26,429, RMB55,945, RMB29,842, RMB16,452 and RMB3,983.

9. Investments in equity investees

(a) Investments in equity method investees

The Group holds 51% equity interest and CJ O Shopping holds 49% equity interest of Shanghai Baozun-CJ E-commerce Co., Ltd. ("BCJ"). Prior to October 2019, as significant operational matters require the agreement of CJ O Shopping, the Group accounted for this investment using the equity method. Share of loss in equity method investment of RMB1,265, RMB2,175 and RMB1,099 was recognized for the years ended December 31, 2017, 2018 and the period from January 2019 through October 2019, respectively.

In October 2019, the Group and CJ O Shopping signed an agreement 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 the BCJ for a consideration of approximately RMB9.2 million in the event that BCJ's net assets is less than RMB3,000. As such, the Group has obtained control over BCJ and accounted for BCJ as a consolidated subsidiary. The gain as the difference between the carrying amount of its previously held equity interest in BCJ upon consolidation which was RMB8,848 and the acquisition-date fair value was immaterial. The fair value of the put option on the acquisition date was nil based on a valuation performed by the Group. The fair values of acquired assets, assumed liabilities and noncontrolling interests of CJ O Shopping on the acquisition date were RMB41,920, RMB24,536 and RMB8,473, respectively. (Note 13)

In January 2018, the Group invested RMB13,328 to establish an E-commerce joint venture with Beijing Pengtai Interactive Advertising Co., Ltd. ("Beijing Pengtai") through a joint venture agreement. Baozun holds 49% equity interest and Beijing Pengtai holds 51% equity interest. Share of income in equity method investment of RMB1,229, RMB6,975, RMB1,829 (unaudited) and RMB5,485 was recognized for the years ended December 31, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively.

In July 2018, the Group entered into a joint venture agreement to establish an E-commerce joint venture with FRAG COMERCIO International SL ("FRAG"), each of which holds 50% equity interest with a total consideration of RMB500. Share of loss in equity method investment of RMB50, RMB450, RMB450 (unaudited) and RMB nil was recognized for the years ended December 31, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively.

In June 2019, the Group entered into an agreement with Hangzhou Juxi Technology Co., Ltd. ("Juxi") to acquire 10% equity interest with a total consideration of RMB15,000. As the Group has significant influence over Juxi, it is accounted for under the equity method of accounting. Share of loss in equity method investment of RMB595, RMB79 (unaudited) and RMB213 was recognized for the year ended December 31, 2019 and the six months ended June 30, 2019 and 2020, respectively.

In December 2019, the Group entered into an agreement with Jiangsu Shanggao Supply Chain Co., Ltd. ("Shanggao") to acquire 10% equity interest with a total consideration of RMB1,500. As the Group has significant influence over Shanggao, it is accounted for under the equity method of accounting. Share of loss in equity method investment of RMB63 and share of income in equity method investment of RMB66 was recognized for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively.

In January 2020, the Group entered into an agreement with Signify Lighting Technology (Shanghai) Co., Ltd. ("Signify") to acquire 20% equity interest with a total consideration of RMB6,000. As the Group has significant influence over Signify, it is accounted for under the equity method of accounting. Share of loss in equity method investment of RMB2,615 was recognized for the six months ended June 30, 2020.

(b) Investments in equity securities without readily determinable fair values

As of December 31, 2017, 2018, 2019 and June 30, 2020, investments in equity securities without readily determinable fair value were RMB12,146, RMB9,021, RMB nil and RMB10,000, respectively.

The Group is required to perform an impairment assessment of its investments whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. The Group recognized impairment losses of RMB6,227, RMB9,021, RMB9,021, nil (unaudited) and nil for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively. As of December 31, 2019, The Group's equity investments in four private companies that operate in the online tool and marketplace development or digital marketing solution businesses had been fully impaired due to their deteriorating financial conditions. During the year ended December 31, 2018, 2019 and six months ended June 30, 2019 and 2020, there have been no adjustments for price changes to the Group's equity investments without readily determinable fair values.

10. Short-term and long-term loan

The short-term and long-term loan as of December 31, 2017, 2018, 2019 and June 30, 2020 were as follows:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB*
Short-term loan				
Short-term bank borrowings	172,000	436,200	428,490	183,480
Long-term loan				
Long-term bank borrowings	–	68,753	–	–
Convertible senior notes	–	–	1,859,896	1,895,148
Total	–	68,753	1,859,896	1,895,148

Short-term bank borrowings

The Group entered one-year credit facilities with several Chinese Commercial Banks that provide for revolving line of credit for the Group. Under such credit facilities, the Group can borrow up to RMB735,100, RMB1,170,000, RMB1,133,134 and RMB1,620,000 for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020 respectively, which can only be used to maintain daily operation.

As of December 31, 2017, the Group had drawn short-term bank borrowings from the credit facilities in the amount of RMB172,000, at the weighted average interest rate of 4.57% per annum. Credit facilities in the amounts of RMB83,115 and RMB33,600 were used to issue the letters of guarantee with an aggregate amount of RMB116,563 and notes payable with an aggregate amount of RMB48,000, respectively. As such, RMB446,385 was available for future borrowing at the end of 2017. The credit facilities expired during the period from January to October 2018.

As of December 31, 2018, the Group had drawn short-term bank borrowings from the credit facilities in the amount of RMB436,200 with a cash deposit of RMB3,600 pledged, at the weighted average interest rate of 4.75% per annum. Credit facilities in the amounts of RMB138,847 and RMB18,739 were used to issue the letters of guarantee with an aggregate amount of RMB167,104, and notes payable with an aggregate amount of RMB26,770, respectively. As such, RMB579,814 of the credit facilities was available for future borrowing at the end of 2018. The credit facilities will expire during the period from March 2019 to December 2020.

As of December 31, 2019, the Group had drawn short-term bank borrowings from the credit facilities in the amount of RMB178,490, with a cash deposit of RMB7,500 pledged, at the weighted average interest rate of 4.52% per annum. Credit facilities in the amounts of RMB121,069 and RMB150,226 were used to issue the letters of guarantee with an aggregate amount of RMB151,322 and notes payable with an aggregate amount of RMB210,693, respectively. As such, RMB690,849 of the credit facilities was available for future borrowing at the end of 2019. The credit facilities will expire during the period from March to December 2020.

As of June 30, 2020, the Group had drawn short-term bank borrowings from the credit facilities in the amount of RMB183,480 at the weighted average interest rate of 4.38% per annum. Credit facilities in the amounts of RMB91,864 and RMB343,944 were used to issue the letters of guarantee with an aggregate amount of RMB117,022 and notes payable with an aggregate amount of RMB468,492, respectively. As such, RMB1,000,712 of the credit facilities was available for future borrowing at June 30, 2020. The credit facilities will expire during the period from December 2020 to June 2021.

In October 2019, the Group entered into a one-year bank loan contract under which the Group can borrow up to RMB700,000 by October 2020 and the actual draw down amount is subject to the deposit pledged. As of December 31, 2019, the Group drawn down RMB250,000 with a cash deposit of RMB273,740 pledged, at an interest rate of 4.24% per annum. As of June 30, 2020, the outstanding loan balance under this contract is nil.

Long-term bank borrowings

In January 2018, the Group entered into a three-year bank loan contract under which the Group can borrow up to US$50,000 by December 2020 and the actual draw down amount is subject to the deposit pledged. As of December 31, 2018, the Group had drawn down US$10,000 (RMB68,753), which was due in February 2020, with the deposit pledged of US$10,100 and the interest rate was based on the three-month Libor on draw-down date plus 1.1%. The Group early repaid the loan in May 2019.

Interest expenses related to bank borrowings were RMB4,252, RMB13,058, RMB21,936, RMB13,070 (unaudited) and RMB7,553 for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively.

Convertible Senior Notes due 2024

On April 10, 2019, the Company issued US$275 million of Convertible Senior Notes ("the Notes"). The Notes mature on May 1, 2024 and bear interest at a rate of 1.625% per annum, payable in arrears semi-annually on May 1 and November 1, beginning November 1, 2019.

Holders of the Notes have the option to convert their Notes at any time prior to the close of business on the second business day immediately preceding the maturity date. The Notes can be converted into the Company's ADSs at an initial conversion rate of 19.2308 of the Company's ADSs per US$1,000 principal amount of the Notes (equivalent to an initial conversion price of US$52 per ADS). The conversion rate is subject to adjustment in certain events but is not adjusted for any accrued and unpaid interest. In addition, following a make-whole fundamental change (as defined in the Indenture) that occur prior to the maturity date or following the Company's delivery of a notice of a tax redemption, the Company will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate event or such tax redemption.

The holders may require the Company to repurchase all or portion of the 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 Company believes that the likelihood of occurrence of events considered a fundamental change is remote.

The Company did not identify any embedded features that are subject to separate accounting. The conversion option meets the scope exception for derivative accounting as it is indexed to the Company's own stock and classified in stockholders' equity. Other embedded features including the mandatory redemption feature and the contingent put option upon fundamental changes are considered clearly and closely related to the debt host therefore no separate accounting is required.

In addition, there is no beneficial conversion feature recognized as the set conversion prices for the Notes are greater than the fair values of the ordinary share price at the date of issuance.

Therefore, the Company accounted for the Notes as a single instrument under long-term loan. Issuance costs related to the Notes were recorded in consolidated balance sheet as a direct deduction from the principal amount of the Notes, and are amortized over the period from April 10, 2019, the date of issuance, to May 1, 2022, the first put date of the Notes, using the effective interest method.

In 2019, the proceeds received by the Company from issuance of Notes, net of issuance cost of RMB41,530 (equivalently US$6 million), was RMB1,847,060 (equivalently US$269 million).

ADS Lending Arrangement

Concurrent with the offering of the Notes, the Company entered into ADS lending agreements with the affiliates of the initial purchasers of the Notes ("ADS Borrowers"), pursuant to which the Company lent to the ADS Borrowers 4,230,776 ADSs (the "Loaned ADSs") at a price equal to par, or $0.0003 per ADS ("ADS lending arrangement"). The purpose of the ADS lending arrangements is to facilitate privately negotiated transactions in which the ultimate holders of the Notes may elect to hedge their investment in the related notes. As of June 30, 2020, the outstanding number of Loaned ADSs was 4,230,776.

The Loaned ADSs must be returned to the Company by the earliest of (a) the maturity date of the Notes, May 1, 2024, (b) upon the Company's election to terminate the ADS lending agreement at any time after the later of (x) the date on which the entire principal amount of the Notes ceases to be outstanding, and (y) the date on which the entire principal amount of any additional convertible securities that the Company has in writing consented to permit the ADS Borrower to hedge under the ADS lending agreement ceases to be outstanding, in each case, whether as a result of conversion, redemption, repurchase, cancellation or otherwise; and (c) the termination of the ADS lending agreement. The Company is not required to make any payment to the initial purchasers or ADS Borrower upon the return of the Loaned ADSs. The ADS Borrowers do not have the choice or option to pay cash in exchange for the return of the Loaned ADSs.

No collateral is required to be posted for the Loaned ADSs. The initial purchasers are required to remit to the Company any dividends paid to the holders of the Loaned ADSs. The ADS Borrowers are not entitled to vote on the Loaned ADS.

In accordance with ASC 470-20, the Company has accounted for the ADS lending agreement initially at fair value and recognized it as an issuance cost associated with the convertible debt offering. As a result, additional debt issuance costs of RMB33,836 (equivalently US$5 million) were recorded on the issuance date with a corresponding increase to additional paid-in-capital. This debt issuance costs have also been amortized from the date of issuance to the put date of Notes, using the effective interest method.

Although legally issued, the Loaned ADSs are not considered outstanding, and then excluded from basic and diluted earnings per share unless default of the ADS lending arrangement occurs, at which time the Loaned ADSs would be included in the basic and diluted earnings per share calculation. As of June 30, 2020, it is considered improbable that the ADS Borrower or the counterparty to the ADS lending arrangement will default.

Interest expenses related to the Notes were RMB39,380, RMB11,388 (unaudited) and RMB28,466 for the year ended December 31, 2019 and six months ended June 30, 2019 and 2020, respectively.

11. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	*RMB*	*RMB*	*RMB*
Logistics expenses accruals	157,777	102,717	317,282	243,130
Advances from customers	25,148	18,388	24,748	52,968
Outsourced labor cost payable	31,987	47,154	63,136	79,018
Salary and welfare payable	46,362	77,172	90,895	154,171
Professional fee accruals	6,117	7,461	10,994	18,454
Marketing expenses accruals	16,363	42,689	26,504	80,362
Other tax payable	12,425	8,189	5,003	93,497
Receipt on behalf of merchants on Maikefeng marketplace	1,951	–	–	–
Sales return accrual	2,934	3,733	6,898	4,396
Loss provision for accidental fire(1)	–	–	21,275	–
Others	13,806	15,165	14,387	18,678
Accrued expenses and other current liabilities	314,870	322,668	581,122	744,674

(1) Loss provision for accidental fire represents potential compensation to brand partners for damaged goods owned by them and under the Group's warehousing and fulfillment services, and legal and other expenses relating to an accidental fire that occurred at a third-party warehouse in Shanghai on October 29, 2019 and was settled in May 2020.

12. Income tax

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands is not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Under the Hong Kong Inland Revenue Ordinance, the Company's 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%.

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), the Group's subsidiaries and VIE domiciled in the PRC are subject to 25% statutory rate. According to Guoshuihan 2009 No. 203, if an entity is certified as a "High and New Technology Enterprise" ("HNTE"), it is entitled to a preferential income tax rate of 15%. The VIE obtained the certificate of HNTE in 2017 and therefore was entitled to the preferential tax rate of 15% for the years ended December 31, 2017, 2018 and 2019. As of June 30, 2020, VIE has submitted its HNTE renewal application to in-charge authority for the following three years, and expects to obtain the approval by the end of 2020. In addition, a subsidiary obtained the certificate of HNTE in 2018 and therefore has been entitled to the preferential tax rate of 15% since the year ended December 31, 2018.

The current and deferred portion of income tax expenses included in the consolidated statements of operations, which were substantially attributable to the Group's PRC subsidiaries are as follows:

	For Year Ended December 31,		
	2017	2018	2019
	RMB	*RMB*	*RMB*
Current tax	57,642	87,897	87,930
Deferred tax	(3,391)	(22,944)	(16,786)
Income tax expense	54,251	64,953	71,144

The income tax expenses for the six months ended June 30, 2019 and 2020 are RMB19,622 (unaudited) and RMB32,517, respectively.

Reconciliation of the differences between the PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2017, 2018 and 2019 are as follows:

	For Year Ended December 31,		
	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
Statutory income tax rate	25.00%	25.00%	25.00%
Non-deductible share-based compensation	5.50%	5.65%	5.40%
Effect on tax rates in different tax jurisdiction	(1.91)%	(1.62)%	(0.77)%
Effect of preferential tax rate on assessable profits/losses of subsidiary incorporated in the PRC	(2.24)%	2.72%	(1.29)%
Tax incentives relating to research and development expenditure	(5.16)%	(12.45)%	(12.22)%
Other non-deductible expenses and nontaxable income, net	0.09%	0.05%	1.37%
Changes in valuation allowance	(0.78)%	–%	2.94%
Effective income tax rate	20.50%	19.35%	20.43%

The effective income tax rate for the six months ended June 30, 2019 and 2020 are 16.45% (unaudited) and 21.33%, respectively.

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

	As of December 31,		
	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
Deferred tax assets:			
Logistics expenses accruals	511	540	1,462
Inventory write-down	7,889	10,904	18,279
Allowance for other investments	1,557	1,557	2,563
Promotion expenses accruals	1,628	253	81
Salary and welfare payable	447	3,678	2,325
Professional fee accruals	1,202	1,289	1,774
Marketing expenses accruals	1,265	815	1,560
Allowance for doubtful accounts	368	379	2,621
Provision for compensation	–	–	5,319
Other accruals	1,153	2,108	1,201
Net operating loss carry forward	5,833	22,872	33,839
Less: valuation allowance	(6,325)	(6,314)	(16,547)
Deferred tax assets, net	15,528	38,081	54,477
Deferred tax liabilities:			
Identifiable intangible assets	(3,710)	(3,319)	(2,929)
Deferred tax liabilities	(3,710)	(3,319)	(2,929)

The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more likely than not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. The Group provided a valuation allowance for the deferred tax assets relating to the future benefit of net operating loss carry forwards and other deferred tax assets of certain subsidiaries as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively, as management is not able to conclude that the future realization of such deferred tax assets are more likely than not. The amount of tax loss carried forward was RMB23,857, RMB145,766, RMB217,264 and RMB202,508 as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively, for the Group's certain subsidiaries.

Movement of the valuation allowance is as follows:

	For Year Ended December 31,		
	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
Balance as of January 1	8,397	6,325	6,314
Addition	–	–	10,233
Reversal	(2,072)	(11)	–
Balance as of December 31	6,325	6,314	16,547

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC should be treated as residents for EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%. The Group is not subject to any other uncertain tax position.

As of December 31, 2017, 2018, 2019 and June 30, 2020, retained earnings of Company's subsidiaries and VIE located in PRC were RMB238,137, RMB508,746, RMB755,854 and RMB907,252, respectively. The Company's PRC subsidiaries' retained earnings have been and would be permanently reinvested to the PRC subsidiaries. Therefore, no deferred tax liability upon dividend withholding tax was accrued.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a consolidated VIE. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax free and the enterprise expects that it will ultimately use that means. The Group completed its feasibility analysis on a method, which the Group will ultimately execute if necessary to repatriate the undistributed earnings of the VIE without significant tax costs. As such, the Group does not accrue deferred tax liabilities on the earnings of the VIE given that the Group will ultimately use the means.

13. Redeemable non-controlling interests

In October 2019, the Group obtained control over BCJ through an agreement with CJ O Shopping whereby CJ O Shopping waived its participating rights in exchange for a put option (Note 9(a)). The put option allows CJ O Shopping to sell its 49% equity interest in BCJ to the Group for a consideration of approximately RMB9.2 million in the event that BCJ's net assets is less than RMB3,000. As the redemption of the non-controlling interests by CJ O Shopping is outside of the control of the Group, the non-controlling interests are accounted for as redeemable non-controlling interests in the Group's consolidated balance sheets. The put option has nil value due to the remote possibility of occurrence of the redemption event. It is not subject to separate accounting and recognized as part of the redeemable non-controlling interests. The redeemable non-controlling interests were initially recorded at the acquisition date fair value and subsequently adjusted to the maximum redemption amount according to the agreement with CJ O Shopping.

	RNCI
	RMB
Balance as of January 1, 2019	–
RNCI recognized on business acquisitions	8,473
RNCI share of earnings	781
Balance as of December 31, 2019	9,254
RNCI share of losses	(69)
Balance as of June 30, 2020	9,185

14. Ordinary Shares

For the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, 6,713,415, 6,423,214, 2,978,728, 1,668,525 (unaudited) and 1,058,917 share options and restricted share units were exercised and vested to Class A ordinary shares.

15. Net income per share

Basic and diluted net income per share for each of the years presented are calculated as follows:

	For Year Ended December 31,			For Six Months Ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*
Numerator:					
Net income	209,130	269,771	281,891	100,624	122,728
Net (income) loss attributable to noncontrolling interests	(264)	(59)	187	447	(787)
Net income (loss) attributable to redeemable noncontrolling interests	–	–	(781)	–	69
Net income attributable to ordinary shareholders of Baozun Inc.	208,866	269,712	281,297	101,071	122,010
Net income per share attributable to ordinary shareholders of Baozun Inc.					
Basic	1.29	1.59	1.62	0.58	0.69
Diluted	1.19	1.50	1.57	0.57	0.68
Net income per ADS (1 ADS represents 3 Class A ordinary shares) attributable to ordinary shareholders of Baozun Inc.					
Basic	3.87	4.76	4.85	1.75	2.08
Diluted	3.56	4.51	4.72	1.70	2.04
Shares (Denominator):					
Weighted average number of ordinary shares					
Basic	162,113,815	169,884,906	173,937,013	173,310,034	176,119,872
Diluted	176,115,049	179,327,029	178,932,010	178,689,642	179,464,775

As of December 31, 2017, 2018, 2019 and June 30, 2020, the Group had 542,953, 471,648, 465,000 and 396,250 outstanding share options and restricted shares respectively, which were excluded from the computation of diluted earnings per share as their effects would have been anti-dilutive.

In applying the if-converted method, the conversion of the convertible senior notes was not assumed as the effect is anti-dilutive.

12,692,328 ordinary shares issued to ADS Borrowers are not considered as outstanding and which were excluded from the computation of basic and diluted earnings per share.

16. Related party transactions

The table below sets forth the major related parties and their relationships with the Group during the three years ended December 31, 2019 and six months ended June 30, 2020:

Name of related parties	Relationship with the Group
Alibaba Group Holding Limited ("Alibaba Group")(1)	Parent company of Alibaba, one of the Group's ordinary shareholders
Ahead (Shanghai) Trade Co., Ltd. ("Ahead")	Subsidiary of Softbank, one of the Group's ordinary shareholders
Shanghai Baozun-CJ E-commerce Co., Ltd. ("BCJ")(2)	Equity method investee of the Group
Beijing Pengtai Baozun E-commerce Co., Ltd. ("Pengtai")	Equity method investee of the Group
Shanghai Misako E-commerce Limited ("Misako")	Equity method investee of the Group
Hangzhou Juxi Technology Co., Ltd. ("Juxi")	Equity method investee of the Group
Jiangsu Shanggao Supply Chain Co., Ltd. ("Shanggao")	Equity method investee of the Group
Signify Lighting Technology (Shanghai) Co., Ltd. ("Signify")	Equity method investee of the Group
Shanghai Kewei E-commerce Co., Ltd. ("Kewei")	Equity method investee of the Group

(1) AJ (Hangzhou) Network Technology Company Limited ("AJ") is a subsidiary of Alibaba Group, thus its transactions and balances with the Group are included in the transactions and balances with Alibaba as presented below.

(2) The Group obtained the controlling interest in BCJ and consolidated the investee in October 2019.

(a) The Group entered into the following transactions with its related parties:

	For Year Ended December 31,			For Six Months Ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Marketing and platform service fees paid to Alibaba Group	351,482	518,299	655,614	250,567	274,117
Logistic service fees paid to Alibaba Group	13,052	79,182	92,887	41,637	40,554
Warehousing service revenue generated from Alibaba Group	5,105	23,698	21,539	15,100	1,165
Store operation service revenue generated from Alibaba Group	117	10	33	5	8,871
Commission fee paid to Alibaba Group	1,591	666	543	246	225

	For Year Ended December 31,			For Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB	*RMB*	*RMB*	*RMB* *(unaudited)*	*RMB*
Logistic service revenue from BCJ	–	3,157	2,700	1,276	–
Purchase of goods from Pengtai	–	13,994	–	–	–
IT service revenue generated from Pengtai	–	–	4,053	2,442	1,667
Store operation service revenue generated from Misako	–	68	1,239	779	–
Outsourcing labor cost paid to Juxi	–	–	7,326	–	5,204
Store operation service revenue generated from Signify	–	–	–	–	4,622
Store operation service revenue generated from Kewei	–	–	–	–	799
Marketing and platform service fees paid to Kewei	–	–	–	–	80
Logistic service fees paid to Shanggao	–	–	–	–	2,767

(b) The Group had the following balances with its related parties:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	*RMB*	*RMB*	*RMB*
Amounts due from Alibaba Group	17,611	19,571	17,218	14,298
Amounts due from BCJ	4,551	1,573	–	–
Amounts due from Misako	–	68	1,273	–
Amounts due from Pengtai	–	–	832	924
Amounts due from Signify	–	–	–	14,511
Amounts due from Kewei	–	–	–	799
Amounts due from Ahead	66,633	11,058	–	–
Amounts due to Alibaba Group	–	–	887	478
Amounts due to Pengtai	–	13,994	–	–
Amounts due to Juxi	–	–	5,909	4,386
Amounts due to Shanggao	–	–	–	937

Amounts due from Alibaba Group consisted of receivables of RMB17,611, RMB19,571, RMB17,218 and RMB14,298 to be collected from Alibaba Group for deposits paid to Alibaba and warehousing services provided by the Group as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively. Amounts due to Alibaba Group consisted of payables of RMB887 and RMB478 for commission fee to Alibaba Group by the Group as of December 31, 2019 and June 30, 2020, respectively.

Amounts due from Ahead consisted of receivables from Ahead for amounts collected by Ahead on behalf of the Group. The Group entered into agency agreements with Ahead, under which Ahead is designated by the Group to collect payment for its service to certain brand partners. In connection with the agency agreements, amounts to be collected by Ahead on behalf of the Group as of December 31, 2017, 2018, 2019 and June 30, 2020 were RMB66,633, RMB11,058, nil and nil, respectively. Since August 2019, all transactions and balances with Ahead have been transferred to AJ according to the updated agreement. See Note 16(1).

Amounts due from BCJ consisted of receivables of RMB4,551 and RMB1,573 to be collected from BCJ for daily operation payment on behalf of BCJ and logistic services provided by the Group as of December 31, 2017 and 2018. Since October 2019, BCJ has been accounted for as a consolidated subsidiary of the Group (Note 13).

Amounts due from Misako consisted of receivables of RMB68, RMB1,273 and RMB nil to be collected from Misako for store operation services provided by the Group as of December 31, 2018, 2019 and June 30, 2020, respectively.

Amounts due from Pengtai consisted of receivables of RMB832 and RMB924 for IT services provided by the Group as of December 31, 2019 and June 30, 2020. Amounts due to Pengtai consisted of payables of RMB13,994 for products purchased by the Group as of December 31, 2018.

Amounts due from Signify consisted of receivables of RMB14,511 for store operation services provided by the Group and receivables from returned products as of June 30, 2020.

Amounts due from Kewei consisted of receivables of RMB799 for store operation services provided by the Group as of June 30, 2020.

Amounts due to Juxi consisted of payables of RMB5,909 and RMB4,386 for labor outsourcing services provided to the Group as of December 31, 2019 and June 30, 2020.

Amounts due to Shanggao consisted of payables of RMB937 for logistic services provided to the Group as of June 30, 2020.

17. Commitments

Other Commitment

The Group entered into license agreements with a brand partner to obtain the right and obligation to distribute, sell, advertise and promote specific products of the brand. The future aggregate minimum payments under the license agreement are as follows:

	As of December 31, 2019
	RMB
2020	55,835
2021	56,235
2022	82,069
2023	120,823
2024 and after	197,372
Total other commitment	512,334

	As of June 30, 2020
	RMB
July to December, 2020	39,300
2021	57,070
2022	83,286
2023	122,616
2024 and after	200,301
Total other commitment	502,573

As of June 30, 2020, the Group was obligated to pay RMB2,000 for certain investment in equity investee and expected to make the capital injection within two years.

18. Share-Based Compensation

Share incentive plan

On January 28, 2010, Shanghai Baozun's board of directors approved the Share Incentive Plan of Shanghai Baozun (the "Shanghai Baozun Plan"). In conjunction with the Redomiciliation in 2014, the Group adopted the 2014 Share Incentive Plan ("2014 Plan") to replace Shanghai Baozun Plan. The board of directors have authorized issuance of up to 20,331,467 shares. The awards granted and outstanding under the Shanghai Baozun Plan will survive and remain effective and binding under the 2014 Plan.

On May 5, 2015, the Board of Directors of the Company approved 2015 Share Incentive Plan ("2015 Plan") with issuance of up to 4,400,000 shares initially. In July 2016, the Group made amendment to the 2015 plan that if on December 31 of each year beginning in 2016, the unissued shares reserved under the 2015 Plan account for less than 1.5% of the then total issued and outstanding shares on an as-converted basis, then on the first day of the next calendar year, the number of shares reserved for future issuances under the 2015 Plan shall be automatically increased to 1.5% of the then total issued and outstanding shares. The shares that may be issued pursuant to the awards under the 2015 Plan are Class A ordinary shares. The term of the option under 2014 Plan and 2015 Plan shall not exceed ten years from the date of grant.

On March 3, 2016, the exercise price of 2,098,111 outstanding options, previously granted from February 6, 2015 to August 14, 2015, held by 38 employees were reduced from US$2.87 and US$1.5 to US$1.5 and US$0.0001, with other terms unchanged. In connection with the above modifications, incremental compensation cost was measured as the excess of the fair value of the modified options over the fair value of the original options immediately before their terms were modified, measured based on the share price and other pertinent factors at the modification date. The total incremental cost associated with the modification was RMB3,432, of which RMB956 was recognized immediately for the options vested prior to the date of the modification and the remaining share-based compensation charges of RMB2,476 will be recognized over a weighted-average period of 2.89 years.

On February 23, 2017, the exercise price of 1,306,743 outstanding options, previously granted on February 6, 2015, held by 6 employees were reduced from US$1.5 to US$0.0001, with other terms unchanged. In connection with the above modifications, incremental compensation cost was measured as the excess of the fair value of the modified options over the fair value of the original options immediately before their terms were modified, measured based on the share price and other pertinent factors at the modification date. The total incremental cost associated with the modification was RMB12,347, of which RMB6,321 was recognized immediately for the options vested prior to the date of the modification and the remaining share-based compensation charges of RMB6,026 were recognized over a weighted-average period of 1.95 years.

No more share option was granted during the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020.

Share options

A summary of option activity during the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value of Options
		RMB		*RMB*
Outstanding, as of January 1, 2017	12,852,197	2.2	7.2	
Granted	–			
Forfeited	(148,965)			
Expired	–			
Exercised	(5,126,034)			
Outstanding, as of December 31, 2017	7,577,198	1.1	6.3	498,852
Granted	–			
Forfeited	(278,165)			
Expired	–			
Exercised	(4,278,483)			
Outstanding, as of December 31, 2018	3,020,550	1.0	5.6	199,056
Granted	–			
Forfeited	(2,804)			
Expired	–			
Exercised	(770,559)			
Outstanding, as of December 31, 2019	2,247,187	0.6	4.7	171,306
Vested and expected to vest as of December 31, 2019	2,247,187	0.6	4.7	171,306
Exercisable as of December 31, 2019	2,247,187	0.6	4.7	171,306
Granted	–			
Forfeited	(4)			
Expired	–			
Exercised	(78,324)			
Outstanding, as of June 30, 2020	2,168,859	0.6	4.1	195,074
Vested and expected to vest as of June 30, 2020	2,168,859	0.6	4.1	195,074
Exercisable as of June 30, 2020	2,168,859	0.6	4.1	195,074

The aggregate intrinsic values of options exercised during the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020 were RMB269,696, RMB476,741, RMB75,373, and RMB5,647, respectively. All the options have been vested as of June 30, 2020.

Restricted share units

Under the 2015 Plan, the Group granted 1,548,747, 1,186,014, 1,124,109, and 2,186,283 restricted share units to certain employees and senior management during the year ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020 respectively, which would vest immediately or over 1 to 4 years. A summary of the restricted share units activities under the 2015 Plan during the years ended December 31, 2019 and the six months ended June 30, 2020 is presented below:

	Number of restricted share units	**Weighted-Average Grant-Date Fair Value**
		RMB
Outstanding, as of January 1, 2017	6,846,530	17.83
Granted	1,548,747	
Vested	(1,587,381)	
Forfeited	(653,277)	
Outstanding, as of December 31, 2017	6,154,619	24.91
Granted	1,186,014	
Vested	(2,144,731)	
Forfeited	(724,086)	
Outstanding, as of December 31, 2018	4,471,816	40.09
Granted	1,124,109	
Vested	(2,208,169)	
Forfeited	(867,201)	
Outstanding and unvested, as of December 31, 2019	2,520,555	61.05
Granted	2,186,283	
Vested	(980,593)	
Forfeited	(97,148)	
Cancelled	(8,479)	
Outstanding and unvested, as of June 30, 2020	3,620,618	70.89

The fair value of restricted share units granted, which was determined based on the fair value of the Company's ordinary shares on the grant date.

As of June 30, 2020, there was RMB178,733 in unrecognized compensation costs, net of estimated forfeitures, related to unvested restricted share units, which is expected to be recognized over a weighted-average period of 2.60 years.

The Group recorded compensation expenses of RMB58,231, RMB75,862, RMB75,183, RMB35,436 (unaudited) and RMB49,657 for both share options and restricted share units for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively, which were classified in the accompanying consolidated statements of operations as follows:

	For Year Ended December 31,			**For Six Months Ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB	*RMB*	*RMB*	*RMB (unaudited)*	*RMB*
Fulfillment	2,904	5,831	9,839	5,051	5,344
Sales and marketing	20,363	28,346	22,209	10,321	17,326
Technology and content	13,822	13,445	9,817	5,368	7,700
General and administrative	21,142	28,240	33,318	14,696	19,287
	58,231	75,862	75,183	35,436	49,657

19. Employee Benefit Plans

The Group's PRC subsidiaries are required by law to contribute a certain percentages of applicable salaries for retirement benefits, medical insurance benefits, housing funds, unemployment and other statutory benefits. The PRC government is directly responsible for the payments of such benefits. The Group contributed RMB92,138, RMB156,154, RMB207,056, RMB99,114 (unaudited) and RMB66,887 for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively, for such benefits.

20. Restricted Net Assets

Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises and local enterprises, the Company's entities in the PRC must make appropriation from after-tax profit to non-distributable reserve funds as determined by the Board of Directors of the Company.

The Company's subsidiaries and VIE, in accordance with the China Company Laws, must make appropriation from their after-tax profit (as determined under PRC GAAP) to non-distributable reserve funds including (i) statutory surplus fund, (ii) statutory public welfare fund and (iii) discretionary surplus fund. Statutory surplus fund is at least 10% of the after-tax profit as determined under PRC GAAP until such reserve has reached 50% of the registered capital of the respective company. Appropriation of the statutory public welfare fund and discretionary surplus fund are made at the discretion of the Company.

The appropriation to these reserves by the Group's PRC entities were RMB8,656, RMB18,183, RMB35,075 and nil, for the years ended December 31, 2017, 2018, 2019 and six months ended June 30, 2020. The accumulated reserves as of December 31, 2017, 2018, 2019 and June 30, 2020 were RMB15,025, RMB33,208, RMB68,283 and RMB68,283 respectively.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, additional paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIE. As of June 30, 2020, the aggregate amounts of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries and VIE in the Group not available for distribution was RMB1,863,446.

21. Business Combination in 2017

In July 2017, the Group acquired 51% equity interest of an entity that focused on cosmetics E-commerce industry to expand its brand partners. The details of consideration, fair value of assets acquired and liabilities assumed are as follows:

	RMB
Consideration	
Cash	17,850
Noncontrolling interests	17,150
Less: Fair value of current net assets acquired	10,126
Identified intangible assets	15,621
Deferred tax liabilities from intangible assets	(3,905)
Goodwill	13,158

The Group engaged a third-party valuation firm to assist with the valuation of assets acquired and liabilities assumed in this business combination. The excess of the total cash consideration over the fair value of the net assets acquired was recorded as goodwill which is not amortized and not tax deductible. The acquisition was not material to the consolidated financial statements for the year ended December 31, 2017, as such proforma results of operations are not presented. Goodwill resulted from this acquisition was assigned to one single reporting unit.

22. Subsequent Event

The Group has evaluated subsequent events through September 18, 2020, which is the date when the consolidated financial statements were issued.

Potential impact of coronavirus ("COVID-19")

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impacts to the Group's operations. Temporary closure of offices, travel restrictions or suspension of business operations of the Group's brand partners and customers have negatively affected the demand for its services and the goods sold in the stores or the platform it operates. The Group's results of operation and consolidated financial position of 2020 will be adversely affected to a certain extent, which will depend on the future developments of the outbreak, including new development concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable.

23. Dividends

No Dividends have been paid or declared by the Company during the Track Record Period.

24. Subsequent financial statements

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to June 30, 2020 and up to the date of this report.