

LightInTheBox Holding Co., Ltd.  
Form 20-F  
April 29, 2019  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2018**

**OR**

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

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

Commission file number 001-35942

# LightInTheBox Holding Co., Ltd.

(Exact name of Registrant as specified in its charter)

## Cayman Islands

(Jurisdiction of incorporation or organization)

**Tower 2, Area D, Diantong Square**

**No. 7 Jiuxianqiao North Road**

**Chaoyang District, Beijing 100015**

## People's Republic of China

(Address of principal executive offices)

**Jian He, Chief Executive Officer**

**Telephone: +(86-10) 5692-0099**

**Facsimile: +(86-10) 5908-0270**

**Tower 2, Area D, Diantong Square**

**No. 7 Jiuxianqiao North Road**

**Chaoyang District, Beijing 100015**

## People's Republic of China

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value \$0.000067 per share American Depositary Shares, each representing two Ordinary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

---

## Edgar Filing: LightInTheBox Holding Co., Ltd. - Form 20-F

### Table of Contents

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 134,456,369 ordinary shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Edgar Filing: LightInTheBox Holding Co., Ltd. - Form 20-F

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

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

---

Table of Contents**Table of Contents**

	<b>Page</b>
<u>PART I</u>	1
<u>ITEM 1.</u>	1
<u>ITEM 2.</u>	1
<u>ITEM 3.</u>	1
<u>ITEM 4.</u>	27
<u>ITEM 4A.</u>	51
<u>ITEM 5.</u>	51
<u>ITEM 6.</u>	65
<u>ITEM 7.</u>	72
<u>ITEM 8.</u>	75
<u>ITEM 9.</u>	75
<u>ITEM 10.</u>	76
<u>ITEM 11.</u>	82
<u>ITEM 12.</u>	83
<u>PART II</u>	84
<u>ITEM 13.</u>	84
<u>ITEM 14.</u>	84
<u>ITEM 15.</u>	85
<u>ITEM 16A.</u>	86
<u>ITEM 16B.</u>	86
<u>ITEM 16C.</u>	86
<u>ITEM 16D.</u>	87
<u>ITEM 16E.</u>	87
<u>ITEM 16F.</u>	88
<u>ITEM 16G.</u>	88
<u>ITEM 16H.</u>	88
<u>PART III</u>	88
<u>ITEM 17.</u>	88
<u>ITEM 18.</u>	88
<u>ITEM 19.</u>	89

Table of Contents

**CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F**

Unless where the context otherwise requires, references in this annual report on Form 20-F to:

- ADRs are to the American depositary receipts, which, if issued, evidence the ADSs;
- ADSs are to the American depositary shares, each of which represents two ordinary shares;
- China and the PRC are to the People's Republic of China, excluding, for the purposes of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- shares or ordinary shares are to our ordinary shares, par value \$0.000067 per share;
- North America are to, for the purposes of this annual report only, the United States and Canada;
- Our number of customers are to the number of customer accounts that have purchased at least once from our company during the relevant period;
- repeat customers are to customers who have purchased products from us more than once since our inception;
- RMB and Renminbi are to the legal currency of China;
- we, us, our company and our are to LightInTheBox Holding Co., Ltd., its consolidated subsidiaries and its variable interest entities, or VIEs, including Lanting Huitong, Lanting Gaochuang, Chongqing Xuxi E-commerce Co., Ltd., or Chongqing Xuyi, Jiaixng Xuyang Logistics Co., Ltd., or Jiaxing Xuyang, Shenzhen Xuyi International Logistics Co., Ltd., or Shenzhen Xuyi, and Shanghai Ouku, the subsidiary of Lanting Huitong. Lanting Huitong and Lanting Gaochuang are collectively referred to as the Lanting VIEs. Chongqing Xuyi, Jiaxing Xuyang and Shenzhen Xuyi are collectively referred to as the Ezbuy VIEs; and

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

Our reporting and functional currency is the U.S. dollar. In addition, this annual report also contains translations of certain foreign currency amounts into U.S. dollars for the convenience of the reader. Unless otherwise stated, all translations of Renminbi into U.S. dollars were made at RMB6.8755 to \$1.00, the noon buying rate on December 31, 2018 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. On April 12, 2019, the noon buying rate for Renminbi was RMB6.7039 to \$1.00.

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and its VIEs subsidiary. All inter-company transactions and balances are eliminated upon consolidation. The financial results of Ezbuy Holding Co., Ltd, its subsidiaries and its VIEs have been included in the Company's consolidated financial statements from the date of acquisition on December 10, 2018.

### FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains statements of a forward-looking nature. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the safe harbor provision under Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, potential, other similar expressions. These forward-looking statements relate to, among others:

- our growth strategies;
- our future business development, results of operations and financial condition;
- trends in online consumer retailing;
- trends in Chinese manufacturing;
- the expected benefits of our acquisitions or investments, including the 2018 acquisition of Ezbuy Holding Co., Ltd., or Ezbuy;
- consumer and economic dynamics in the markets we serve;

- expected changes in our revenues and certain cost and expense items; and
- assumptions underlying or related to any of the foregoing.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

You should read these statements in conjunction with the risks disclosed in Item 3.D. Risk Factors of this annual report and other risks outlined in our other filings with the Securities and Exchange Commission, or the SEC. Moreover, we operate in an emerging and evolving environment. New risks may emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we have referred to in this annual report, completely and with the understanding that our actual future results may be materially different from what we expect.



Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data.**

The selected consolidated statements of operations data for 2016, 2017 and 2018, and the selected consolidated balance sheet data as of December 31, 2017 and 2018 have been derived from our audited consolidated financial statements included elsewhere in this annual report on Form 20-F. Our selected consolidated statements of operations data for 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2014, 2015 and 2016 has been derived from our audited consolidated financial statements not included in this annual report on Form 20-F. Our audited consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The following selected consolidated financial data for the periods and as of the dates indicated are qualified by reference to and should be read in conjunction with our consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects, both of which are included elsewhere in this annual report.

Our historical results for any prior period do not necessarily indicate our results to be expected for any future period.

	Year Ended December 31,				
	2014	2015	2016	2017	2018
	(U.S. dollars in thousands, except per share data)				
<b>Selected Consolidated Statements of Operations Data</b>					
Revenues					
Product sales	\$ 382,282	\$ 312,332	\$ 262,083	\$ 293,951	\$ 216,407
Services	125	11,431	30,404	25,930	11,132
<b>Total revenues</b>	<b>382,407</b>	<b>323,763</b>	<b>292,487</b>	<b>319,881</b>	<b>227,539</b>

Edgar Filing: LightInTheBox Holding Co., Ltd. - Form 20-F

Cost of revenues					
Product sales	236,982	196,753	160,566	189,816	156,326
Services	113	10,601	28,371	24,445	10,017
<b>Total cost of revenues</b>	<b>237,095</b>	<b>207,354</b>	<b>188,937</b>	<b>214,261</b>	<b>166,343</b>
<b>Gross profit</b>	<b>145,312</b>	<b>116,409</b>	<b>103,550</b>	<b>105,620</b>	<b>61,196</b>
Operating expenses					
Fulfillment	23,926	22,419	17,052	17,291	15,127
Selling and marketing	105,186	91,614	61,090	68,891	50,508
General and administrative	46,916	41,535	34,492	29,605	33,042
<b>Loss from operations</b>	<b>(30,716)</b>	<b>(39,159)</b>	<b>(9,084)</b>	<b>(10,167)</b>	<b>(37,481)</b>
<b>Net loss</b>	<b>(29,987)</b>	<b>(39,407)</b>	<b>(8,723)</b>	<b>(9,548)</b>	<b>(59,602)</b>
Weighted average number of shares used in calculating net loss per ordinary share - basic and diluted					
	99,001,560	94,970,054	127,180,801	137,641,562	134,495,549
Net loss per ordinary share - basic and diluted	(0.30)	(0.41)	(0.07)	(0.07)	(0.44)
<b>Other Selected Consolidated Financial Data</b>					
Gross Margin (1)	38.0%	36.0%	35.4%	33.0%	26.9%

(1) Gross margin represents gross profit as a percentage of total revenues.

Table of Contents

	2014	2015	Year Ended December 31, 2016		2017	2018
			(U.S. dollars in thousands)			
<b>Selected Consolidated Balance Sheet Data</b>						
Cash and cash equivalents	\$ 75,358	\$ 30,901	\$ 89,517	\$ 68,441	\$ 38,808	
Term deposit	5,802					
Inventories	9,845	11,261	10,587	11,841	8,481	
Total current assets	99,156	49,741	113,738	100,984	55,557	
Total assets	104,467	55,493	118,201	108,737	103,587	
Total current liabilities	61,284	57,616	52,365	53,267	110,236	
Total liabilities	61,284	57,616	52,365	53,267	111,392	
Total shareholders equity / (deficit)	43,183	(2,123)	65,836	55,470	(7,805)	

**B. Capitalization and Indebtedness**

Not Applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors****Risks Related to Our Business and Industry**

*We face a number of challenges in the operation and expansion of our business.*

We face risks and difficulties frequently experienced by companies in our industry, including our potential inability to:

- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brands, protect our reputation and develop customer loyalty;

- acquire customers cost-effectively;
- manage our expanding operations and offerings, including the integration of any future acquisitions;
- anticipate and adapt to changing conditions in online retail industry globally and in China;

Table of Contents

- anticipate and adapt to changes in government regulations, industry consolidation, technological developments and other significant competitive and market dynamics;
- manage risks related to intellectual property rights;
- upgrade our technology or infrastructure to support increased user traffic and product offerings; and
- manage relationships with a growing number of suppliers and couriers.

***The online retail industry is intensely competitive and we may not compete successfully against new and existing competitors, which may materially and adversely affect our results of operations.***

The market for products sold on our websites and mobile applications is intensely competitive. Customers have many choices online and offline, including global, regional and local retailers. For example, our current and potential competitors include global and regional online retailers such as other China-based global online retail companies, retail chains, specialty retailers, and sellers on online marketplaces. In the future, we may also face competition from new entrants, consolidations of existing competitors or companies spun off from our larger competitors.

We face a variety of competitive challenges, including sourcing products efficiently, pricing our products competitively, maintaining optimal inventory levels, selling our products effectively, maintaining the quality of our products, anticipating and responding quickly to changing customer demands and preferences, building our customer base, conducting effective marketing activities and maintaining favorable recognition of our brands, websites and products. In addition, as we further develop our business, we will face increasing challenges to compete for and retain high quality suppliers. If we cannot properly address these challenges, our business and prospects could be materially and adversely affected.

Some of our current and potential competitors have significantly more established brands or greater financial, sourcing, marketing, operational or other resources than we do. In addition, other online retailers may be acquired by, receive investments from or enter into strategic relationships with well-established and well-financed companies or investors, which would help enhance their competitive positions. Certain of our competitors may be able to secure more favorable terms with suppliers, devote greater resources to marketing campaigns, adopt more aggressive pricing or inventory policies and devote substantially more resources to infrastructure development. Increased competition may reduce our gross and operating margins, market share and brand recognition. We may not be able to compete successfully against current and future competitors, and competitive pressures may materially and adversely affect our business, financial condition and results of operations.

***Our failure to quickly identify and adapt to changing industry conditions may have a material and adverse effect on our business, financial condition and results of operations.***

## Edgar Filing: LightInTheBox Holding Co., Ltd. - Form 20-F

The online and offline retail industries are subject to changing consumer preferences and industry conditions. This is particularly true with respect to products such as apparel, small accessories and gadgets, electronics and communication devices and home garden products. Consequently, we must stay abreast of emerging fashion, lifestyle, design, technological and other industry and consumer trends. This requires timely collection of market feedback, accurate assessments of market trends, deep understanding of industry dynamics and flexible manufacturing capabilities.

We must also maintain relationships with suppliers who can adapt to fast-changing consumer preferences. If one or more of our existing suppliers cannot meet these requirements effectively, we will need to source from new suppliers, which may be costly and time-consuming. We may overestimate customer demand, face increased overhead expenditures without a corresponding increase in product sales and incur inventory write-downs, which will adversely affect our results of operations.

If we cannot offer appealing products on our websites or our mobile applications, our customers may purchase fewer products from us, stop purchasing products from us, visit our websites or our mobile applications less often or stop visiting our websites or our mobile applications all together. Our reputation may also be negatively impacted. If we do not anticipate, identify and respond effectively to consumer preferences or changes in consumer trends at an early stage, we may not be able to generate our desired level of product sales. Failure to properly address these challenges may materially and adversely affect our business, financial condition and results of operations.

***Any failure to manage our growth or execute our strategies effectively may materially and adversely affect our business and prospects.***

We anticipate spending significant resources on marketing, supply chain management, fulfillment infrastructure, technology and other business expenditures as our business continues to grow. We will need to continue to expand, train, manage and motivate our workforce and manage our relationships with customers, suppliers, wholesalers and third-party service providers. Our historical growth and expansion has placed, and will continue to place, a significant strain on our management and resources. If we are not successful in managing our growth or executing our strategies effectively, our business may be materially and adversely affected.

Table of Contents

As part of our growth strategy, we intend to broaden the range of our product offerings, which will require us to introduce new products, work with different suppliers and address the needs of different kinds of customers. We may incur significant costs in trying to expand our offerings into these new products, or fail to introduce new products that meet anticipated customer demand. We also face risks related to the recent acquisition of Ezbuy, in terms of the integration of our operations and the definition of and execution of our business strategy following this acquisition. See also We may engage in acquisitions that may present integration challenges, disrupt our business and lower our operating results and the value of your investment and We will incur integration costs in connection with our acquisition of Ezbuy, which may have an adverse impact on our results of operations.

***We have incurred net losses since our inception and experienced negative cash flow from operating activities in the past. We may continue to incur net losses and experience negative cash flow from operating activities and, as a result, we may need to obtain additional capital in the future.***

We incurred net loss attributable to our ordinary shareholders of \$8.7 million, \$9.5 million and \$59.6 million in 2016, 2017 and 2018, respectively, and we may continue to incur losses in the future. We experienced negative cash flow from operating activities of \$15.3 million, \$14.8 million and \$29.9 million in 2016, 2017 and 2018, respectively, and we may continue to experience negative cash flows in the future. In addition, our consolidated current liabilities exceed current assets in the amount of \$54.7 million as of December 31, 2018, and we may continue to experience net current liabilities in the future.

We expect our costs and expenses, especially our selling and marketing expenses, to increase as we expand our operations. Our ability to achieve and maintain profitability and positive cash flow from operating activities depends on various factors, including but not limited to, the acceptance of our products by customers, the growth and maintenance of our customer base, our ability to control our costs and expenses and grow our revenues and the effectiveness of our selling and marketing activities. We may not be able to achieve or sustain profitability or positive cash flow from operating activities, and if we achieve positive operating cash flow, it may not be sufficient to satisfy our anticipated capital expenditures and other cash needs. As such, we may not be able to fund our operating expenses and expenditures and may be unable to fulfill our financial obligations as they become due, which may result in voluntary or involuntary dissolution or liquidation proceeding of our Company and a total loss of your investment.

We have financed our operations to date primarily with proceeds from the sale of equity securities. As of December 31, 2018, we had approximately \$39.8 million in cash and cash equivalents and restricted cash. We expect that our existing cash and restricted cash will be sufficient to fund our capital requirements for at least the next 12 months. However, we may need to raise additional capital to fund our continued operations. We cannot be certain that additional funding will be available on acceptable terms, or at all. Our failure to obtain sufficient capital on acceptable terms, or at all, could significantly harm our business, financial condition and prospects.

***Products manufactured by our suppliers may be defective or inferior in quality or infringe on the intellectual property rights of others, which may materially and adversely affect our business and our reputation.***

We source our products from over 4,800 selected active suppliers in China. Some of the products provided by our suppliers may be defective or of inferior quality. Such products may also infringe on the intellectual property rights of third parties. Defective, inferior or infringing products may adversely affect consumer perceptions of our company or the products we sell, which may lead to negative reviews that could harm our reputation. Although we have adopted internal policies and guidelines during our procurement process to make sure our suppliers and products we offer do not infringe on third-party intellectual property rights, we may receive, from time to time, notices claiming that our products have infringed on the intellectual property rights of others. If we determine that products sold on our websites and mobile applications are infringing on intellectual property rights, we will remove them from our websites and mobile applications. We are also involved in several intellectual

property rights claims related to certain products sold on our website and mobile applications. Although we are not currently a party to any claim, legal proceeding or investigation which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations. We cannot assure you that future claims will not have a material impact on our business and financial condition.

Irrespective of the validity of such allegations or claims, we may experience lost product sales or incur significant costs and efforts in defending against or settling such allegations or claims. If there is a successful claim against us, we may be required to refrain from further sale of the relevant products or pay substantial damages, and we may be unable to recoup our losses from our suppliers. In addition, since our products are sold to customers in many different countries and regions, we are subject to numerous different legal regimes governing mandatory product standards, intellectual property and tort. Such regimes may impose burdensome legal obligations, which may increase the costs and complexity of compliance. Regardless of whether we successfully defend against such claims, our reputation could be severely damaged. Any of these events could have a material adverse effect on our business, financial condition and results of operations .

*We may have difficulties managing our marketing efforts and may face increased competition in our marketing efforts, which could materially and adversely affect our business and growth prospects.*

We may have difficulty managing our marketing efforts as our business expands. Currently, we actively manage millions of keywords in 25 languages and display advertising on over 800,000 publisher sites. In addition, we actively engage with our users on social networking sites. However, given the rapid changes of Internet advertising, customer preferences, the development of new forms of Internet marketing and the different forms of social media in each of our target countries and regions, we may have difficulties adapting our marketing techniques quickly and we may not sustain our customer acquisition rates, which may have a material and adverse effect on our business prospects.



Table of Contents

We are highly dependent on our continuing relationships with our affiliate websites and major search engines around the world. Our advertising publishing partners for our affiliate marketing programs may cease, suspend or change the business terms in which we work with them. Search engines may introduce new products and features or modify their page ranking algorithms, which may make our marketing efforts more challenging and costly, or reduce our web traffic. They may also modify existing features or interfere with our ability to advertise on their platforms or to change the business terms on which we advertise. The occurrence of any such event could materially and adversely affect our ability to acquire new customers and thus negatively impact our business, growth prospects, financial condition and results of operations. Furthermore, as search engine marketing is based on a bidding system, other online advertisers may outbid us on our chosen advertising keywords, which may cause us to increase our marketing expenses and adversely affect our results of operations.

***Our expansion may lower our profit margins and materially and adversely affect our business, financial condition and results of operations.***

We have traditionally focused on the sale of apparel, electronics and communication devices and derived a large percentage of our total revenues from such products. Following the acquisition of Ezbuy, we have expanded our product offerings into a number of other product categories, such as home garden and sports and outdoor and penetrated into new geographic markets, such as South and Southeast Asia. This has required improvements to our technology and logistics infrastructure and increased marketing spending. We intend to continue to expand our product offerings and increase the variety and customization options of the products we offer in each of our categories and in each of our geographic regions.

These new businesses involve risks and challenges different from the sale of our traditional products. The introduction of other products imposes additional complications in logistics, supply chain management and marketing. For example, home garden products introduced new complications due to shipping heavier and more fragile products. Furthermore, we may have to deal with customers in demographics that we have previously not targeted. We also face inventory risks and other challenges when addressing changing customer demands and preferences. We may introduce new products, which may increase the risks of inventory write-downs and financing costs. As a result, we may not be able to compete successfully in these new markets, our costs may increase and our revenues and profit margins may decrease, all of which may materially and adversely affect our business, financial condition and results of operations.

***We may not be able to successfully adopt new technologies or adapt our websites, mobile applications and systems to customer requirements or emerging industry standards, which may materially and adversely affect our business, financial condition and results of operations.***

The Internet and the online retail industry are characterized by rapid technological evolution. Changes in user and customer preferences and the emergence of new industry standards and practices may render our existing proprietary technologies and systems obsolete. To remain competitive, we must enhance our technology infrastructure and adapt to the evolving online retail landscape. Not only do we need to constantly improve our user experience through personal computers, but we also need to enhance our user experience through mobile phones, handheld tablets or other devices. As new platforms and new devices are continually being released, it is difficult to predict the problems we may encounter to reach customers. If we are unable to adapt to changing market conditions or customer requirements in a cost-effective and timely manner, whether for technical, financial or other reasons, our business prospects, financial condition and results of operations may be materially adversely affected.

***We use third-party couriers to deliver products and their failure to provide high quality delivery services or our failure to effectively manage our relationships with them may materially and adversely affect our business, financial condition and results of operations.***

We use a network of third-party courier companies to deliver parcels to over 140 countries and territories. Interruptions to or failures in these third parties' shipping services could prevent the timely or successful delivery of our products or the products of small business customers with whom we provide logistics services. These interruptions may be due to unforeseen events such as inclement weather, natural disasters, import or export restrictions, or labor unrest, which may be beyond our control or the control of these third-party couriers. For example, our distribution network is sensitive to fluctuation in oil prices, which may result in increased shipping costs from third-party courier companies, which may, in turn, increase the prices of our products and services and render our products and services less competitive.

If we do not deliver products to our customers in a timely manner or deliver damaged products, our customers may refuse to accept our products and become less confident in us. Many of our bestselling products, such as apparel, may be especially sensitive to delivery delays given that they are often purchased in anticipation of a specific date. Other products, such as electronics and fast fashion apparel for women, have a limited shelf-life and become quickly outdated. Certain products may not be delivered through certain couriers or may not be delivered to certain countries or regions. As a result, certain products may not be deliverable to certain customers or they may not be deliverable at a sufficiently low cost. In addition, if we are unable to ensure the delivery of products of the small businesses in which we provide logistics services to in a timely manner or such products became damaged during delivery, our business customers may no longer utilize services that we provide. Our third-party couriers may also offer us less favorable terms, which may increase our shipping cost and materially and adversely affect our financial condition and results of operations. Furthermore, if our third-party couriers terminate their cooperation with us or do not renew their agreements with us on terms acceptable to us upon the expiry of the existing agreements, we may not be able to find alternative couriers to provide delivery services in a timely and reliable manner, or at all, which may materially and adversely affect our financial condition and results of operations. We may not be able to promptly and successfully deliver products to customers, which may result in the loss of their business and a material and adverse effect on our financial condition and reputation.

Table of Contents

*Our websites, mobile applications or product offerings may not receive positive market recognition and wide acceptance, which may materially and adversely affect our business, financial condition and results of operations. In addition, negative publicity, including negative Internet and blog postings from anonymous sources, about our company, our business, our management or our products could have a material adverse effect on our business, our reputation and the trading price of our ADSs.*

Maintaining and enhancing the level of customer visits to and volume of customer purchases on our websites and mobile applications are critical to our ability to compete effectively. We intend to enhance the recognition of our websites and mobile applications and product offerings by expending significant time and resources on marketing and customer relations. However, we may not be able to achieve our goals in a short period of time and our marketing efforts may not achieve expected results.

Such efforts may also be jeopardized if we fail to maintain high product quality, fulfill orders for popular items, maintain and enhance high customer experience, provide high quality customer services, or offer efficient and reliable delivery. In addition, any negative publicity or disputes regarding our products, company, management or affiliated individuals or other online retailers in China may also materially and adversely affect our websites or branded products. For example, certain products sold on our websites were the subject of intellectual property right disputes, we have had difficulties receiving customer orders due to disruptions to the fiber optic cable connections out of China and there have been certain negative online reviews of our company, our websites and some of the products we sell. Furthermore, if our customer service representatives fail to satisfy the individual needs of customers, our reputation and customer loyalty could be negatively affected and we may lose potential or existing customers and experience a decrease in product sales. Failure to successfully promote and maintain positive customer experience and awareness of our websites and mobile applications, damage to our reputation or brands or loss of customer confidence could materially and adversely affect our results of operations and financial condition.

Factors important to maintaining and increasing the sales volumes of goods purchased from our websites and mobile applications include:

- our ability to maintain a convenient and reliable user experience as customer preferences evolve and as we expand into new products and new business lines;
- our ability to increase repeat purchases by customers;
- our ability to increase purchase by mobile application users;
- our ability to provide high quality customer services;
- our ability to offer products of sufficient quality at competitive prices;
- our ability to manage new and existing technologies and sales channels;
- our ability to increase website awareness among existing and potential customers through various means of marketing and promotional activities;
- our ability to assure our customers of the security of our websites and mobile applications for online purchases; and
- the efficiency, reliability and service quality of our logistics and payment service providers.

Any failure to properly manage these factors could negatively impact our websites and mobile applications. Such failures may materially and adversely affect our business, financial condition and results of operations.

In addition, we have from time to time received negative publicity, including negative Internet and blog postings from anonymous sources, and anonymous allegations about our company, our business, our management and our products. We cannot assure you that we will not receive similar negative publicity, negative Internet or blog postings or anonymous allegations in the future. Any such negative publicity, negative Internet or blog postings or anonymous allegations, regardless of veracity, may have a material adverse effect on our business, our reputation and the trading price of our ADSs.

***Failure to protect confidential information of our customers and our network against security breaches could damage our reputation and substantially harm our business and results of operations.***

A significant challenge to online commerce and communications is the secure transmission of confidential information over public networks. Currently, product orders and payments for products we offer are made through our websites and mobile applications, except for certain orders and payments related to the sale of our products to customers in China. In addition, some online payments for our products are settled through third-party electronic platforms. In such transactions, maintaining complete security for the transmission of confidential information, such as our customers' credit card information, personal information and billing addresses, on our websites and mobile applications are essential to maintain customer confidence. We have no control over the security measures of third-party electronic payment service providers. We also hold certain other private information about our customers, such as their names, addresses, phone numbers and browsing and purchasing records.

Table of Contents

We may not be able to prevent third parties, such as hackers or criminal organizations, from stealing information provided by our customers to us through our websites and mobile applications. Furthermore, our third-party logistics and payment service providers may accidentally or purposefully disclose information about our customers. We may also accidentally disclose such information due to employee negligence.

Significant capital and other resources may be required to protect against security breaches or to alleviate problems caused by such breaches. The methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Even if we successfully adapt to and prevent new security breaches, any perception by the public that online commerce and transactions are becoming increasingly unsafe could inhibit the growth of e-commerce and other online services generally, which, in turn, may reduce the number of purchase orders we receive. Any compromise of our security or third-party service providers' security could materially and adversely affect our reputation, business, prospects, financial condition and results of operations.

***We derive our revenues from products that represent discretionary spending and changes in global macroeconomic conditions may decrease the demand for our products and adversely affect our growth strategies and business prospects.***

Many of our products may be viewed as discretionary items rather than necessities. Consequently, our results of operations tend to be sensitive to changes in macroeconomic conditions that impact consumer discretionary spending. During an economic downturn similar to the economic downturn in 2008 and 2009, customers may be less willing to purchase products that we offer. Challenging macroeconomic conditions also impact our customers' ability to obtain consumer credit. It is difficult to predict household spending patterns in light of the global economic challenges. Other factors, including consumer confidence, employment levels, interest rates, tax rates, consumer debt levels and fuel and energy costs, could reduce consumer spending or change consumer purchasing habits.

***We rely on third-party suppliers for our products and any deterioration in the quality of those products or services provided by such suppliers may materially and adversely affect our business, financial condition and results of operations.***

We source our products from selected third-party suppliers. Our continued growth will increase our product demands, which will require us to increase our ability to source products of commercial quality on reasonable terms.

Our suppliers may:

- cease selling merchandise to us on terms acceptable to us;
- fail to deliver goods that meet customer demands;
- encounter financial difficulties;
- terminate our relationships or enter into agreements with our competitors;
- have economic or business interests or goals that are inconsistent with ours and take actions contrary to our

instructions, requests or objectives;

- be unable or unwilling to fulfill their obligations, including their obligations to meet our production deadlines, quality standards and product specifications;
- fail to expand their production capacities to meet our demands;
- encounter raw material or labor shortages or increases in raw material or labor costs, which may impact our procurement costs; or
- engage in other activities or employment practices that may harm our reputation.

Furthermore, agreements with our suppliers do not typically establish a fixed price for the purchase of products. As a result, we may be subject to price fluctuations based on changes in our suppliers' businesses, cost structures or other factors. The occurrence of any of these events, alone or together, may have a material and adverse effect on our business, financial condition and results of operations. In addition, our agreements with some of our suppliers do not contain non-compete clauses that would prevent those suppliers from producing similar products for any other third party. Any breakdown in our supplier relationships or our failure to timely resolve disputes with or complaints from our suppliers, could materially and adversely affect our business, financial condition and results of operations.

*Changes in international trade policies and international barriers to trade, or the emergence of a trade war, may have an adverse effect on our business and expansion plans.*

Changes to trade policies, treaties and tariffs in the jurisdictions in which we operate, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations. The U.S. administration under President Donald Trump has advocated greater restrictions on trade generally and significant increases on tariffs on certain goods imported into the United States, particularly from China and has recently taken steps toward restricting trade in certain goods. For example, in March 2018, the United States began to enforce a 25% tariff on steel and a 10% tariff on aluminum imports. In addition, on June 15, 2018, President Trump announced that the United States would impose a 25% tariff on certain Chinese exports, valued at approximately US\$34 billion, to be implemented beginning July 6, 2018. President Trump further stated on June 22, 2018 that the United States would impose additional 10% tariffs on another US\$200 billion worth of Chinese imports if China retaliates against the U.S. tariffs announced on June 15. On July 20, 2018, President Trump indicated a willingness to have the United States impose tariffs on substantially all U.S. imports from China, valued at approximately US\$500 billion in 2017. The current U.S. administration has also created uncertainty with respect to, among other things, existing and proposed trade agreements, free trade generally, and potential significant increases on tariffs on goods imported into the U.S., particularly from Mexico, Canada and China. It is possible that further measures will be announced. As we are a leading cross-border e-commerce platform selling goods to customers globally, any unfavorable changes in international trade policies and international barriers to trade, such as capital controls or tariffs, may affect the demand for our products and services, impact the competitive position of our products or prevent us from being able to sell products in certain countries.

Table of Contents

In addition, China and other countries have retaliated in response to new trade policies, treaties and tariffs implemented by the United States. For example, in response to the United States tariff plan on steel and aluminum, China announced planned tariffs on various goods imported from the United States, including a 15% tariff on U.S. steel pipes, fresh fruit and wine, and a 25% tariff on pork and recycled aluminium. Further, China has announced plans to introduce tariffs on goods imported from the United States in response to the additional U.S. tariffs of June 15, 2018. Such policy retaliations could ultimately result in further trade policy responses by the United States and other countries, and result in an escalation leading to a trade war, which would have an adverse effect on manufacturing levels, trade levels and industries, including logistics, retail sales and other businesses and services that rely on trade, commerce and manufacturing. Any such escalation in trade tensions or a trade war, or news and rumors of the escalation of a potential trade war, could have a material and adverse effect on our business, results of operations and trading price of our ADSs.

***We plan to expand our warehouses and distribution network. If we are not able to manage such expansion successfully, we may suffer a material and adverse effect on our business, financial condition and results of operations.***

We believe our strategically located warehouses and our distribution network are essential to our success. We intend to expand our warehouses and distribution network in China and internationally to accommodate more purchase orders and provide better coverage of our target markets. We cannot assure you that we will be able to lease suitable facilities at commercially acceptable terms in accordance with our expansion plan. In addition, the expansion of our warehouses and distribution network will put pressure on our managerial, financial, operational and other resources, especially for warehouses outside of China. If we are unable to secure new facilities or effectively manage our expanded logistics operations and control increasing costs, our growth potential, results of operations and business could be materially and adversely affected. Furthermore, we have entered into arrangements with certain suppliers under which the suppliers store their products in our warehouses. Such products are referred to in this annual report as co-location inventory. We record these products as inventory only when all liabilities and rights of ownership of the products are passed on to us upon the confirmation of orders by our customers. However, we bear the costs and expenses incurred related to the storage of co-location inventory in our warehouses, which increases our costs and expenses and reduces our profit and the warehousing spaces available for our own inventory. In addition, we are responsible for loss of and damages to such products in certain circumstances prior to the confirmation of orders by our customers, such as in the event of theft, but are not responsible for any loss of and damages to such products as a result of a force majeure event.

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

We source our products primarily from third-party suppliers in China. With the rapid development of the Chinese economy, the cost of labor has risen and may continue to rise. Our results of operations will be materially and adversely affected if the labor costs of our suppliers increase. In addition, even if labor costs do not increase, we and our suppliers may not be able to find a sufficient number of workers to produce the products we offer.

Furthermore, pursuant to the new PRC labor contract law that became effective in 2008 and was amended on December 28, 2012, employers in China are subject to stricter requirements when signing labor contracts, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. The new labor contract law and related regulations impose greater liabilities on employers and may significantly increase the costs of workforce reductions. If we or our suppliers decide to significantly change or reduce our workforces, the new labor contract law could adversely affect our ability to make such changes in a timely, favorable and effective manner. Any of these events may adversely affect our business, financial condition and results of operations.

*The proper functioning of our information infrastructure is essential to our business and any failure to maintain the satisfactory performance, security and integrity of our information infrastructure may materially and adversely affect our business, reputation, financial condition and results of operations.*

Our revenues from product sales depend on the number of visitors who purchase products on our websites and mobile applications and the volume of orders we fulfill. Telecommunications failures, errors encountered during system upgrades or system expansions, failures related to imbedded social networking functions, computer viruses, attempts to harm our systems, or any inability to maintain, develop and upgrade our existing information infrastructure may damage our hardware and software systems and database, interrupt access to our websites and mobile applications, disrupt our business activities, reveal confidential customer information, slow response times, degrade customer service, increase shipping and handling costs or delay order fulfillment, which may individually or collectively materially and adversely affect our business, reputation, financial condition and results of operations. For example, disruptions in the fiber optic cables used to connect computers located in the United States and China rendered us temporarily unable to receive orders placed by customers, which caused delays in our ability to process and deliver products to customers.



Table of Contents

Our technology infrastructure may not function properly as a result of third-party action, employee error, malfeasance or otherwise and resulting in unauthorized access to our customers' data. In addition, our domain names may not point to our IP address correctly due to malfeasance or neglect by our hosting solutions or domain name registries. For example, they may determine that we have violated contractual, civil or criminal duties and, as a result, suspend our domain names. Such errors would render our sites inaccessible for a period of time. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our or our customers' data.

Even if we are successful in preventing security breaches, any perception by the public that online commercial transactions, or the privacy of user information, are increasingly unsafe or vulnerable to attack could inhibit the growth of online retailers and other online services generally, which, in turn, may have a material adverse effect on our business, reputation, financial condition and results of operations.

***Taxation risks could materially and adversely affect our business and financial condition.***

We genera