

LightInTheBox Holding Co., Ltd.
Form 20-F
March 28, 2018
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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, 2017

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)

Quji (Alan) Guo, 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

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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: 135,664,877 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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.

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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

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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 and Shanghai Ouku, the subsidiary of Lanting Huitong; 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 RMB6.5063 to \$1.00, the noon buying rate on December 29, 2017 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 March 23, 2018, the noon buying rate for Renminbi was RMB6.3110 to \$1.00.

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;

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- trends in Chinese manufacturing;
- 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 2015, 2016 and 2017, and the selected consolidated balance sheet data as of December 31, 2015 and 2016 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 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015 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,				
	2013	2014	2015	2016	2017
	(U.S. dollars in thousands, except per share data)				
Selected Consolidated Statements of Operations Data					
Net revenues					
Product sales	\$ 292,417	\$ 382,282	\$ 312,332	\$ 262,083	\$ 293,951
Services		125	11,431	30,404	25,930
Total net revenues	292,417	382,407	323,763	292,487	319,881

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Cost of revenues					
Product sales	165,267	236,982	196,753	160,566	189,816
Services		113	10,601	28,371	24,445
Total cost of revenues	165,267	237,095	207,354	188,937	214,261
Gross profit	127,150	145,312	116,409	103,550	105,620
Operating expenses					
Fulfillment	15,963	23,926	22,419	17,052	17,291
Selling and marketing	84,245	105,186	91,614	61,090	68,891
General and administrative	31,929	46,916	41,535	34,492	29,605
Loss from operations	(4,987)	(30,716)	(39,159)	(9,084)	(10,167)
Net loss	(4,819)	(29,987)	(39,407)	(8,723)	(9,548)
Accretion for Series C convertible redeemable preferred shares					
	1,621				
Net loss attributable to ordinary shareholders	(6,440)	(29,987)	(39,407)	(8,723)	(9,548)
Weighted average number of shares used in calculating net loss					
Basic	71,555,449	99,001,560	94,970,054	127,180,801	137,641,562
Diluted	71,555,449	99,001,560	94,970,054	127,180,801	137,641,562
Net loss per ordinary share					
Basic	(0.09)	(0.30)	(0.41)	(0.07)	(0.07)
Diluted	(0.09)	(0.30)	(0.41)	(0.07)	(0.07)
Other Consolidated Financial Data					
Gross Margin(1)	43.5%	38.0%	36.0%	35.4%	33.0%

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

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	2013	2014	Year Ended December 31, 2015		2016	2017
			(U.S. dollars in thousands)			
Summary Consolidated Balance Sheet Data						
Cash and cash equivalents	\$ 23,745	\$ 75,358	\$ 30,901	\$ 89,517	\$ 68,441	
Term deposit	79,958	5,802				
Inventories	7,081	9,845	11,261	10,587	11,841	
Total current assets	121,293	99,156	49,741	113,738	100,984	
Total assets	125,891	104,467	55,493	118,201	108,737	
Total current liabilities	44,500	61,284	57,616	52,365	53,267	
Total liabilities	44,500	61,284	57,616	52,365	53,267	
Total shareholders equity (deficit)	81,391	43,183	(2,123)	65,836	55,470	

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;
- 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. Consumers 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.

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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 consumer 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.

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 and 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 or our suppliers 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

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relationships with customers, suppliers, wholesalers and third-party service providers. To accommodate our future growth, we plan to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, although we have not yet entered into any commitments related to such plan. 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.

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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 consumers. We may incur significant costs in trying to expand our offerings into these new products, or fail to introduce new products that meet anticipated consumer demand. For example, we launched our own brand of fast fashion apparel for women, Three Seasons, our own brands of wedding dresses and special occasion dresses, *TS* and *Lanting Bride* and our own brand of electronics, *WAZA*, as well as our own brand of faucets, *Sprinkle*, but it is currently uncertain whether these brands will be competitive in the marketplace, reach broad consumer acceptance and become profitable in the long run.

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 losses attributable to our ordinary shareholders of \$39.4 million, \$8.7 million and \$9.5 million in 2015, 2016 and 2017, respectively, and we may continue to incur losses in the future. In addition, although we generated positive cash flow from operating activities of \$15.2 million in 2013, we experienced negative cash flow from operating activities of \$37.9 million, \$15.3 million and \$14.8 million in 2015, 2016 and 2017, respectively, and we may continue to experience negative cash flows 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 consumers, 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 and convertible notes. As of December 31, 2017, we had approximately \$70.0 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 or sufficient capital on acceptable terms 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

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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 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.

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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 23 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, consumer 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.

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.

We currently derive our revenues from a limited number of product categories and any event that adversely affects the demand for our products in those product categories may harm our growth strategies and business prospects.

In 2017, we derived 33.7% and 66.3% of our net revenues of product sales from the sale of apparel and other general merchandise, respectively. A decrease in the demand for any of these product categories could have a material and adverse effect on our business prospects. While we have expanded and diversified our product offerings and revenue sources, sales in new products may not reach a level that would reduce our dependence on our existing product categories. In addition, if we are unable to deliver consistently high quality products in our new products, the number of customers for our products may decline. Our failure to successfully introduce new products may have a material and adverse effect on our business prospects and limit our growth.

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

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We have traditionally focused on the sale of apparel and electronics and communication devices and derived a large percentage of our total net revenues from such products. We have since expanded our offerings by increasing the number of products in our other general merchandise product category, with a particular focus on small accessories and gadgets and home and garden, as well as beauty and sports and outdoor. We have also operated websites which focus on certain specific products, such as our *www.miniinthebox.com* website for the sale of small accessories and gadgets and launched mobile applications that offer a rich shopping experience across all product categories. 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.

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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 and 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 consumer 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 consumer 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 consumer 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 200 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 consumers, which may result in the loss of their business and a material and adverse effect on our financial condition and reputation.

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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 consumer experience and awareness of our websites and mobile applications, damage to our reputation or brands or loss of consumer 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 consumer 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 consumers 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.

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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 customer 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 consumer 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.

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. While growth in the Europe, which represented the largest region to which our products were sold in 2015, 2016 and 2017, reached 5.9% on an annual basis in 2017, the highest level since 2007, growth in this region may experience fluctuations in the future. It is difficult to predict household spending patterns in light of the global economic challenges and the European Central Bank's attempts to stimulate growth in the Eurozone. 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 such business relationships or the quality of those products 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.

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Our suppliers may:

- cease selling merchandise to us on terms acceptable to us;
- fail to deliver goods that meet consumer 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. For example, suppliers in the coastal areas of eastern and southern China experienced labor shortages in 2010. Although our suppliers were not significantly affected by this event and managed to complete our orders in a timely manner, similar events may happen again in the future and our suppliers and, in turn, we, may be adversely impacted. 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.

Our business and profitability depend, to a significant extent, on international trade relationships between China and other countries and consumer confidence in Chinese products and any trade restrictions or losses in consumer confidence may materially and adversely affect our results of operations.

We are a China-based online retail company selling goods to consumers globally. As a result, if our consumers lose confidence in Chinese products or sovereign nations restrict trade with Chinese companies, we may suffer a competitive disadvantage. For example, such countries could support locally produced goods with subsidies, which may render our goods relatively more expensive. In addition, such countries could place quotas or taxes, such as retaliatory tariffs and anti-dumping restrictions, on goods produced in China, which would restrict our ability to export products to such countries. Consumers may also develop the presumption that products made in China are inferior in quality, more likely to be defective or more likely to violate intellectual property rights.

Such policies and attitudes could target Chinese companies in general, Chinese companies that export to foreign countries in specific or our company individually. We may not be able to affect the implementation of governmental policies or the prevalence of such biases and such policies and biases may reflect political relationships between the countries in which we conduct our businesses rather than any action taken by our company. To the extent that we suffer a competitive disadvantage as a result of restrictions in free trade or adverse consumer perceptions, our business, financial condition and results of operations may be materially and adversely affected.

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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, since the fourth quarter of 2011, we have entered into arrangements with certain suppliers under which the suppliers store their products at 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 net 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.

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 consumers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our or our consumers' data.

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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 generally do not collect product sales or other taxes on shipments of our goods to most countries in the world except mainland China, Hong Kong and Poland. However, since we are deepening our penetration of geographic markets globally, we may be subject to tax regulations in other geographic markets. In addition, we may become subject to new regulations as regional and national governments may impose new tax laws or revise existing tax laws, especially with regards to Internet sales.

Levy of sales taxes may increase the costs of our products to our consumers and reduce our competitive advantage over our competitors that do not collect such sales taxes. The imposition by regional or national governments of various taxes upon Internet commerce could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all of our online competitors and decrease our future product sales. A successful assertion by one or more foreign countries that we should collect sales or other taxes on the sale of merchandise or services could result in substantial tax liabilities for past product sales, decrease our competitiveness with local retailers, and materially and adversely affect our business, financial condition and results of operations. In addition, we may be required to incorporate corporate entities in different jurisdictions around the world in order to deliver our products to such jurisdictions, which may have uncertain tax implications.

Our growth depends on expanding in various geographic markets and such expansion may pose new logistical, operational and marketing challenges that may materially and adversely affect our business prospects.

We plan to further increase the sales of our products by deepening our penetration of geographic markets globally. Although our products are sold to customers in over 200 countries and territories, we still have relatively little experience in many countries in the world. It is costly to establish, develop and maintain international operations and websites and mobile applications and promote our brand internationally. The expansion of product sales into such geographic markets may not be profitable on a sustained basis for many reasons including, but not limited to:

- local economic and political conditions;

- government regulation of online retail, other online services and electronic devices and restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), nationalization and restrictions on foreign ownership;

- restrictions on sales or distribution of certain products or services and uncertainty regarding intellectual property rights and liability for products, services and content on our websites and mobile applications or social marketing channels;
- business licensing or certification requirements, such as for imports, exports and electronic devices;
- limited fulfillment and technology infrastructure;

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- laws and regulations regarding consumer protection, import and export requirements, duties, tariffs, other trade-related barriers or restrictions, data protection, privacy, network security, encryption and restrictions on pricing or discounts;
- lower levels of Internet use;
- lower levels of consumer spending and fewer growth opportunities compared to our current geographic markets;
- lower levels of credit card usage and increased payment risk; and
- difficulty in staffing, developing and managing foreign operations as a result of language and cultural differences.

As we expand the sale of our products to other countries, competition will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, local consumers, as well as their more established local brand names. This may benefit from reduced logistics costs and marketing. We may not be able to hire, train, retain and manage required personnel, which may limit our international growth.

As new markets have different business practices and consumer demand may vary significantly by region, our experience in the geographic markets on which we currently focus may not be applicable in other parts of the world. For example, we may need to build infrastructure in foreign countries to remain competitive in such markets. Furthermore, deepening our geographic penetration entails increased complexity for our managers and employees including, but not limited to, difficulties associated with managing a more diverse customer base, the challenges of meeting different regulatory regimes and requirements, partnering with different local logistics providers and other business partners, managing more complex marketing efforts and providing customer support in different languages.

We currently derive only a small portion of our product sales from customers in China, but we may expand our operations in China in the future. We will encounter new challenges in operations, marketing and logistics. Our ability to operate competitively in international markets may not render us similarly competitive in the market in China. For example, our logistics networks will need to be optimized locally. To the extent that we cannot increase our market share in China, we may incur costs that we may not recover. Even if we are successful in increasing our market share in China, we may suffer from increased competition from other Chinese companies. We may not compete successfully against companies with stronger brands, greater financial resources, greater political support or more attractive terms for their suppliers, managers or employees.

In addition, our expansion into China may suffer due to uncertainties and various factors affecting the development of online retail in China. For example, Internet and broadband use and penetration may decline, consumer confidence in online shopping may decrease, the quality of

alternative retail channels may increase, sufficiently reliable or secure logistic or payment methods may not be available or the Chinese economy may deteriorate.

To the extent that we cannot successfully expand our operations in other geographic markets, our business, financial condition and results of operations may be materially and adversely affected.

Fluctuations in currency exchange rates may make us less competitive and may make our growth and future prospects uncertain and difficult to evaluate.

We are exposed to fluctuations in foreign currency exchange rates. We sell to customers in over 200 countries and territories. Many of our customers pay for our products in currencies other than U.S. dollars but we report our financial results in U.S. dollars and, as a result, our financial results may be impacted by fluctuations in foreign currency exchange rates. Since January 2015, the U.S. Dollar Index, a measure of the value of the U.S. dollars against a basket of six major world currencies, has appreciated almost 7%. In particular, Europe represented the largest region to which our products were sold in 2017 and our net revenues generated from Europe were 48.1% of our total net revenues for the same year. Since January 2015, the U.S. dollar has, until recently, been appreciating against the Euro and in December 2016, the Euro fell to a 13-year low against the U.S. dollar with 1 Euro equating to 1.04 U.S. dollars. If the U.S. dollar continues to appreciate against foreign currencies, our translation of foreign currency denominated transactions will result in lower total net revenues, operating expenses and net income. As we are deepening our penetration of geographic markets globally, our exposure to exchange rate fluctuations has increased. We have no hedges against currency risk. Fluctuations in foreign currency exchange rates could significantly impact our financial results, which may result in an impact on our share price.

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Our business depends substantially on the continued efforts of our executive officers and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued efforts of our executive officers. Competition for senior management and other key personnel is intense, and the pool of suitable candidates is very limited. We may not be able to retain the services of our senior executives or other key personnel, or attract and retain senior executives or key personnel in the future. If one or more of our executive officers are unable or unwilling to continue their employment with us, we may not find replacements in a timely manner, or at all, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected. We may also incur additional expenses to recruit and retain qualified replacements.

If any of our executive officers joins a competitor or forms a competing company, we may lose customers, suppliers, partners and know-how. Each of our executive officers has entered into an employment agreement with us, which contains confidentiality and non-compete provisions. However, if any dispute arises between our executive officers and us, we may not be able to enforce these non-compete provisions in China, where these executive officers reside, in light of uncertainties with China's legal system.

If we are unable to attract, train and retain qualified personnel, our business, financial condition and results of operations may be materially and adversely affected.

Our business is supported and enhanced by a team of highly skilled employees who are critical to maintaining the quality and consistency of our business and reputation. It is important for us to attract qualified employees, especially marketing personnel, designers, supply chain managers, or engineers with high levels of experience in creative design, software development and Internet-related services. Competition for these employees is intense. In order to attract prospective employees and retain current employees, we may have to increase our employee compensation by a larger amount and at a faster pace than expected, which would increase our operating expenses. In addition, we must hire and train qualified employees in a timely manner to keep pace with our growth while maintaining the quality of our operations in various geographic locations.

We must also provide continuous training to our employees so that they have up-to-date knowledge of various aspects of our operations and can meet our demand for high quality services. If we fail to do so, the quality of our services may deteriorate in one or more of the markets where we operate, which may cause a negative perception of our brand and adversely affect our business. Finally, disputes between us and our employees may arise from time to time and if we are not able to properly handle our relationship with our employees, our business, financial condition and results of operations may be adversely affected.

Our branding efforts for our products may be costly and may not obtain positive market recognition which may materially and adversely affect our business, financial condition and results of operations.

We have launched our own branded product lines, which require more research, design and marketing costs than our private label products. These costs may not be recovered from sufficient sales of these branded products. These brands may not receive or maintain positive market recognition. Furthermore, it may take time and additional expenditures before we realize that our branding efforts have been unsuccessful. As a result of these efforts to develop branded products, we may incur costs without corresponding increases in revenues which may materially and

adversely affect our business, financial condition and results of operations.

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Our results of operations are subject to quarterly fluctuations due to a number of factors that could adversely affect our business and the trading price of the ADSs.

We experience seasonality in our business, reflecting seasonal fluctuations in online and offline retail patterns in general and for our products. For example, product sales may be higher in the fourth quarter of a calendar year due to the Christmas holidays. Our product mix may experience quarterly shifts which may cause our margins to fluctuate from quarter to quarter.

Due to the foregoing factors, our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. In such event, the trading price of the ADSs may be materially and adversely affected.

We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position.

We regard our trademarks, service marks, domain names, trade secrets, proprietary technologies and similar intellectual property critical to our success and we currently rely on a mix of trademark law, trade secret protection and confidentiality and license agreements with our employees, suppliers, partners and others to protect our proprietary rights. Our trademarks and service marks may be invalidated, circumvented or challenged. Trade secrets are difficult to protect and our trade secrets may be leaked or otherwise become known or be independently discovered by competitors. Confidentiality agreements may be breached and we may not have adequate remedies for any breach.

It is often difficult to create and enforce intellectual property rights in China. Even where adequate laws exist in China, it may not be possible to obtain swift and equitable enforcement of such laws, or to obtain enforcement of a court judgment or an arbitration award delivered in another jurisdiction and, accordingly, we may not be able to effectively protect our intellectual property rights or enforce agreements in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent the misappropriation of our technologies.

We are subject to payment-related risks which may materially and adversely affect our business, financial condition and results of operations.

Our customers may choose from a wide range of payment methods. As we offer new payment options to our customers, we may be subject to additional regulations, compliance requirements and fraud.

We rely on third parties, such as PayPal, WorldPay and Global Collect, to provide certain payment processing services, including the processing of credit card and debit card transactions. Our business may be disrupted if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments and our business and operating results could be adversely affected.

Under current credit card practices, we are liable for fraudulent credit card transactions because we do not require a cardholder's signature. We do not currently carry insurance against this risk. Although we have only experienced minimal losses from credit card fraud, we face the risk of significant losses from this type of fraud as our net product sales increase and as we expand internationally. Our failure to adequately control fraudulent credit card transactions could damage our reputation and brand and substantially harm our business and results of operations. Additionally, for certain payment transactions, including credit and debit cards, we pay interchange and other fees. These fees may increase over time, which would raise our operating costs and lower our operating margins.

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Our business is subject to the laws of various jurisdictions, many of which are unsettled and still developing and could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in various jurisdictions, including Hong Kong, China, the United States and other countries, including laws regarding data retention, privacy and consumer protection, that are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting. For example, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the advertisements posted, or the content provided by users. In addition, regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection and other matters that may be applicable to our business. It is also likely that as our business grows and evolves and our solutions are used in a greater number of countries, we will become subject to laws and regulations in additional jurisdictions. It is difficult to predict how existing laws will be applied to our business and the new laws to which we may become subject.

If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue certain solutions. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business, financial condition and results of operations.

We do not have any business liability, disruption or litigation insurance and any business disruption or litigation we experience might result in our incurring substantial costs and diversion of resources.

As the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business insurance products. We have determined that the difficulties associated with acquiring product liability or business interruption insurance coverage in China on commercially reasonable terms make it impractical for us to have such insurance. As such, we currently only have limited insurance covering certain of our warehouses. Any product liability claims or business disruption, natural disaster could result in our incurring substantial costs and diversion of resources, which would have an adverse effect on our business, financial condition and results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud and investor confidence in our company and the market price of the ADSs may be adversely affected.

In preparing our consolidated financial statements as of and for the year ended December 31, 2017 included in our annual report on Form 20-F for 2017, we identified certain control deficiencies in our internal control over financial reporting. We have taken a variety of measures to address these control deficiencies. With these measures over the identified deficiencies, we concluded that our internal control over financial reporting was effective as of December 31, 2017. See also Item 15. Controls and Procedures Management's Annual Report on Internal Control over Financial Reporting. We cannot assure you that we will be able to continue to implement an effective system of internal control, or that we will not identify material weaknesses or significant deficiencies in the future.

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As a public company in the United States, we are subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting beginning with our annual report on Form 20-F following the date on which we cease to qualify as an emerging growth company, which may be up to five full fiscal years following the date of our initial public offering in June 2013. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. As a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. See also Item 15. Controls and Procedures Management's Annual Report on Internal Control over Financial Reporting.

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In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

As an emerging growth company, we will not be required to have auditor attestation of the effectiveness of our internal controls.

We are an emerging growth company as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various requirements that are applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act for so long as we are an emerging growth company, which may be for as long as five years following our initial public offering in June 2013. As a result of our current status as an emerging growth company, our investors may not have access to certain information that they may deem important.

The JOBS Act also provides that an emerging growth company need not comply with any new or revised financial accounting standard until such date that a non-reporting company is required to comply with such new or revised accounting standard. However, we have elected to opt out of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We may engage in acquisitions that may present integration challenges, disrupt our business and lower our operating results and the value of your investment.

As part of our business strategy, we regularly evaluate investments in, mergers with or acquisitions of, complementary businesses, joint ventures, services and technologies. For example, in May 2010, Lanting Huitong acquired Shanghai Ouku, which operates www.ouku.com, for \$2.2 million (RMB14.3 million). In addition, we acquired the fashion focused site business from Ador, Inc. in December 2013. In February 2015, we made a minority investment in Shantou Demon Network Technology Co., Ltd., which owns an online website that specialized in cross-border packages tracking, for \$2.1 million (RMB12.9 million). In May 2017, we completed an investment of \$3.0 million (RMB20.0 million) in Maikailai Technologies Co., Ltd., or Maikailai, which provides brand design, channel development and personnel training services to foreign businesses entering the Chinese consumer market. Acquisitions and investments involve numerous risks, including:

- potential failure to achieve the expected benefits of the combination or acquisition;
- difficulties in and the cost of integrating operations, technologies, services and personnel; and

- potential write-offs of acquired assets or investments.

Furthermore, as a result of Lanting Huitong's acquisition of Shanghai Ouku, we have recorded goodwill as well as certain acquired intangibles. Such goodwill and intangible assets are tested for impairment by us. In 2011, we recorded an impairment loss on goodwill and intangible assets of \$1.9 million.

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In addition, if we finance acquisitions by issuing equity or convertible debt securities, our existing shareholders may be diluted, which could affect the market price of the ADSs. Further, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be seriously harmed and the value of your investment may decline.

Furthermore, we may fail to identify or secure suitable acquisition opportunities or our competitors may capitalize on such opportunities before we do, which could impair our ability to compete with our competitors and adversely affect our growth prospects and results of operations.

Any catastrophe, including outbreaks of health pandemics and other extraordinary events, could severely disrupt our business operations.

Our operations are vulnerable to interruption and damage from natural and other types of catastrophes, including earthquakes, fire, floods, hail, windstorms, severe winter weather (including snow, freezing water, ice storms and blizzards), environmental accidents, power loss, communications failures, explosions, man-made events such as terrorist attacks and similar events. Due to their nature, we cannot predict the incidence, timing and severity of catastrophes. In March 2011, Japan was struck by a 9.0-magnitude earthquake. In May 2008 and April 2013, Sichuan Province in southwest China experienced severe earthquakes. Although the Japan earthquake together with the resulting tsunami and the Sichuan Province earthquakes did not materially affect our business, other occurrences of natural disasters, as well as accidents and incidents of adverse weather in or around our warehouses, sourcing offices or suppliers may materially and adversely affect our business and results of operations. We may also be particularly vulnerable to catastrophes in Europe and North America, where most of our customers are located. In addition, the recent uncertainty on the Korean Peninsula may also have an adverse impact on our business operations.

Changing climate conditions, primarily rising global temperatures, may be increasing, or may in the future increase, the frequency and severity of natural catastrophes. If any such catastrophe or extraordinary event occurs in the future, our ability to operate our business could be seriously impaired. Such events could make it difficult or impossible for us to deliver our services and products to our consumers and could decrease demand for our products. Because we only have limited insurance covering certain of our warehouses and do not maintain insurance for all of our properties, significant time could be required to resume our operations and our financial position and operating results could be materially and adversely affected in the event of any major catastrophic event.

In addition, our business could be materially and adversely affected by the outbreak of influenza A (H1N1), commonly referred to as swine flu, avian influenza, including H7N9, severe acute respiratory syndrome (SARS), Ebola virus disease or other pandemics. Any occurrence of these pandemic diseases or other adverse public health developments in China or elsewhere could severely disrupt our staffing or the staffing of our suppliers and couriers and otherwise reduce the activity levels of our work force and the work force of our suppliers and couriers, causing a material and adverse effect on our business operations.

Failure to renew the lease of our existing premises or to renew such leases at acceptable terms could materially and adversely affect our business.

All of our offices and warehouses are presently located on leased premises. At the end of each lease term, we may not be able to negotiate an extension of the lease and may therefore be forced to move to a different location, or the rent we pay may increase significantly. This could disrupt our operations and adversely affect our profitability. A number of our leases will expire in the near future and are subject to renewal at market prices, which could result in a substantial increase in the rent at the time of renewal. We compete with other businesses for premises at

certain locations or of desirable sizes and some landlords may have entered into long-term leases with our competitors for such premises. We may not be able to obtain new leases at desirable locations or renew our existing leases on acceptable terms or at all, which could materially and adversely affect our business.

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We rely on certain individuals and their affiliates to register at and receive funds from some of our supplemental online outlets.

In addition to the sale of our products through our websites and mobile applications, we also sell through outlets on other high traffic online marketplace platforms. In addition to such supplemental online outlets registered under our company name, some of our employees have also registered for online outlets in their own name to sell our products and hold the title to these online outlets on the marketplace platforms and in certain cases, their associated bank accounts. We enter into contractual relationships with such employees to obligate them to transfer to us payments corresponding to amounts they receive from customers for the sale of our products on these supplemental online outlets. Prior to our receipt of such payments, we classify cash held in these accounts in our prepaid expenses and other current assets. If such employees choose not to perform their contractual obligations with us, we may incur costs to recover such payments and we may not be able to recover these cash balances.

We are exempted from certain corporate governance requirements of the New York Stock Exchange.

We are exempted from certain corporate governance requirements of the New York Stock Exchange by virtue of being a foreign private issuer. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate governance practices required to be followed by U.S. domestic companies under the New York Stock Exchange. The standards applicable to us are considerably different than the standards applied to U.S. domestic issuers. For instance, we are not required to:

- have a majority of the board be independent (other than due to the requirements for the audit committee under the Exchange Act);
- have a minimum of three members in our audit committee;
- have a compensation committee, a nominating or corporate governance committee;
- have regularly scheduled executive sessions with only independent directors;
- have executive session of solely independent directors each year; or
- adopt and disclose a code of business conduct and ethics for directors, officers and employees.

We have relied on and intend to continue to rely on some of these exemptions. As a result, you may not be provided with the benefits of certain corporate governance requirements of the New York Stock Exchange.

Risks Related to Our Corporate Structure

Substantial uncertainties exist with respect to the enactment timetable, final scope, interpretation and implementation of the draft PRC Foreign Investment Law recently published for public comments, including how it may impact the viability of our current corporate structure, corporate governance and business operations.

The PRC Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Ministry of Commerce solicited comments on this draft in 2015, but no timetable as to when it will be enacted has been published so far. As such, substantial uncertainties exist with respect to its enactment timetable, final scope, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in several ways.

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Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of actual control in determining whether a company is considered a foreign-invested enterprise, or FIE. The draft Foreign Investment Law specifically provides that entities established in China but controlled by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the Ministry of Commerce, treated as a PRC domestic investor provided that the entity is controlled by PRC entities and/or citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to materially influence the board, the shareholders meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a negative list, to be separately issued by the State Counsel at a later time, if the FIE is engaged in an industry included on the negative list. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance by the Ministry of Commerce, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

The VIE structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in industries that are currently subject to foreign investment restrictions in China. See We conduct certain aspects of our businesses in China through our VIEs by means of contractual arrangements. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected. and Item 4. Information on the Company C. Organizational Structure. Under the draft Foreign Investment Law, VIEs that are controlled via contractual arrangements would also be deemed FIEs, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the negative list, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person (s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the negative list without market entry clearance may be considered illegal. There are uncertainties as to whether the Foreign Investment Law, once it is enacted, will have retrospective effect on existing VIE structures such as ours, or whether it will grant real and full grandfathering and grace periods for such existing VIE structures.

The draft Foreign Investment Law has not taken a position on what actions will be taken with respect to existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, and the Ministry of Commerce is soliciting comments from the public on this point. Moreover, it is uncertain whether the Internet industry, in which our VIEs operate, will be subject to the foreign investment restrictions or prohibitions set forth in the negative list to be issued. The value-added telecommunications services (e-commerce) that we conduct through our VIEs are no longer subject to foreign investment restrictions as set forth in the Catalogue for the Guidance of Foreign Investment Industries issued by the National Development and Reform Commission and the Ministry of Commerce in March 2015, or the Catalogue. It is unclear whether the new negative list will be different from the Catalogue. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, such as Ministry of Commerce market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with existing VIE structure like us, we face substantial uncertainties as to whether these actions can be timely completed, or at all, and our business and financial condition may be materially and adversely affected.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

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We conduct certain aspects of our businesses in China through our VIEs by means of contractual arrangements. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected.

We conduct the operation of our domestic websites as well as certain technology research and development and other supporting functions through Lanting Huitong and its subsidiary, Shanghai Ouku, and conduct certain technology research and development functions through Lanting Gaochuang in China. We receive substantially all of the economic benefits of Lanting Huitong and Lanting Gaochuang as their primary beneficiary through contractual arrangements with them and their shareholders. For a description of these contractual arrangements, see Item 4. Information on the Company C. Organizational Structure.

Although we believe we comply and will continue to comply with current PRC regulations, the PRC government may not agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing requirements or policies or with requirements or policies that may be adopted in the future, particularly with regards to Lanting Huitong as a key operator of our domestic websites. If the PRC government determines that we are not in compliance with applicable laws, it may revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites, require us to restructure our operations, impose additional conditions with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

We rely on contractual arrangements with Lanting Huitong and its shareholders for the operation of our domestic websites as well as conduct certain technology research and development and other supporting functions in China and contractual arrangements with Lanting Gaochuang and its shareholders for certain technology research and development functions, which may not be as effective as direct ownership. If Lanting Huitong and its shareholders or Lanting Gaochuang and its shareholders fail to perform their obligations under these contractual arrangements, we may have to resort to litigation or arbitration to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation.

We have relied and expect to continue to rely on contractual arrangements with Lanting Huitong to operate our domestic websites as well as conduct certain technology research and development and other supporting functions in China and contractual arrangements with Lanting Gaochuang to perform certain technology research and development functions. For a description of these contractual arrangements, see Item 4. Information on the Company C. Organizational Structure. These contractual arrangements provide us with effective control over these entities and allow us to obtain economic benefits from them. Although we have been advised by our PRC counsel, TransAsia Lawyers, that these contractual arrangements are in compliance with current PRC laws, these contractual arrangements may not be as effective in providing control as direct ownership. For example, Lanting Huitong and its shareholders could breach their contractual arrangements with us by failing to operate our online retail business in an acceptable manner or taking other actions that are detrimental to our interests. In addition, if the shareholders of Lanting Huitong or Lanting Gaochuang refuse to transfer their equity interests in Lanting Huitong or Lanting Gaochuang to us or our designee when we exercise our call option pursuant to these contractual arrangements, we may have to take legal actions to compel them to perform their contractual obligations.

If we were the controlling shareholder of our VIEs with direct ownership, we would be able to exercise our rights as shareholders, rather than our rights under the powers of attorney, to effect changes to their boards of directors, which in turn could implement changes at the management and operational level. However, under the current contractual arrangements, as a legal matter, if our VIEs or their respective shareholders fail to perform their obligations under these contractual arrangements, we may incur substantial costs to enforce such arrangements and rely on legal remedies under PRC law, which may not be sufficient or effective.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in court and the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would incur additional expenses and delay. If we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our VIEs and our ability to conduct our businesses may be negatively affected.

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If we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, our business and operations in China could be disrupted, which could materially and adversely affect our results of operations and damage our reputation. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Uncertainties with respect to the Chinese legal system could adversely affect us.

The shareholders of Lanting Huitong and Lanting Gaochuang have potential conflicts of interest with us, which may adversely affect our business.

Certain of our founding shareholders, Mr. Quji (Alan) Guo, Mr. Xin (Kevin) Wen and Mr. Liang Zhang, who collectively owned 9.9% of the shares of our company as of March 22, 2018, are also the shareholders of Lanting Huitong. Mr. Guo also holds 51% of Lanting Gaochuang. Thus, conflicts of interest between their duties to our company and their interests as the controlling shareholders of Lanting Huitong or Lanting Gaochuang may arise. They may not act entirely in our interests when conflicts of interest arise and conflicts of interest may not be resolved in our favor. In addition, Mr. Guo, Mr. Wen and Mr. Zhang could violate their non-competition or employment agreements with us or their legal duties by diverting business opportunities from us. If we are unable to resolve any such conflicts, or if we suffer significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and reputation. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Uncertainties with respect to the Chinese legal system could adversely affect us.

We may lose the ability to use and enjoy assets held by Lanting Huitong and its subsidiary or assets held by Lanting Gaochuang that are important to the operations of our business if such entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Lanting Huitong and its subsidiary, Shanghai Ouku, manage www.ouku.com and other websites targeting consumers in China. Lanting Gaochuang performs certain research and development functions. Both hold certain assets and perform certain functions that are important to the operations of our business. If Lanting Huitong, Shanghai Ouku or Lanting Gaochuang go bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If Lanting Huitong, Shanghai Ouku or Lanting Gaochuang undergoes a voluntary or involuntary dissolution or liquidation proceeding, third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business in the PRC, which may materially and adversely affect our business, financial condition and results of operations.

If Lanting Huitong, Shanghai Ouku or Lanting Gaochuang fail to obtain and maintain the requisite assets, licenses and approvals required under the complex regulatory environment for Internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected.

The Internet industry in China is highly regulated by the PRC government and numerous regulatory authorities of the central PRC government are empowered to issue and implement regulations governing various aspects of the Internet industry. See Item 4. Information on the Company B. Business Overview Regulation. Lanting Huitong and Shanghai Ouku, due to their operation of our domestic websites, are required to obtain and maintain certain assets relevant to their business as well as applicable licenses and approvals from different regulatory authorities in order to provide their current services. These assets and licenses are essential to our business operations in China and are generally subject to annual review by the relevant governmental authorities. Furthermore, Lanting Huitong, Shanghai Ouku or Lanting Gaochuang may be required to obtain additional licenses other than those currently in place. If they fail to obtain or maintain any of the requisite assets, licenses or approvals, their continued business operations in the Internet industry may subject them to various penalties, such as confiscation of illegal total net

revenues, fines and the discontinuation or restriction of their operations. Any such disruption in the business operations of Lanting Huitong, Shanghai Ouku or Lanting Gaochuang may materially and adversely affect our business, financial condition and results of operations.

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Contractual arrangements with Lanting Huitong or Lanting Gaochuang may result in adverse tax consequences.

Under PRC laws and regulations, an arrangement or transaction among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the arrangement or transaction takes place. If this occurs, the PRC tax authorities could request that Lanting Huitong or Lanting Gaochuang adjust their taxable income in the form of a transfer pricing adjustment for PRC tax purposes if contractual arrangements among related parties do not represent arm's length prices. Such a pricing adjustment could adversely affect us by increasing Lanting Huitong or Lanting Gaochuang's tax expenses without a corresponding reduction in our tax expenses, which, in turn, could subject Lanting Huitong or Lanting Gaochuang to late payment fees and other penalties for underpayment of taxes. As a result, our contractual arrangements with Lanting Huitong or Lanting Gaochuang may result in adverse tax consequences to us. In 2017, Lanting Huitong was subject to PRC income tax at an effective rate of 15%. If the PRC tax authorities decide to make transfer pricing adjustments on Lanting Huitong's net income in the future, our results of operations may be adversely affected. In addition, if Lanting Huitong or Lanting Gaochuang generate net income from transactions with our PRC subsidiary under the contractual arrangements in the future and the PRC tax authorities decide to make transfer pricing adjustments on their net incomes, our consolidated net income may be adversely affected.

Risks Related to Doing Business in China

We may be adversely affected by the uncertainties and changes in the PRC regulations and policies of cross-border business activities.

We are a China-based global online retailer. The PRC government extensively regulates the Internet industry and cross-border business activities. While the PRC government has been encouraging the export industry, such policy may change in the future. Currently laws and regulations relating to online retail, including export online retail, are still evolving and the interpretation and enforcement of these laws and regulations are subject to significant uncertainties. As a result, in certain circumstances, it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws or regulations. Issues, risks and uncertainties relating to PRC regulation of export online retail include, but are not limited to:

- how our online retail activities are subject to the laws and regulations pertaining to traditional cross-border transactions or international trade, especially those related to customs declarations, statutory inspections, couriers and commodities export payments; and
- new regulations, or new interpretations of existing regulations, requiring additional licenses, declarations or inspections for our products.

The varying interpretations and applications of existing PRC laws, regulations and policies, along with possible new laws, regulations or policies relating to cross-border online retail, create substantial uncertainty regarding the licenses, customs declarations and inspections that may be required for our products. We cannot guarantee that all of the licenses, customs clearances and/or approvals for commodity inspections currently required, or in the future may be required, will be obtained.

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For example, we work with third-party couriers to ship and export merchandise purchased by our customers around the world as articles or product samples on a parcel-by-parcel basis in accordance with procedures applicable to articles or product samples. This differs from the customs declaration, clearance and inspection procedures for traditional large-scale export shipments. Despite that the current PRC regulatory regime on customs declaration and inspection being formulated, interpreted and enforced primarily with the regulation of traditional large-scale exports in mind, the regulatory regime could technically be interpreted as being applicable to the shipment of merchandise on a parcel-by-parcel basis.

If the relevant PRC governmental authorities determine that we or our sourcing agents, suppliers or third-party couriers do not comply with the applicable laws and regulations, they could:

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- require us, or our sourcing agents, suppliers or third-party couriers, to restructure business operations, including a possible change to our current method and manner of contracting with such sourcing agents, suppliers or third-party couriers, or require us or third-party couriers to go through customs declaration, clearance and inspection procedures for the merchandise sold to our customer under our business arrangements in accordance with procedures for goods rather than for articles;
- impose fines or confiscate income from our PRC subsidiary or the operations of the affiliates of our sourcing agents, suppliers or third-party couriers that are subject to PRC jurisdiction; and
- impose additional conditions or requirements with which we may not be able to comply or take other regulatory or enforcement actions against us.

Substantial uncertainties exist with respect to the interpretation and implementation of Cyber Security Law as well as any impact it may have on our business operations.

On July 1, 2015, the Standing Committee of the National People's Congress issued the National Security Law, which came into effect on the same day. The National Security Law provides that the state shall safeguard its sovereignty, security and cybersecurity development interests, and that the government shall establish a national security review and supervision system to review, among other things, foreign investment, key technologies, internet and information technology products and services, and other important activities that are likely to impact the national security of China.

On November 7, 2016, the Standing Committee of the National People's Congress issued the Cyber Security Law, which came into effect on June 1, 2017. This is the first Chinese law that focuses exclusively on cyber security. The Cyber Security Law provides that network operators must set up internal security management systems that meets the requirements of a classified protection system for cybersecurity, including appointing dedicated cybersecurity personnel, taking technical measures to prevent computer viruses, network attacks and intrusions, taking technical measures to monitor and record network operation status and cybersecurity incidents, and taking data security measures such as data classification, backups and encryption. The Cyber Security Law also imposes a relatively vague but broad obligation to provide technical support and assistance to the public and state security authorities in connection with criminal investigations or for reasons of national security. The Cyber Security Law also requires network operators that provide network access or domain name registration services, landline or mobile phone network access, or that provide users with information publication or instant messaging services, to require users to provide a real identity when they sign up.

The Cyber Security Law sets high requirements for the operational security of facilities deemed to be part of the PRC's critical information infrastructure. These requirements include data localization, i.e., storing personal information and important business data in China, and national security review requirements for any network products or services that may have an impact on national security. Among other factors, critical information infrastructure is defined as critical information infrastructure, that will, in the event of destruction, loss of function or data leak, result in serious damage to national security, the national economy and people's livelihood, or the public interest. Specific reference is made to key sectors such as public communication and information services, energy, transportation, water-resources, finance, public service and e-government. However, no official guidelines as to the scope of critical information infrastructure have been formally issued.

We do not believe that we are an operator of critical information infrastructure as defined in the Cyber Security Law. However, there is no assurance that we may not be considered an operator of critical information infrastructure in the future as the definition is not precise, and there are substantial uncertainties as to the ultimate interpretation and implementation of the Cyber Security Law. The Cyber Security Law, if enacted as proposed, could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

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Regulation and censorship of information distribution over the Internet in China may adversely affect our business and we may be liable for information displayed on, retrieved from or linked to our websites.

China has enacted laws and regulations governing Internet access and the distribution of products, services, news, information, audio-video programs and other content through the Internet. In the past, the PRC government has prohibited the distribution of information through the Internet that it deems to be in violation of PRC laws and regulations. If any of our Internet content were deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions of our consumers or users of our websites or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us and if we are found to be liable, we may be prevented from operating our websites in China, which would materially and adversely affect our business, financial condition and results of operations.

Changes in China's political, economic or social conditions or government policies could have a material adverse effect on our business and operations.

Most of our suppliers and some of our business operations are located in China. Our business, financial condition, results of operations and prospects may be influenced by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industry policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. From 2003 to mid-2008, the PRC government implemented a number of measures, such as increasing the deposit reserve ratio requirements for banks and imposing commercial bank lending guidelines, designed to slow the growth of the PRC economy. In response to the global financial crisis, in 2008, the PRC government began instituting policies aimed at expanding credit and stimulating the economy, including an announced RMB4.0 trillion stimulus spending program. More recently, as the PRC economy has shown signs of recovering quickly from the global financial crisis, the PRC government has again begun implementing policies aimed at slowing the PRC economy, including raising interest rates and tightening fiscal expenditures.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may increase the costs of business activities for us and our suppliers in China and adversely affect our business, financial condition and results of operations.

In addition, China's social and political conditions are not as stable as those of the United States and other developed countries. Any sudden changes in China's political system, the occurrence of widespread social unrest, or a significant deterioration in its relations with its neighbors could negatively affect the Chinese economy and our business.

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Uncertainties with respect to the Chinese legal system could adversely affect us.