'VIPSHOP: MORE EVIDENCE OF MANIPULATION'

Update May 29, 2015

1 RECOMMENDATION

Mithra Forensic Research initiated coverage on Vipshop Holdings [VIPS] with a Strong Sell rating on May 12, 2015. Since that time a number of commentators and researchers have provided opinion, alternate views and other insights, but we have seen no evidence or additional information that refutes contradicts or explains the myriad of serious and disturbing anomalies Mithra identified in VIPS' financial statements.

In fact, we have uncovered additional information which supports our belief that VIPS is significantly manipulating and misrepresenting its accounts. We therefore reiterate our Strong Sell rating with a target price of $2.75.

2 VIPS MISREPRESENTED REVENUES AT LEFENG BY AT LEAST $250M

In our original report published on SeekingAlpha here, we called attention to the fact that VIPS had misrepresented to equity analysts and the media the amount of revenues generated by a recently acquired company, Lefeng. We are aware of the fact that Lefeng was restructured prior to the sale, but VIPS' disclosures state that Lefeng was a wholly-owned subsidiary of Ovation and that the primary changes during the restructure were movements of domains, employees and some liabilities, so we expect revenues post-restructuring to be broadly in line with those pre-restructuring.

2.1 REVENUES, LESS THAN $65M OR MORE THAN $315M?

In its 2014, 20-F, VIPS announced that Chinese government notification requirements for M&A transactions are triggered when both Chinese companies involved in a transaction have revenues in excess of $65.1M. According to VIPS, revenues from Lefeng, which solely operates in China, were less than $65.1M threshold and thus exempted from the reporting requirement:

- 'We believe that the turnover of acquired business of Lefeng in 2013 is less than RMB400 million (US$65.1 million) within China and have not sought clearance from the Ministry of Commerce, but we cannot assure you that the Ministry of Commerce will not take a view contrary to ours.

Yet in a report dated July 7, 2014, Standard Chartered analysts Wendy Huang and Betty Dai, reported that Lefeng had net GMV of RMB 3,000, principal GMV of RMB 1,500 and a net loss of RMB 150. They cited the source of this information as "Companies".

It is our belief that since this information was reported in a July 2014 report, the financial data would have been provided to the analysts by VIPS management, not the prior Lefeng management as the Lefeng acquisition was finalized in February 2014.

Also, we believe that since Lefeng had been a private company prior to the acquisition, detailed information such as net GMV, principal GMV, net loss and margin would have been provided by management as it is not likely to be widely accessible in the public domain.

Figure 119: Jumei – Operational data comparison

	Jumei	Lefeng	VIPS
MAU (March 2014, mn)	23	8	37
Annual active customers (mn)	11	NA	9
Repeat purchase rate (2013)	89%	NA	93%
Average order size (RMB)	162	300	205
Net GMV (2013, RMB mn)	4,899	3,000	12,503
YoY growth rate	150%	150%	201%
Principal GMV, third-party branded products (2013, RMB mn)	2,478	1,500	NA
YoY growth rate	98%	88%	NA
GPM (2013, rebased against net GMV)	24%	30%	24%
Net income/loss (2013, RMB mn)	95	(150)	314

Note: An 'active' customer is one that has made at least one purchase in the period.
Source: Companies

Standard Chartered Research, *"China: Internet E-commerce in Transformation",* p. 83.

The figures in the table suggest that Lefeng had revenues of around $315M in 2013 [Principal GMV + (Marketplace GMV * 25%)]. VIPS reported that it paid consideration of $132M for 75% of Lefeng, which implies a company valuation of $177M. If Lefeng had revenues of $315M, then VIPS acquired Lefeng cheaply at a Price-to-Sales ratio of 0.56 times. A number of media outlets reported that Lefeng would report $149M in 2014 revenues and then determined that VIPS paid a reasonable Price-to-Sales ratio of 1.2 times since VIPS was trading at 2.37 times its sales in February 2014.

2.2 Blame it on the Analysts

We have heard from one source who was invited to attend a call with VIPS management after the release of our report. Our source indicated, that when the topic of the revenues at Lefeng was broached, VIPS stated:

(i) that they believe that they had paid a fair price for the asset and
(ii) that the reporters and the Standard Chartered analysts probably misunderstood the figures that they discussed at the time of the July 2014 report.

With respect to valuation, our concern has never been with related to valuation. Our concern has always been that the company has misrepresented the size of the acquisition. Our belief is that VIPS, like other Asian frauds before it, is seeking excuses to immediately spend large amounts of cash which can be funneled to Related Parties as a source of funds for fake sales.

We are inclined to believe that the media mistakenly pulled the $149M in sales from the press release announcing the purchase and supply framework agreement totaling $149M; it relates to the minimum level of Ovation revenues expected post the sale of Lefeng.

However, we believe that the Standard Chartered analysts were supplied with the $315M figure by VIPS management and they did not, in fact, misunderstand management's conversation. We attempted to reach Ms. Huang and Ms. Dai, but they are no longer employed by Standard Chartered and current contact information was not available.

2.3 NOT THE FIRST TIME WE HAVE SEEN THIS NUMBER.

Ideally, we would love to hear the analyst's response to VIPS' claims, but we found additional support for our view that the Standard Chartered revenue numbers are correct. Just four months before the sale of Lefeng to VIPS, a senior executive of Lefeng was featured in a 4-page testimonial for Dell Technology. Details about Lefeng were highlighted throughout the brochure. One especially noteworthy sentence, discusses Lefeng's 2012 revenues of $310M. See circled text below.

Lefeng.com is a business-to-consumer online cosmetics retail site in China with 12 million registered users. As well as selling well-known brands, Lefeng.com has around 20 in-house products, which accounted for 40 percent of its US$310 million in sales in 2012.

"We know that over 50 percent of our customers are repeat buyers and that they trust our site to deliver a great shopping experience. We now have a very stable platform that we know will meet our project sales figures as consumers continue to grow."

Zhou Qiuye, Operations and Maintenance Director, Lefeng.com

With severe spikes in visitor numbers during promotion periods and with sales figures predicted to double in the next couple of years, Lefeng.com required a high performance platform that would scale to meet the visitor volume needed to reach its projected sales figures.

The online cosmetic market has exploded in recent years, with a record 200 percent growth compared to 18.7 percent for traditional retail outlets. This places immense pressure on online beauty cosmetics retailers fighting for market share to deliver greater value and a more outstanding user experience than their competitors. Lefeng.com recognized that it needed to optimize its infrastructure to continually improve the performance of its cosmetics website. With millions of users on the site and tight margins, delays can have a severe impact on user experience.

During sale periods, Lefeng.com experiences a 10-fold increase in traffic to the site and the approaching annual Peach Blossom Festival promotion would place greater extreme pressure on the site from millions of unique visitors. Lefeng.com needed a solution to support and respond to spikes in activity. Zhou Qiuye, Operations and Maintenance Director, Lefeng.com, says, "With millions of registered users and a huge advertising campaign in place prior to the promotion, we estimated we would need to scale the infrastructure by at least 15 times the existing capacity to meet our predicted sales numbers."

Consumer value delivered through $326,000 in savings

The company considered solutions from IBM, HP, and Dell. In developing its proprietary software, Lefeng.com wanted a partner with an open standards approach to infrastructure platform. As well as this, critical to the partner selection was the price-performance ratio of each solution, service capability and response time. "We were looking for a long-term partner who adhered to open standards and would deliver high performance at the best price-performance ratio. After rounds of performance and stability testing, by working with Dell Consulting Services we found that the virtualized Dell infrastructure delivered stability and the high-density memory and fast processing required for our software applications, while saving space," says Zhou. Lefeng.com deployed Dell PowerEdge R720 servers with Intel® Xeon® processor E5-2600 family and Dell PowerEdge R710 servers with Intel Xeon processor 5500 and 5600

Technology at work

Services

- Dell Consulting Services
- Dell Support Services
  - Dell ProSupport with Mission Critical 4-hour Onsite Response

Hardware

- Dell Latitude 10 tablets
- Dell OptiPlex 7010 desktops
- Dell PowerEdge R720 servers with Intel® Xeon® processor E5-2600 family
- Dell PowerEdge R710 servers with Intel Xeon processor 5500 and 5600 series
- Dell PowerVault MD3200 arrays
- Dell Precision T1650 workstations

2

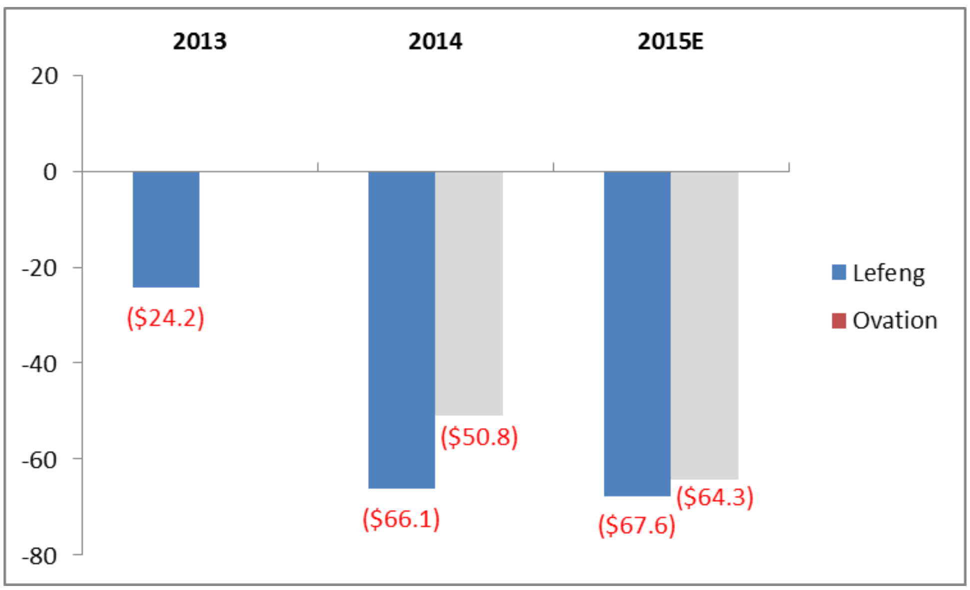
VIPS management misrepresented to the market that Lefeng was a $315M revenue company, when, in fact, Lefeng generates revenue of no more than $65M. VIPS clearly overpaid for the asset and likely used the transaction as a means to divert funds to related parties.

3 VIPS IS LIKELY PUSHING SIGNIFICANT AMOUNTS OF OPERATING EXPENSES OFF-BALANCE-SHEET

Misrepresenting revenue at Lefeng is only part of the manipulation. Recent trends in profitability—or more accurately—loss, suggest that costs allocated to Lefeng and possibly Ovation have ramped up substantially and it is our view these additional costs reflect an over-allocation of operating expenses to Lefeng and Ovation.

We used figures reported by Standard Chartered for Lefeng's 2013 loss; profit/loss information for Ovation in 2013 has not been disclosed. For 2014, and 2015E losses, we relied upon data reported in the respective Income Statements to derive losses:

- "Share of Loss at Affiliates" which is predominantly Ovation was divided by 23% to calculate total loss at Ovation;
- "Loss Attributable to Non-Controlling Interests" which relates to Lefeng, was divided by 25% to derive the total loss at Lefeng.



It is clear from this chart that Losses at Lefeng have grown dramatically since 2013. While we have no data on Ovation's profitability/losses in 2013, it is clear that losses here are growing as well based upon 2014 actual and 1Q 2015 annualized data.

3.1 Where is the money going?

VIPS would argue that it is necessary to spend significant amounts to develop the businesses, but both companies have been operational for some time and the magnitude of the cost increases suggests that expenses relate to more than just building up the businesses. If VIPS is to be believed, Lefeng, per company disclosure is a company with less than $65M in revenue. Does it make sense to incur losses of $133M (2014 and 2015E) on an established business with less than $65M in revenues.

We believe that VIPS is using a bit of accounting gimmickry at Lefeng and Ovation so that it can keep the listed entity outperforming analysts' expectations. VIPS directly owns 75% of Lefeng, and as such, VIPS consolidates Lefeng's financials with its own. VIPS subtracts the portion that relates to the Non-Controlling Interest (Ovation's share of Lefeng) from its Income Statement. VIPS owns only 23% of Ovation and consequently does not consolidate Ovation's figures. It does however get to record its non-controlling interest in profits and losses in Ovation on its income statement. Hence every dollar of profit at Lefeng, results in $0.75 profit at VIPS and every dollar of profit at Ovation, results in $0.23 at VIPS.

But presently Lefeng and Ovation are reporting losses. If VIPS wanted to push costs off of the listed company's income statement, it could over allocate costs that to Lefeng and Ovation. Of course, the bigger benefit will be when VIPS pushes costs onto Ovation as VIPS only records $0.23 in loss for every additional $1.00 of loss at Lefeng.

3.2 Off-Balance Sheet Expenses at Work—Fulfillment

Based upon the calculations we discussed above, the total losses and entity apportionment of losses would be as follows:

(millions) M&A Transaction	2014 Total Annual Loss	Attributable to VIPS	Attributable to Ovation	*(millions)* M&A Transaction	2015E Total Annual Loss	Attributable to VIPS	Attributable to Ovation
75% of Lefeng	(66.1)	(49.6)	(16.5)	75% of Lefeng	(67.6)	(50.7)	(16.9)
23% of Ovation	(50.8)	(11.7)	(39.1)	23% of Ovation	(64.3)	(14.8)	(49.5)
Total	(117.0)	(61.3)	(55.7)	Total	(131.9)	(65.5)	(66.4)

The losses that are attributable to VIPS will remain on VIPS reported financials. Only 23% of the losses at Ovation will show up on VIPS income statement. If we assume that in 2014 Ovation reported only those revenues that VIPS guaranteed to transact totaling $149M then we can use the revenue and reported loss to derive expenses at Ovation in 2014 of $205M ($149M +$55.7M). Similarly expenses at Ovation in 2015 would approximate $216M using the same assumption.

It is our view that VIPS is using these off-balance sheet maneuvers to show continued decreases in its Operating Expenses. Based upon our estimates, VIPS' fulfillment expenses in 2013 and 2014 accounted for 11.6% and 9.8% of revenues respectively. For VIPS to achieve the decrease in fulfilment expenses as a percent of revenues that it reports, it would only have needed to allocate an additional $40M in fulfillment expense to Ovation. The rate of the increases in the losses and the magnitude of loss at both Lefeng and Ovation suggest that it is likely that VIPS is transferring operating expenses to Ovation.

Losses at Lefeng and Ovation have increased dramatically over the last two years. The losses at Lefeng are nearly 3x what they were prior to the acquisition. We believe, VIPS may be pushing Operating Expenses, such as Fulfillment costs, onto investee companies.

4 CFO Donghao Yang had not revealed a Directorship at Synutra International

While foreign private issuers as defined by the SEC, are not subject to all of the proxy rules that US firms are, we found it odd that VIPS' CFO Donghao Yang has failed to mention his Directorship at Synutra International at all in VIPS filings.

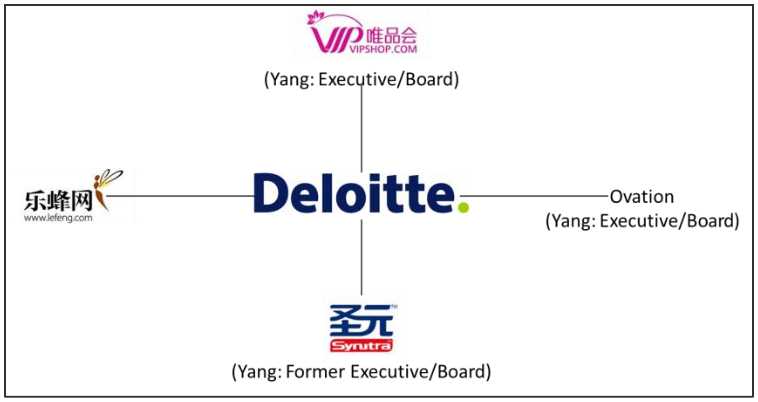
Various members of the VIPS board reference specific current or past directorships, but as part of his VIPS filings, Yang has not. Yang has mentioned that he was, prior to his tenure at VIPS, CFO of Synutra and had worked in that role from June 2010 to September 2011. However, immediately upon resigning from Synutra, Yang assumed the role a Director on Synutra's Board and served on Synutra's audit committee until last year.

Synutra which manufactures and distributes baby formula has survived two tainted product scandals—melamine (2008) and breast development in infant girls (2010). The company's share price during Yang's tenure dropped from around $20 to $4 a share as a result of these scandals. When Yang resigned as CFO in 2011, Synutra failed to appoint a new CFO and was forced to report a material deficiency in its 2012 financial statements.

- Deloitte Touche Tohmatsu CPA Ltd., our independent registered public accounting firm, also expressed an adverse opinion in its attestation report on our internal control over financial reporting because of this material weakness.

Yang continues to serve on the Board of Synutra. Our concern here is not around Yang's qualifications or professional judgment, but more around yet another instance of coziness between VIPS and its auditors, Deloitte & Touche. In our earlier report we expressed concerns about Deloitte, not only because it had failed to identify large recent frauds at its clients Longtop Financial and China MediaExpress, but also because Deloitte seemed to be conflicted in its role as auditor and advisor to multiple entities negotiating acquisition terms.

We believe that the VIPS / Yang relationship is so important to Deloitte Touche, that the auditor's independence could be an issue of genuine concern.



- Donghao Yang as CFO of Synutra was a client of Deloitte;
- Donghao Yang as Audit Committee member of Synutra frequently interacted with Deloitte;
- Deloitte served as auditor to Lefeng, Ovation and VIPS prior to the investments completed in February 2014—all companies where Donghao Yang serves on the Board;
- Deloitte continues to serve as auditor to VIPS and conducts the assessment of internal controls.

<u>Our analysis shows that Deloitte has earned $8.7 million in fees from just VIPS and Synutra over the last 4 years.</u>

Audit and related fees paid to Deloitte					
	2011	2012	2013	2014	Total
VIP	1,132,000	733,000	990,000	1,801,000	4,656,000
Synutra	830,412	994,811	1,080,000	1,121,284	4,026,507
Total	1,962,412	1,727,811	2,070,000	2,922,284	8,682,507

It would not be too far-fetched to speculate that if there are areas of concern or contention over the financials (say, with respect to accounting for revenue gross versus net or acquisition terms), Deloitte would be especially keen to give Yan the benefit of the doubt when disagreements on accounting principles and estimates arose.

4.1 Donghao Yang's graduation year from Nankai University as reported in SEC filings for Synutra and VIPS show a date of 1993, whereas as his Harvard Business School Alumni page, updated in 2013, shows a date of 1989

We are not sure why, but Yang has very consistently reported a graduation date from Nankai University in 1993. See biographical entries from FY 2014 20-F's for VIPS:

- Mr. Donghao Yang has served as our chief financial officer since August 2011. Mr. Yang has held senior executive and managerial positions in various public and private companies, including serving as the chief finance officer of Synutra International Inc. (NASDAQ: SYUT) from May 2010 to August 2011, as the chief financial officer of Greater China of Tyson Foods, Inc. (NYSE: TSN) from March

2007 to April 2010, as a finance director of Asia Pacific of Valmont Industries, Inc. (NYSE: VMI) from October 2003 to March 2007, and as a director of China Minmetals Brazil Holding Limited from January 1999 to April 2001. Mr. Yang received an MBA degree from Harvard Business School in 2003 and a bachelor's degree in international economics from Nankai University in 1993.Here is the Harvard entry with personal details redacted. We note that undergraduate information is self-reported, but we are perplexed as to why Yang notes 1989 as a graduation date here.

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5 We have heard from a source in contact with suppliers that VIPS must get approval from suppliers for any price changes on goods; this is further evidence of a true agency arrangement and further confirms our view that VIPS should be reporting Net Revenues, not Gross Revenues.

We do not typically contact suppliers or sources for our reports, but as part of our research, a source reached out to us to inform us that VIPS does indeed need to follow supplier guidance on pricing. We highlighted in our report of May 12, 2015, that there are a number of key determinants that need to be assessed before applying Gross Revenue reporting. If VIPS is indeed, getting direction on pricing from suppliers, this would support our argument that VIPS should be reporting Net Revenues. Other determinants arguing for Net Revenues include that fact that VIPS:

- Does not have General inventory risk;
- Does not change the products;
- Cannot substitute suppliers once a customer has purchased a product;
- Is not involved in determining product specifications;
- And has no credit risk.

Professor Paul Gillis who authors the chinaaccountingblog wrote an article that can be found on Seeking Alpha here and on his website here. His article is a good summation of the key issues and while he concludes the article with the suggestion that time will tell, he goes a step further in the comment section of his blog. Gillis suggests that if the SEC reviews this matter, Mithra's argument is more than likely to prevail:

> "The SEC reads this blog, and I expect they will be probing further into the arguments the company makes for gross. If they decide to look at the issue, I'd bet 70/30 they go for net. "

6 MITHRA IS AN INDEPENDENT RESEARCH COMPANY; WE HAVE NO ASSOCIATION WITH J CAPITAL OR ANY HEDGE FUNDS.

There has been considerable energy expended over the last few weeks spent on trying to understand the relationship between Mithra Forensic to J Capital or to various hedge funds. Let me make it absolutely clear that Mithra Forensic Research is not affiliated with, owned by or acting on behalf of J Capital or any hedge fund. Our research is supported by our own analysis and relies solely upon VIPS' own reported financial statement data.

6.1 THE TIMING OF THE RELEASE OF THE MITHRA AND J CAPITAL REPORTS WAS A COINCIDENCE

We identified VIPS as a potential manipulator based upon its 6-K filing in February 2015. However, we decided to wait for additional clarifying information which we expected would be provided in the more comprehensive 20-F. VIPS released its completed annual statements on April 24, 2015. Unsurprisingly, VIPS' 20-F provided little clarification; in fact, it contained disclosures that gave us even greater concerns about the integrity of VIPS' accounts. We spent the subsequent two weeks completing our report and issued our findings as soon as we could. The fact that our report and the J Capital report were issued within days of each other is sheer coincidence. I would therefore encourage investors to evaluate the content of both reports and conduct their own due diligence of the issues raised in each report

6.2 WHERE IS THE DILIGENCE?

When we issued the May 12th report, the Wall Street Journal capitulated immediately, stating that this is "all too difficult for retail investors to parse", while other media commentators spent their time investigating Mithra or trying to find evidence of a non-existent conspiracy. Not one equity analyst on the earnings call that was held one day after our report was released raised a single question regarding any of the detailed findings in the Mithra report, despite the fact that the report is solely focused on the detailed and complex financial and accounting issues which we would expect them to understand and interrogate. Each of the analysts was provided copies of our report via email at least one day prior to the call. Over the last several days, most equity analysts have piled on with reiterated buy ratings on the basis of comfort provided by VIPS in one-on-one meetings with the analysts. VIPS's response has been to regurgitate much of its previously disclosed and woefully inadequate accounting policies pabulum.

6.3 MITHRA'S OBJECTIVES

As we disclose in our profile and on our website, we have conviction in our research and take positions in advance of releasing our reports. Clearly one of our key objectives is to make a return on our investment. In that regard, we are no different than anyone else in the market-short or long. But the return is not our only objective.

Our quantitative models and qualitative research suggest that VIPS is a large-scale financial statement manipulator. We sincerely believe that misrepresentation and fraud should be rooted out of the financial markets, so we intend to pursue this campaign until we have evidence that suggests VIPS is not manipulating or misrepresenting its results.

It is our sincere hope, that the additional findings contained in this update receive the consideration, analytical rigor and challenge that they deserve, not for Mithra's benefit but for the benefit of the people whose savings and pensions are being diverted to this seemingly unrivaled company.

In the end, VIPS, the analysts, the media and investors may well decide that they do not agree with our findings. We are ok with that. But we do ask that they discuss, debate, support, refute, or challenge the issues. Rigorous due diligence conducted by the various market participants is the least investors deserve, particularly given the fact that VIPS is a $15B NYSE-listed company, with virtually all of its operations, majority shareholders and management team in China—a country where the regulatory, audit and legal frameworks provide little redress to non-Chinese victims of fraud as recent history can attest.